

ST JOHN'S UNIVERSITY OF TANZANIA



MASTER OF SCIENCE IN FINANCE (MSC.FINANCE)

**ASSESSMENT OF IMPACT OF BANK SERVICE CHARGES ON
PERFORMANCE OF COMMERCIAL BANKS IN TANZANIA:
A CASE OF FIVE SELECTED BANKS IN DAR-ES-SALAAM**

JALIWA W. MLAGHA

**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE MASTER OF SCIENCE IN FINANCE OF THE ST.
JOHN'S UNIVERSITY OF TANZANIA**

2016

COPYRIGHT STATEMENT

No part of this dissertation may be reproduced, stored in any retrieval system, or transmitted in any form or by any means without prior written permission by the author or University.

© 2016 St. John's University of Tanzania and Jaliwa W. Mlagha.

CERTIFICATION

I, the undersigned, certify that I have read and hereby recommend for acceptance by St. John's University of Tanzania a dissertation *entitled "Assessment of Impact of Bank service Charges on Performance of Commercial Banks in Tanzania": A Case Study of Dar-es-Salaam* in fulfillment of the requirements for the degree of Master of Science in Finance (Msc. Finance).

.....
Dr. D. B. SEBYIGA
(Supervisor)

Date

DECLARATION

I, Jaliwa W. Mlagha declare that this thesis dissertation is my own work. It has not been and will not be presented for any other course of study. I confirm that appropriate credit has been given where reference has been made to the work of others.

Signature:

Date:

DEDICATION

This work is dedicated to my beloved parents for their great love, care, support and fidelity towards the accomplishment of this report.

TABLE OF CONTENTS

COPYRIGHT STATEMENT	i
CERTIFICATION	ii
DECLARATION	iii
DEDICATION	iv
TABLE OF CONTENTS	v
LIST OF FIGURES	viii
LIST OF TABLES	ix
ACKNOWLEDGEMENTS	x
LIST OF ABBREVIATIONS	xi
ABSTRACT	xii
CHAPTER ONE	1
INTRODUCTION	1
1.1 Chapter overview	1
1.2 Background of the Study	1
1.3 Statement of the problem	6
1.4 Research Objectives	7
1.4.1 Overall Objective	7
1.4.2 Specific Objectives	7
1.5 Research Questions.....	7
1.6 Significance of the Study.....	7
1.7 Chapter Summary	8
CHAPTER TWO	10
LITERATURE REVIEW	10
2.1 Chapter Overview	10
2.2 Theoretical Review.....	10
2.2.1 The Traditional Theory of Banking.....	10
2.2.2 Nature and Existence of the Bank	11
2.2.3 Diversification of Banking Services.....	13
2.3 Empirical Literature Review.....	14
2.3.1 Review Basing on the Empirical Evidence.....	14
2.3.2 Review on Nature of Bank Noninterest Charges.....	15
2.3.2.1 Service Charge on Customer Accounts	17
2.3.2.2 Foreign Exchange Account Charges	18
2.3.2.3 Automatic Teller Machines Transactions Charges	18
2.3.2.4 Point of Sale (POS) Charges	19
2.3.2.5 Mobile Banking Charges.....	19

2.3.2.6 Internet Banking Charges	19
2.3.2.7 Tanzania Inter-bank Settlement System (TISS) Charges.....	20
2.3.3 Review on the Bank Non Interest Charges and Performance of Bank ...	20
2.3.4 Bank Performance Indicators	22
2.3.4.1 Return on Equity (ROE).....	22
2.3.4.2 Return on Asset (ROA).....	22
2.4 Definition of the Key Concepts and Conceptual Frame Work	23
2.4.1 Bank Charges	23
2.4.2 Commercial Bank.....	23
2.4.3 Conceptual Frame Work.....	23
2.5 Research Gap.....	25
2.6 Chapter Summary	25
CHAPTER THREE	26
RESEARCH METHODOLOGY.....	26
3.1 Chapter Overview	26
3.2 Research Design.....	26
3.2.1 Descriptive Design	26
3.2.2 Research Approach.....	26
3.3 Study Setting.....	27
3.3.1 Location of the Study Area	27
3.4 Population of the study.....	27
3.5 Sampling	28
3.5.1 Sample Size	28
3.5.2 Sampling Techniques.....	28
3.5.2.1 Simple random sampling	28
3.5.2.2 Purposive sampling	28
3.6 Data Collection Methods and Instruments	28
3.6.1 Questionnaire	28
3.6.2 Face to face Interview	29
3.6.3 Documentary Review	29
3.7 Methods for Ensuring Validity and Reliability	29
3.8 Data Analysis	30
3.8.1 Profitability Performance Measures	30
3.9 Ethical Considerations	31
3.10 Plans for Dissemination of Research Results.....	31
3.11 Overall Limitations of the Study.....	31
3.12 Summary of the Chapter	32

CHAPTER FOUR	33
RESULTS AND DISCUSSION	33
4.1 Chapter Overview	33
4.2 Study sample characteristics.....	33
4.2.1 Gender of Respondents	33
4.1.2 Age Distribution of respondents.....	33
4.1.3 Distribution of Respondents according to Education Levels	34
4.1.4 Respondent’s Employment Terms and Duration	35
4.2 Presentation and Analysis of the Main Findings	35
4.2.1 The Nature of Noninterest Bank Charges in Commercial Banks of Tanzania	35
4.2.2 The Influence of noninterest bank charges on financial performance of commercial banks in Tanzania	37
4.2.3 The Relationship between Bank Performance (ROA and ROE) and non interest bank charges/bank service charges)	40
4.2.3 The financial risks associated with noninterest bank charges among the commercial banks of Tanzania.....	42
4.3 Discussion of the findings.....	44
4.3.1 Nature of Noninterest Bank Charges in Commercial Banks of Tanzania	44
4.3.2 Influence of non interest bank charges on financial performance of the commercial banks in Tanzania	45
4.3.3 Financial risks associated with noninterest bank charges among Commercial banks of Tanzania	45
4.4 Chapter Summary	46
CHAPTER FIVE	47
CONCLUSION AND RECOMMENDATIONS	47
5.1 Chapter overview	47
5.2 Conclusion	47
5.3 Recommendations	48
5.4 Suggestions for Further Research.....	48
REFERENCES	49
APPENDICES	51
APPENDIX A: QUESTIONNAIRES TO THE RESPONDENTS	51
APPENDIX B: INTERVIEW GUIDES	55
APPENDIX C: RESEARCH CLEARANCE CERTIFICATE	58
APPENDIX D: LETTER GRATING ETHICAL APPROVAL FOR DATA COLLECTION ..	59

LIST OF FIGURES

Figure 2.1: Conceptual frame work for this study	24
Figure 4.1: Gender Distribution of Respondents	33
Figure 4.2: Distribution of Respondents by education levels	34

LIST OF TABLES

Table 3.1: Selected Bank Charge Variables in the Commercial Banking Institutions	31
Table 4.1: Age Distribution of Respondents	34
Table 4.2: Distribution of Respondent by employment terms and Duration	35
Table 4.3: Response on the awareness of the noninterest bank charges.....	36
Table 4.4: Nature of noninterest bank charges offered by commercial banks in Tanzania.....	36
Table 4.5: Response on the influence of noninterest bank charges and its effect on financial performance of Commercial banks	37
Table 4.6: Response on the influence of specific noninterest bank charges on financial performance of Commercial banks	38
Table 4.7: Response on the measure of financial performance of Commercial bank	39
Table 4.8: Five years average Financial Performance of the selected Commercial Banks in Tanzania	39
Table 4.9: Pearson correlation analysis between various non-interest bank charges and ROA.....	41
Table 4.10: Pearson correlation analysis between various non-interest bank charges and ROE.....	42
Table 4.11: Responses on the association between and noninterest bank charges	43
Table 4.12: Response on the risks associated with noninterest charges of Commercial bank.....	43

ACKNOWLEDGEMENTS

I express my heartfelt thanks to the Almighty God who has given me strength and blessed me in many ways. I would also like to thank everyone who in one way or another contributed to the accomplishment of this dissertation.

Special thanks and appreciation goes to my lovely parents Mr. and Mrs. Mlagha for their financial, moral and material support up to this stage of attaining my Master's Degree. May the Lord's blessings be upon them.

I also appreciate my supervisor's efforts, Dr. Sebyiga, for his continual guidance and assistance in writing this dissertation. I also thank him for his advice and constructive recommendations which have resulted to the completion of this work.

I sincerely appreciate the assistance of my friends, classmates and hostel mates in the whole period of pursuing my Master's Degree studies, but mostly in writing my dissertation.

Finally, I would like to thank the management of three districts (Temeke, Ilala and Kinondoni) in Dar-es-Salaam and bank managers for allowing me to collect data in their respective areas. I am grateful to various respondents whose contributions led to this work's completion. I appreciate all their contributions and ideas particularly Mr. Masoud and Neema Alute.

LIST OF ABBREVIATIONS

ACB	-	Akiba Commercial Bank
ATMs	-	Automatic Teller Machines
BAFI	-	Banking and Financial Institutions
BoT	-	Bank of Tanzania
CRDB	-	Cooperative Rural Development Bank
DCB	-	Dar – es - Salaam Community Bank
DCB	-	Development Co-operative Bank
DSE	-	Dar-es-Salaam Stock Exchange
EFT	-	Electronic Funds Transfer
ICT	-	Communications Technology
IFI	-	Informal Financial Institutions
KCB	-	Kenya Commercial Bank
MFI's	-	Microfinance Institutes
N	-	Number
NBC	-	National Bank of Commerce
NGOs	-	Non-Governmental Organization
NMB	-	National Microfinance Bank
PBZ	-	Bank of Zanzibar
POS	-	Point of Sale
RTGS	-	Real Time Gross Settlement System
SJUT	-	Saint John's University of Tanzania
THB	-	Tanzania Housing Bank
TISS	-	Tanzania Inter-bank Settlement System
TPB	-	Tanzania Postal Bank
TRA	-	Tanzania Revenue Authority
TZS	-	Tanzanian Shilling
URT	-	United Republic of Tanzania

ABSTRACT

The general objective of the study was to assess the impacts of bank charges on performance of commercial banks in Tanzania. Specifically, the study aimed to understand the nature of noninterest bank charges, that is, how noninterest bank charges influence performance and financial risks associated with noninterest bank charges among commercial banks of Tanzania with references from five commercial banks in Dar-es-Salaam.

The study used the case study cross – sectional research design and a sample size of 100 bank employees from five commercial banks obtained through simple random and purposive sampling methods. Also, data was collected through questionnaires and interview methods and thereafter presented, analyzed and discussed so as to address the research objectives.

The study found that most commercial banks of Tanzania have both traditional and non-traditional noninterest bank charges. These include foreign exchange account charges, mobile banking charges, service charge on customer accounts, automatic teller machines transactions charges, internet banking charges, account maintenance fee, credit cards fee and cash management fees. The Pearson correlation analysis further indicated that some of the non – interest bank charges like foreign exchange account charges, mobile banking charges, service charge on customer accounts, automatic teller machines transactions charges and internet banking charges had a significant relationship with the increase in Return on Asset (ROA) and Return on Equity (ROE) of the selected commercial banks. Also, the study found noninterest bank charges have positive influence on the financial performance of Commercial banks in Tanzania. On the other hand, most risks identified were unsystematic risk (diversifiable), foreign-exchange risk, systematic risk (undiversifiable), credit or default risks and market risk (volatility).

The study provides recommendations to Commercial banks to increase their noninterest bank charges services particularly those with low risks but used regularly by customers. For example, ATM and foreign exchange services. The study also recommends that, in order to increase volume of sales and performance, it is important that commercial banks maintain certain minimum bank charges so as to attract more customers to utilize their services. For instance, reducing costs related to opening and maintenance of customers' accounts or reducing fees incurred by customers when checking accounts balance.

CHAPTER ONE

INTRODUCTION

1.1 Chapter overview

This chapter attempts to introduce the study entitled “The assessment of impacts of Bank service charges on performance of commercial banks in Tanzania.” The study was conducted in Dar es Salaam using five commercial banks as a sample. The study covers five chapters where each chapter is divided into several sections including Background of the Study, Statement of the problem, Objectives of the study, Research Questions, Significance of the Study as well as the Chapter Summary.

1.2 Background of the Study

A bank is a financial institution that accepts deposits and channels those deposits into lending activities (Bert & Dick, 2009). Banks are highly regulated and advanced to offer the best services in most countries because of their importance in the financial system and influence on national economies. Banks are run to generate interest or profit. The generation of net interest income is done mainly from deposit mobilization, bank services and issuing of loans (Crigwell & Chanelle, 2008).

The historical background of banking can be traced back from the 14th century in rich cities of Renaissance Italy where saving financial institutions evolved and this paved way for emergence of banking ideas (Bisignano, 2010). Also, in the same century, ideas and concepts of credit and lending developed. In recent years, commercial banks have increasingly extended beyond their traditional sources of revenue to novel activities that generate non- interest income. The long established function of commercial banks has centered on intermediation between surplus spending unit and deficit spending units (Froot, 2001; Bisignano, 2010).

Most nations have institutionalized a system known as fractional reserve banking, under which banks hold liquid assets equal to only a portion of their current liabilities. In addition to other regulations intended to ensure liquidity, banks are generally subject to minimum capital requirements based on an international set of capital standards, known as the Basel Accords (Bisignano, 2010).

In Tanzania, the financial system has passed a long way from the colonial era to now. Historically, Tanzania's financial sector development and banking industry can be divided into two distinct phases: before and post 1991 (Bank of Tanzania, 1996). Before 1991, the financial sector was predominantly under state control characterized by high monopolistic tendencies. The private sector was discriminated through a system of preferential interest rates limiting its role in economic development (Mutaitina, 2000).

During independence, branches of foreign commercial banks comprising Standard Bank of South Africa, National and Grindlays Bank and Barclays Bank, dominated the banking system (Bank of Tanzania, 1996). Other smaller foreign banks which were in operation in the country included: Ottoman Bank (1953), Commercial Bank of Africa (1961) and National Bank of Pakistan (1962) (Bank of Tanzania, 1996). Historically, these banks were established locally to finance external trade rather than to develop local activities. However, the effect of their establishment was stimulation of certain local enterprises as traders and settlers deposited the proceeds of exports in local accounts of imported foreign capital (Mutaitina, 2000; Bank of Tanzania, 1996).

In 1967, after the Arusha Declaration, all financial institutions were nationalized and put under the control of the government. For instance, commercial banks were merged into one bank known as "The National Bank of Commerce (NBC)" under the NBC Act 1967 (Establishment and Vesting of Assets and Liabilities) (URT, 2010). It was believed that a nationalized Banking system, by applying social rather than private profitability criteria, would transcend the limitation of the foreign banks and attain, inter alia (Mutaitina, 2000; URT, 2010).

Non-bank financial institutions were Post Office Savings Bank, foreign insurance companies and three specialized agricultural credit institutions initiated by the local governments namely the Land Bank, the Local Development Loan Fund and African Productivity Loan Fund. In 1967, after the Arusha Declaration, all financial institutions were nationalized and put under the control of the government (Kiyota, 2009). For instance, commercial banks were merged into one bank "The National Bank of Commerce (NBC)" under the NBC Act 1967 (Establishment and Vesting of Assets and Liabilities) (Mutaitina, 2000; URT, 2010; Kiyota, 2009).

In 1991 an Act was enacted to console the law relating to banking and harmonize the operations in Tanzania (Bank of Tanzania, 1996). It was, and still is, expected that the Act will foster sound banking activities, regulate operations, and provide for other matters incidental to or connected with those purposes. Up to 1993, however, the banking system consisted entirely of insolvent and inefficient government-owned banks (Bank of Tanzania, 1996). The largest being the National Bank of Commerce which for instance accounted for 90% of commercial bank deposits and the co-operative and rural Development Bank which accounted for five percent of the sector. The balance in the banking sector consisted of the People's Bank of Zanzibar (PBZ) and the new defunct Tanzania Housing Bank (THB) (Mutaitina, 2000; URT, 2010; Bank of Tanzania, 1996). Post 1991: There was a Comprehensive financial reform to liberalize the sector, accompanying the broad economic reforms. Aim of the reforms was to put in place conducive environment for banking industry, free market operations and improve provision of financial services to support economic growth and banking industry (Bank of Tanzania, 1996).

The government of United Republic of Tanzania enacted several legislations in order to restructure the banking and financial institutions development in the country (Mutaitina, 2000). The Key Legislation milestones were BAFI Act (1991) reintroduced competitive banking abolished in 1967, Foreign Exchange Act (1992) liberalized external trade and foreign exchange, Capital Market Act (1996) gave way to the establishment of DSE in 1998, In 1995, BoT Act (1995) refocused BoT's primary objective to price stability as a means of achieving sustainable economic growth and the drive towards price stability was broad based as the government also adopted a more responsible cash budget system in 1996/97 (Mutaitina, 2000; URT, 2010).

Moreover, there were changes in the sector after the enactment of the Banking and Financial Institutions act 1991 where state owned banks were restructured and private banks licensed to carry out banking businesses (Mutaitina, 2000). Following economic and financial reforms, macroeconomic and financial stability in the economy were restored. . The economy has been diversified from agricultural to include other sectors such as trade and services particularly tourism and transport (Mutaitina, 2000; URT, 2010).

Since its enactment, the BFIA (1991) act has been improved to cater for the changing banking environment, technology and regulations. For instance, the amendment of 2003 gave powers to Bank of Tanzania to prescribe lower capital threshold for establishment of regional and community banks. Other positive implications include; improvement in the quality of bank assets, return on equity as a result of competition in the sector which has led into better management of banks and financial services due to the use of advanced technology (Mutaitina, 2000; URT, 2010).

By the year 2013, Tanzania banking sector had grown to 34 fully fledged commercial banks, and four of them (NMB, CRDB, DCB and KCB) were listed in Dar-es-Salaam Stock Exchange (DSE). The largest four banks in terms of total assets held 51 percent of the total assets of the banking sector, 47 percent of total capital, 54 percent of total deposits and 49 percent of total loan advances and overdrafts. On the other hand, local banking institutions' share of the total banking sector's assets was 52 percent, slightly higher than that of foreign banking institutions at 48 percent (Bank of Tanzania, 2014).

On the same year (2013), there was tremendous expansion of Electronic payment systems comprised of Automatic Teller Machines (ATMs), Point of Sale (POS) devices, Electronic Cards, Mobile Banking Services, Internet banking, Mobile Payment Services and Money Transfers Services (Remittances). The use of electronic payment systems, particularly the Mobile Payment Systems, has grown-up significantly and contributed towards wider outreach of financial services to unbanked population of both rural and urban areas of the country. The number of ATMs and POS devices in use significantly increased during the year (Bank of Tanzania, 2014).

The value of mobile (SMS) banking transactions increased from 303mil to TZS 587mil being an increase of 94 percent compared to previous year. The value of internet banking transactions totaled to TZS 22,725 mil recording an annual growth rate of 28 percent. The increase was attributed to increase in number of banking institutions offering mobile (SMS) and internet banking to 15 and 16 from 9 and 11 recorded in the previous year respectively (Bank of Tanzania, 2014).

According to Tara & De Young (2004) banks generate noninterest revenue by efficiently producing alternative financial services and traditional banking services. They also pointed out that deregulation as result of bank liberalization is another factor that provided banks with increased chances to sell nontraditional fee based services. In addition they mentioned that, many of these financial and traditional banking services are classified into; investment services (long- run CDs and trust accounts), transaction services for instance (Cash management), safe keeping services, safety deposit boxes and insurance services like annuity contract (Acharya at el., 2002; Tara & De Young, 2004).

The provision of these diversified services by banks has brought another concern since they involve some charges/fees which vary from one bank to another. According to Shirai (2011), presently deregulation and technology changes in financial sectors have helped commercial banks to generate significant amounts of noninterest income from nontraditional activities like, insurance agency, investment banking, mutual fund sales, underwriting and securities brokerage. He also enlightened that banks are able to achieve these activities by efficiently exploiting the economies of scope and information benefits and to some extent economies of scale. In this case, banks maintain their customer's long term relationship starting with bank loans and later switching to securities underwritings (Swai, 2013; Shirai, 2011). As clarified by Swai (2013), financial liberalization policies of early 1990s paved the way to changes in Tanzania's financial system. He also noted that, the financial reforms of 1990s introduced another remarkable era in banking sector where various legal and regulatory reforms were created in responding to prevailing international regulations changes in banking services (Swai, 2013; Shirai, 2011).

Therefore, the primary focus of management, investors and economic planners in any organization has been on corporate performance. This focus originates from the belief that performance affects profitability of profit maximizing corporations and their survival will have great influence on the country's economic performance (Arora and Kaur, 2009).

While a number of studies address various issues relating to commercial banks in Tanzania, to the authors' knowledge, none of these specifically focus on bank charges and their impact on banks' performance. The study therefore attempts to address this gap by investigating noninterest income through bank charges and its

relationship to banks' performance, which is a measure of profitability resulting from non-interest income in commercial banking industry.

1.3 Statement of the problem

Development of banking sector in Tanzania has led to diversification and provision of new sources of revenue among banks. Such developments of banking sector in Tanzania have been increasing since the liberation of bank sector in 1990s. Also, in recent years, commercial banks have gradually increased their concern on bank charges and non-interest income services (Swai, 2013).

Commercial banks in Tanzania have developed various services including transaction services, safe-keeping services, trust services, letters of credit and cash management services for which they charge fees (Swai, 2013). In the same line, the advancement of science and technology has brought another evolutionary era of banking sector in Tanzania for provision of non-interest income services. Such services include ATMs, internet banking, mobile money and other electronic services which in total have spearheaded the efficiency and profitability of commercial banks of Tanzania (Swai, 2013; Ahmed, 2009; Kiyota, 2009).

These services vary from one bank to another depending on bank size, ownership, structure, market share and regulations available. Charges are imposed in order to ensure the cost of services and risk are accommodated efficiently (Bank of Tanzania, 2014). According to Swai (2013) "the pursuit of non-interest sources of income is risky and there is evidence that volatility increases as banks seek new non-interest sources". This problem is not well known and well tackled among commercial banks of Tanzania.

Therefore, this study attempts to fill the gap through critical assessment on the nature of bank charges, non-interest income of commercial banks in Tanzania and challenges facing commercial banks in offering services associated with bank charges. In the same line, the study examines the impact of non interest charges on performance of banks of Tanzania.

1.4 Research Objectives

1.4.1 Overall Objective

The general objective of the study is to assess the impact of bank service charges on performance of commercial banks in Tanzania: A case study of Dar-es-Salaam.

1.4.2 Specific Objectives

In order to achieve the general objective, the research set out to achieve the following specific objectives of the study:

- a) To identify the nature of noninterest bank charges in commercial banks of Tanzania
- b) To examine how noninterest bank charges influence performance of commercial banks of Tanzania
- c) To determine financial risks associated with noninterest bank charges among the commercial banks of Tanzania.

1.5 Research Questions

- a) What is the nature of noninterest bank charges in commercial banks of Tanzania?
- b) How does non interest bank charges income influence performance of the commercial banks of Tanzania?
- c) What are the financial risks associated with noninterest bank charges among commercial banks of Tanzania?

1.6 Significance of the Study

The study is very important to financial institutions particularly commercial Banks of Tanzania. The findings of this research will provide a better understanding of commercial banks risk return trade off due to diversification towards noninterest charges and potential opportunities to improve performance.

The study will be useful to bank customers and borrowers who may depend on the strength of specific intermediaries for stable provision of credit as they should be able to examine the extent of risk undertaken by particular bank.

The findings as well as recommendations will increase banks' awareness so as to analyze their competitive position in relation to other banks based on various aspects on performances and operations.

The study is very important for academic purposes. The findings will serve as literature review for other academic studies on similar topics. The study will also form a benchmark for understanding the nature of bank charges and risks associated with such bank services. Through this knowledge, more hypotheses with new variables will easily be developed for conducting other studies.

This study is very significant for library usage as other people may be interested to read the findings of the study. The results of the study will provide them with extra knowledge regarding contribution of bank charges on performance of commercial banks of Tanzania. This will enable them to choose the financing means that will enable them to grow their businesses.

Last but not least, this study is very important to the researcher, after accomplishment of the study, the researcher will be awarded with Masters of Science In Finance (MSC. Finance) of ST. John's University of Tanzania.

1.7 Chapter Summary

This chapter introduces the study "Assessment of impact of Bank service charges on performance of commercial banks in Tanzania." The chapter provides a description of the banking industry where a bank has been defined as a financial institution that accepts deposits and channels those deposits into lending activities. It shows the historical background of banking in the world which can be traced back from the 14th century in the rich cities of Renaissance in Italy where saving financial institutions were involved and ideas of banking emerged.

Tanzania's banking industry can be divided in two distinct phases: before and post 1991. Before 1991, the financial sector was predominantly under state control characterized by high monopolistic tendencies. There have been changes in the sector after the enactment of Banking and Financial Institutions act 1991 whereby state owned banks were restructured and private banks licensed to carry out banking businesses.

Since the enactment of the BFIA (1991) act, there have been improvements that cater for changes in banking environment, technology and regulations. This has led to diversification and provision of new sources of revenue among commercial banks in Tanzania where various services have been developed including transactional

services, safe-keeping services, trust services, letters of credit, cash management services, ATMs, internet banking, mobile money and other electronic services for which they charge fees.

Charges are imposed in order to ensure the cost of services and risks are accommodated efficiently. These charges are risky and there is evidence that volatility increase as banks seek new non-interest sources. This problem is not well known and well tackled among commercial banks of Tanzania.

This study focuses on the critical assessment of the nature of bank charges, non-interest income of commercial banks in Tanzania and challenges facing commercial banks in offering services based on bank charges. In the same line, the study examines the impact of non interest charges on performance of banks of Tanzania. Therefore the next chapter presents the literature review related to this study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Chapter Overview

This chapter reviews the related literatures on conditions of bank charges and its importance with regards to bank performance. It presents several parts including theoretical review, empirical review, conceptual framework and literature gap together with the chapter summary.

2.2 Theoretical Review

2.2.1 The Traditional Theory of Banking

There are so many theoretical perspectives on the nature of banking industry. The study used the Traditional Theory of Banking to explain the nature of banking services rendering to bank charges and performance. The theory states that “the nature of the banks is to provide financial services and conduct the intermediary functions in the whole financial system by accepting deposits and making loans” (Fang et al., 2011). Traditional theories predicted that banking competition tends to promote banks’ risk taking behavior and thus causes instability of the financial system.

The theory further stipulates that “the nature of banks is normally described by provision of financial services and carry out the intermediary functions of accepting deposits and making loans in the financial system” (Fang et al., 2011; Goetz, 2008). Nevertheless the development of the financial system, declining entry barriers and the deregulation of the banking industry make banks no longer the monopoly suppliers of banking services and reduce their comparative advantages which they had in the past.

Banking institutions impose charges on their services so as to fix the cost of running the services such as ATMs and foreign exchange services which are currently form core part of banking transactions in the new era. In fact, existence of banks indicates that direct deals are not costless than the intermediation costs paid to the banks (Fang et al., 2011; Goetz, 2008).

Therefore, this theory is very important to this study as it tries to explain the nature of banks and services rendered to customers. This was easy to relate with the setting of bank charges in relation to bank performance which is the main objective of the study. The study exploited several parts of the theory as discussed in the next sections.

2.2.2 Nature and Existence of the Bank

Nature and existence of banking industry has been described by many scholars. This study considered few of them so as to develop a fundamental idea on the nature of the bank. According to Llewellyn (1999) there are two fundamental reasons for the existence of Banking Institutions., They possess certain monopoly powers to do what other firms cannot do such as accepting deposits; and they have comparative advantages in providing the services, which can also be provided by others (Samad, 2004).

One of the features which distinguish a banking institution from other institutions is the capability of the former to accept deposits and issuing loans (Heffernan, 2006). This idea provides knowledge on the formation and structure of the banking industry. Through it, different services could be structured so as to serve customers. Currently, banks have developed various services including transaction services, safe-keeping services, trust services, letters of credit, cash management services, ATMs, internet banking, mobile money and other electronic services for which they charge fees (Samad, 2004; Heffernan, 2006).

The traditional theory of the banking firm emphasizes on intermediary and payment services. It also identified the reasons why bank exist, but the question is how do these two link together? In addressing this, Heffernan, (1996) points that the cost of maintaining a balance that just meet payments demand is too high, most of the customers will hold surplus money and put them into the bank, and only demand a necessary amount when they need. Thus, there is profit opportunity for the bank that pools these surplus funds, through fractional reserve lending at an interest which is higher than what bank pays on deposits , after allowing for cost of intermediation and loan risks. Thus, payment services and bank intermediation are linked inextricably (Samad, 2004; Heffernan, 1996; Llewellyn, 1999).

Also the theory stipulates that traditional services of banks have been declining in both developed and developing countries. Casu & Girardone (2006) argued that the market share of bank to some financial intermediation business to the capital market, non-bank financial institutions, and non-finance companies have been lost. Bank as an institution which accepts deposits with one set of characteristics and makes loans or acquire assets with a different set. The multiplicity pressures of competition, deregulation, financial innovation, and technology have reduced the comparative advantages of the banks the traditional financial intermediation business (Llewellyn, 1999; Heffernan, 1996).

Basically this is contributed by information advantage, imperfect markets, delegated monitoring and control theory, Insurance role, regulatory subsidy and payment advantages (Samad, 2004). Information advantage is affected by financial innovation and technology which are reducing transactions costs and information costs and market imperfections, which are the basis of banks' efficiencies over direct credit markets (Llewellyn, 1999; Heffernan, 1996).

Also imperfect markets is a result of market pressures which are eroding the market imperfections, which give rise to the banks comparative advantages over intermediation in capital markets and the reason for the emergence of the financial intermediations. Therefore financial innovation is widening the range of capital market options. All have the effect of increasing the relative efficiency of capital markets over banks (Heffernan, 2006).

Another factor is delegated monitoring and control theory: this result due to the emergence of rating agencies which enable individual investors to easily access information about the credibility of potential borrowers as they have the privilege of information by managing customers' accounts. However, the delegated monitoring role is still challenged by the rating agencies (Fang at el., 2011; Goetz, 2008). This reduces comparative advantages that banks should obtain direct from the individuals. Also, insurance role is challenged s over the comparative advantages due to development of Unit trusts and mutual funds as a result of financial innovation. Therefore the insurance theory became vulnerable (Samad, 2004; Fang at el., 2011; Goetz, 2008).

Finally, regulatory subsidy occurs due to the deregulations which make the banking industry more competitive; banks will cease to benefit from the previous regulation. Other institutions are able to come into this market for the deregulation lowers the entry barriers. Also, payment advantages are affected by technology which facilitates the verification of standing transactions as emergence of electronic money can offer the payment facilities without banks.

Therefore, it can be said that, the traditional theory's rationale for the nature and existence of banks is becoming vulnerable in current times due to combined pressures of competition, de-regulation, financial innovation, and technology. Therefore, a new perspective relating to the nature and existence of banks should be given so as to win the competitive advantage and set the banking services which enable the bank to increase its performance (Heffernan, 2006).

In recent times, the related pressures of competition, de-regulation, financial innovation and technology have eliminated some of the comparative advantages of banks in their traditional banking business. In facing the pressures, banks will adapt and the nature of banking business will continue to evolve. They will exploit new comparative advantages in the other areas; therefore, the definition and nature of banks should be changed continuously (Heffernan, 2006; Fang et al., 2011; Goetz, 2008).

2.2.3 Diversification of Banking Services

According to Fang et al. (2011) diversification is one of the important subjects of the finance literature. This strategy is also crucial for a bank as a financial institution. Banks can intend to diversify their credit portfolio to increase performance and reduce credit portfolio risk.

According to Bisignano (2010), diversification is particularly important for a bank, given its nature as a financial intermediary. Since risk management is an integral part of a financial firm's business, the ability to gain from diversifying risks is important for such firms. Fang et al. (2011) stipulates that, the reasons that limit the gains from diversification that apply to other types of firms, financial institutions also face regulations that create incentives to focus or diversify their portfolios. Therefore, capital requirements based on predetermined weights on different asset classes can distort portfolio decisions.

Fang et al. (2011) further stipulates that, banks achieve an optimal risk-return trade-off in the mix of their business activities. Banks, as financial intermediaries, generate financing from three sources: depositors, equity-holders, and debt-holders. They then allocate these funds to a credit portfolio made up of securities, loans, mortgages, and so forth. According to Crigwell & Chanelle (2008) as in any portfolio allocation, banks face a risk-return trade-off. Bank diversification benefits has taken several distinct approaches: counterfactual exercises of bank combinations with non-banks, examination of actual operations of banks involved in many activities, and analysis of market reactions to bank diversification.

Specifically, for a given level of risk, banks attempt to maximize returns. Equivalently, banks minimize risk for a given level of returns. This optimization problem leads to an efficient frontier in risk and return. Any point on this frontier indicates the optimal trade-off between risk and return for any given level of risk or return. The role of banks cannot be simplified measured by the volume of assets on the balance sheet, and in fact, banks also compensate for the loss of some business by diversifying into other areas (Crigwell & Chanelle, 2008).

In terms of functionality, banking is of increasing importance to modern economy (Bert & Dick Van, 2009). The value added by banks (the role in the financial system) is wider than the measure of banks assets. As addressed by Llewellyn (1999) "Financial institutions do not act as 'agents' who intermediate between savers and investors and thus alleviate 'market imperfections' like asymmetric information and participation costs, but are independent market parties that create financial products and whose value added to their clients is the transformation of financial risk, term, scale, location, and liquidity" (Bert & Dick Van, 2009; Llewellyn, 1999).

2.3 Empirical Literature Review

2.3.1 Review Basing on the Empirical Evidence

Arora and Kaur (2009) on their study about determinants of interest margin and bank profitability from more than 80 countries identified that varieties of bank activities have a significant impact on spread and profitability. They found that there was low profitability for the banks that had high noninterest earning assets and at the same time depended on customers' deposits as the source of financing as such deposits actually required high physical branches and other costs.

Another study by Froot (2013) was done to 42 countries on how performance of the bank was affected by reliance noninterest income as measured by data from public banks traded in the stock market. He found that fee-based banking activities increase banks' exposure to the business cycle. Also, the same study concluded that there is higher risk from fee based income compared to interest margin income despite available shareholder's benefits arise from diversification.

Furthermore, the study conducted by Kiyota (2009) of bank performance in Sub-Saharan Africa countries also tried to explore the relationship between the increasing growth of reliance on noninterest income among banks against volatility to their performance (revenue & profitability). The findings revealed that there was very little evidence that diversification into noninterest activities had large impact on stable profitability and income.

In totality, noninterest income is much more volatile compared to traditional total net income. He also articulates that there was an increased correlation between noninterest income growth and net interest income. In the same line there was high correlation between service charges and fees in particular with net interest income though less with trading and fiduciary income. However, the transition period among studied banks is not enough to absolutely conclude that noninterest activities were less beneficial.

Again the research conducted by Swai (2013) on determinants of commercial bank performance (resource based review) in Tanzania using a panel of 25 banks and survey revealed that combinations of capabilities and intangible assets have strong influence on bank profitability while tangible assets are found to have little contribution. The results also revealed that efficient credit risk management, provision of low risk deposit services for a client made up of low-income people and efficient management of operating costs is of significance for increasing bank performance. His study concluded that commercial banks in Tanzania have not been able to harness and deploy intangible assets effectively.

2.3.2 Review on Nature of Bank Noninterest Charges

According to Bert & Dick Van (2009) banks earn noninterest income by producing both traditional banking services and nontraditional financial services. Tara & DeYoung, (2004) organized selected fee-generating activities into two groups:

traditional activities that have always been provided by commercial banks and nontraditional financial services that banks have only recently begun to provide. In this line different bank offer various categories of noninterest income sources. Some of these can be classified as Nontraditional are Securities Brokerage, Insurance Activities, Merchant Banking and Investment Banking and traditional are Deposit Account Services (e.g., safe-keeping, checking, online bill-pay, ATMs), Lending (e.g., letters of credit, securitization, servicing), Cash Management (e.g., payroll processing, traditional lock box), Trust Account Services (e.g., wealth management) (Bert & Dick Van, 2009; Tara & DeYoung, 2004).

According to Tara & DeYoung (2004) , “nontraditional fee generating activities would have been empty for the years prior to the deregulation of the financial industry”. They also pointed out that deregulation allowed commercial banks to pursue these diversifiable non interest fees generating income, as triggered by competitive environment.

In recent years, the quantum changes in Information and Communications Technology (ICT) and in particular financial technologies have permitted banks to produce their traditional services efficiently. As a result there is reduced per unit costs of service production, improved service quality, increased customer convenience as well as better fee income for the banks.

Some of these services that arose from advances in technology and new production processes for transactions and liquidity services are; ATMs and online bill-pay, internet banking, mobile banking and deposit customers have been willing to pay fees for these conveniences (Bert & Dick Van, 2009; Tara & DeYoung, 2004).

Therefore, bank services charges may take many forms, including: monthly charges for the provision of an account, charges for specific transactions (other than overdraft limit excesses), interest in respect of overdrafts (whether authorized or unauthorized by the bank), charges for exceeding authorized overdraft limits, or making payments (or attempting to make payments) where no authorized overdraft exists, interest charges etc. financial services.

2.3.2.1 Service Charge on Customer Accounts

According to Shirai (2011) there are different types of noninterest fee generating activities. These are monthly service charges or sometimes called (monthly account charges). Banks may charge their customers a fixed monthly charge for the provision of the account. Many people are accustomed to getting free checking accounts through the major financial institutions. Nevertheless some banks are still imposing different amount of charges depending on the level of services offered. To avoid a monthly fee a customer is required to adhere to the growing complex series of necessities or else they may opt for online banking and credit unions (Shirai, 2011). This transaction account can be divided into two categories: saving account and current account.

Basically, saving accounts let customers save part of their money in order to earn monetary return (Shirai, 2011). Thus, it is held at a bank or financial firm that gives principal security and modest interest. In this case savings accounts are commonly for cash that you don't plan to use for everyday expenditure. Bank charge various types of fees depending on the nature of transactions made by the customer in the saving accounts. These charges include; Transaction fees, Statement, Interim statement, Withdrawal charges, Cash deposit charges, Savings card/Passbook, Passbook/card replacement and Closing account fee. All these contribute to f banks' noninterest income and they differ from one bank to another.

Also, current accounts are accounts that can be opened by businessmen in co-operative bank or commercial bank where the money can be deposited and withdrawn at any time without giving any notice. In this type of accounts it is easier to make payments to suppliers by using cheques. On other hand cheques from customers are placed in this account for collections (Acharya et al., 2002). However some of these transactions are subject to varying charges by banks.

In Tanzania these bank charges include those in saving accounts (Transaction fees, Statement, Interim statement, Withdrawal charges, Cash deposit charges, Closing account) and in addition; bank overdraft, Bank draft cancellation charge, Cheque book, Cash withdrawal at counter, Cash payment to 3rd party, Bulk cash deposit, Bulk cash withdrawal, Stop payment orders, Standing orders (within bank), Standing orders to other banks, Certificate of balance, Letter of introduction, Salary handling, School fees deposits, TRA collection, Safe custody charges and Safe custody

access. These services are not uniformly provided by commercial banks (Swai, 2013; Kiyota, 2009; URT, 2010).

2.3.2.2 Foreign Exchange Account Charges

According to Kiyota (2009) commercial banks also deal in foreign exchange. They sell demand drafts, issue letters of credit and help remittance of funds in foreign countries. They also act as brokers in foreign exchange. Banks earn income out of these operations. Some of services charges include:

Transaction fees, Statement, Interim statement, Withdrawal charges, Cash deposit charge, Out foreign transfers, In foreign transfers, LC Opening/Advising commission (cash covered), LC Opening/Advising commission (no cash covered), LC acceptance commission and LC Payment/Settlement commission, LC amendments.

2.3.2.3 Automatic Teller Machines Transactions Charges

According to Swai (2013) ATM machines perform the basic deposit and withdrawal tasks of tellers and are now dependable and acceptable by most consumers. Some consumers even prefer ATMs to talkative and error prone human tellers. ATMs have higher investment costs but lower running costs than human tellers. ATMs also can be installed in remote locations and can operate 24 hours a day. Using an ATM that does not belong to your bank is likely to cost you additional money. Examples of types of fee related to ATMs charged by the banks are; Issue of ATM cards, Replacement of ATM card (Faulty), Replacement of ATM card (Lost) and ATM withdrawals within same bank or other banks (Shirai, 2011).

Also, credit cards currently represent a third common means of payment for consumer purchases. There are three main categories of credit cards; Bank credit cards such as MasterCard and visa, Travel and entertainment cards such as American express and Retail credit cards for such specific retail uses as department stores, airlines and gasoline companies. In each case cardholder receives a monthly bill from the company for the accumulated amount of the purchases made. This bill can be paid in full or now starting to offer credit option that can activate. With credit option the interest is charged on the loan balances until full payment is made (Shirai, 2011).

2.3.2.4 Point of Sale (POS) Charges

According to Fang et al. (2011) POS terminals based on debit cards represents an EFT innovation that banks are currently trying to introduce. POS terminals are placed in retail outlets and are connected directly to bank computers. The customer gives his plastic debit card (like credit card) to the merchant, the merchant uses the terminal to register the purchase, and the purchase amount is subtracted from the customer's bank account and added to the merchant's account. With the transaction completed instantly and electronically, the two major drawbacks of the current check and credit card system are eliminated for banks; there is no flow of paper and no time lag. Thus, bank may impose fee in any case whether the flow is within the bank or on other banks.

2.3.2.5 Mobile Banking Charges

According Acharya et al. (2002) the terms m-banking, m-payments, m-transfers, m-payments, and m-finance refer collectively to "a set of applications that enable people to use their mobile telephones to manipulate their bank accounts, store value in an account linked to their handsets, transfer funds, Balance inquiry".

Acharya et al. (2002) also said that, "mobile phone operators have identified Mobile banking systems as a potential service to offer customers, increasing loyalty while generating fees and messaging charges". Thus, profitable services which were once difficult for financial institutions to provide by the use traditional channels are now available even to poor clients via mobile banking "branchless banking" which has comparative lower costs. Therefore, banks have mainly two types of categories of charges imposed when making transactions: when making payments and transfers. These charges contribute part of noninterest income of the bank.

2.3.2.6 Internet Banking Charges

According to Froot (2013) internet banking is the provision of banking products and services through electronic delivery channels. It includes the use of Internet to conduct banking activities such as fund transfers, paying bills, viewing current and savings account balance, paying mortgages and purchasing financial instruments and certificates of deposits.

Froot (2013) added that, electronic banking has been around for quite some time in the form of ATMs and telephone transactions. In more recent times, it has been transformed by the internet to a new delivery channel that has facilitated banking transactions for both customers and banks. For customers, the internet offers faster access, is more convenient and available around the clock irrespective of the customer's location. The types of charges that are charged include Balance inquiry, Payments and Transfers which may be charged local or internationally.

2.3.2.7 Tanzania Inter-bank Settlement System (TISS) Charges

TISS is an abbreviation which stands for Tanzania Inter-bank Settlement System, this is a Real Time Gross Settlement System (RTGS) implemented by Bank of Tanzania (BoT, 2014). The TISS is an on-line system that facilitates real time and gross settlement of payment instructions between banks. TISS functionalities include online real time account management and inter-bank high value or time critical funds transfers.

According to BoT (2014) TISS improves efficiency in the payment system by eliminating the settlement time lag for high value and time sensitive payments. TISS also minimizes settlement risks. Commercial banks adopting TISS are now able to offer efficient and time effective payment services to their customers on Real-Time basis. Banks impose charge in each transaction that involve TISS. Some may charge fee when settlement is within or on other banks or when there is outward transfer or inward transfer. The current standard charge approved by the Bank of Tanzania is 10,000TZS.

2.3.3 Review on the Bank Non Interest Charges and Performance of Bank

As seen from various studies regarding current adoption of new ways of generating revenue, the debate is on benefits arising from this approach is ongoing. The study presents several arguments on the relationship between non interest bank charges and banks' performance as follows;

First, the switching costs for most bank loans are high since they are relationship based while there is no relationship for most fee-based activities. Hence, despite credit and interest rate risks, revenue from loan interest is less risky than bank non-interest income from fee based activities (Acharya et al., 2002).

Second, within the context of an ongoing lending relationship, the main input needed to produce fee-based products is fixed or quasi-fixed labor owing to the low switching and information costs of customers. This is contrary to a variable input (interest expense) from loans. Consequently, fee income generating activities make use of greater operating leverage compared to lending activities, making operating income more sensitive to revenue volatility (Kiyota, 2009).

Third, most non-interest fee generating activities require commercial bank to hold little or no fixed assets so unlike interest-based products like portfolio lending they require little or no regulatory capital. Thus, fee-based activities require high leverage than lending activities, thus, increase the risk of bank earnings.

Besides, Kiyota (2009) similar work by Bisignano (2010) and others justified the same results on the increase of bank revenue risks due to diversification into noninterest banking activities. In totality, several studies show that the extension into noninterest banking activities have impact on the income stability of commercial banks and thus, there is a need to resolve this controversy in our current environment by the use of current data.

According to Swai (2013) today commercial banking companies in Tanzania are investing on technology in order to increase efficiency in services provision and to add up more sources and channels of revenue. These include among others Mobile Banking Services, ATMs, Internet banking, POS devices, Electronic Cards and Money Transfers Services (Remittances). In Tanzania total number of operating ATMs reached 1526, while the number of POS devices increased to 2,569. The value of ATMs transactions increased to TZS 7,637 billion while POS transactions value increased to TZS 347 billion respectively. The value of mobile (SMS) banking transactions increased at a rate of 94 percent.

Again, Swai (2013) added that, the value of internet banking transactions also increased to TZS 22,724 million from TZS 17,746 million reported in 2012, which equals to an annual growth rate of 28 percent. This was attributed by the increase in number of banking institutions offering mobile and internet banking to 15 and 16 for the year 2013 respectively. The number of registered users of mobile payment services increased by 18 percent from 26 million recorded in 2012 to 32 million in December 2013. During the period under review, the total value of mobile payment

transactions reached TZS 28,852,294 million compared to TZS 17,407,726 million recorded in the year 2012, being an increase of 66 percent.

2.3.4 Bank Performance Indicators

Profit is the ultimate goal of commercial banks. All the strategies designed and activities performed thereof are meant to realize this grand objective. However, this does not mean that commercial banks have no other goals. Commercial banks could also have additional social and economic goals. However, the intention of this study is related to the first objective, profitability. To measure the profitability of commercial banks there are variety of ratios used of which Return on Asset, Return on Equity and Net Interest Margin are the major ones (Murthy and Sree, 2003; Alexandru et al., 2008).

2.3.4.1 Return on Equity (ROE)

ROE is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested or found on the balance sheet. ROE is what the shareholders look in return for their investment. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. Thus, the higher the ROE the better the company is in terms of profit generation. It is further explained by Khrawish (2011) that ROE is the ratio of Net Income after Taxes divided by Total Equity Capital. It represents the rate of return earned on the funds invested in the bank by its stockholders. ROE reflects how effectively a bank management is using shareholders' funds. Thus, it can be deduced from the above statement that the better the ROE the more effective the management in utilizing the shareholders capital.

2.3.4.2 Return on Asset (ROA)

ROA is also another major ratio that indicates the profitability of a bank. It is a ratio of Income to its total asset (Khrawish, 2011). It measures the ability of the bank management to generate income by utilizing company assets at their disposal. In other words, it shows how efficiently the resources of the company are used to generate the income. It further indicates the efficiency of the management of a company in generating net income from all the resources of the institution (Khrawish, 2011). Wen (2010), state that a higher ROA shows that the company is more efficient in using its resources.

2.4 Definition of the Key Concepts and Conceptual Frame Work

2.4.1 Bank Charges

The term “bank charge” covers all charges and fees made by a bank to their customers. In common jargon, the term refers to fees and charges in respect of personal current accounts and/or checking accounts. These charges can take any of the forms; monthly charges for the provision of an account, charges for specific transactions, interest in respect of overdrafts charges for exceeding authorized overdraft limits, or making payments where no authorized overdraft exists. Any fees that a bank assesses on an account form a significant portion of banks' revenue. As a source of bank income, fees have become increasingly important in recent years (Bert & Dick Van, 2009).

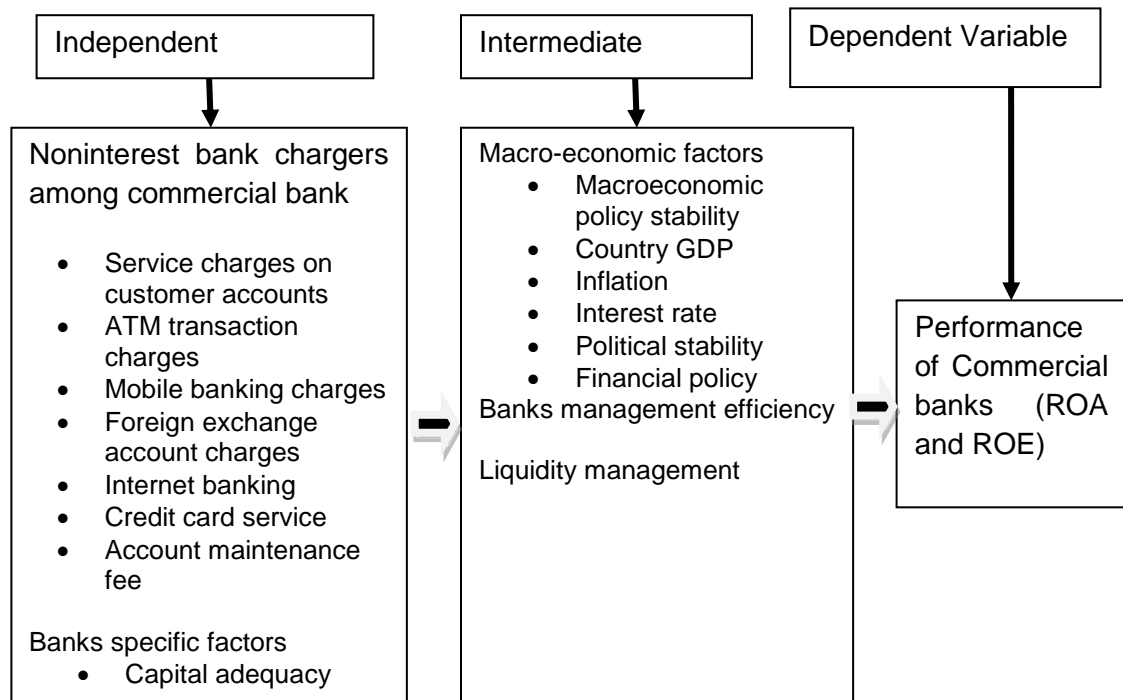
2.4.2 Commercial Bank

According to Casu et al. (2006) commercial bank is an institution whose current operations consist of granting loans and receiving deposits from the public. Banking firms are special institutions which react to its regulatory environment to optimally allocate its assets. The provision of deposit and loan products normally distinguishes banks from other types of financial firms. Also Samad (2004) explained that “Commercial Banks exist because of the various services they provide to sectors of the economy, e.g., information services, liquidity services, transaction cost services, maturity intermediation services, money supply transmission, credit allocation services, and payment services.

2.4.3 Conceptual Frame Work

This study aimed to know the nature, financial risks of noninterest bank charges and how they influence performance of commercial banks of Tanzania. The following is the framework of the study:

Figure 2.1: Conceptual frame work for this study



The conceptual frame work presented shows the relationship between noninterest bank charges, diversifications risk and how they determine the performance of commercial banks. Noninterest bank charges among commercial banks that are assumed to be independent variables include Securities Brokerage, Insurance Activities, Merchant Banking and Investment Banking and traditional are Deposit Account Services (e.g., safe-keeping, checking, online bill-pay, ATMs), Lending (e.g., letters of credit, securitization, servicing), Cash Management (e.g., payroll processing, traditional lock box), Trust Account Services (e.g., wealth management) etc.

Intermediate factors according to this study are the factors which play part between noninterest bank risks and bank performance. These factors include unsystematic risk (diversifiable), systematic Risk (undiversifiable), Credit or Default Risk, Foreign-Exchange Risk, Interest Rate Risk and Market Risk (volatility). These factors are intermediate because they affect both bank performance and noninterest bank charges. Therefore, perceived performance of Commercial banks is a function of noninterest bank charges among commercial bank through diversifications risks.

2.5 Research Gap

The literature review of the study provided a concise discussion on bank charges in relation to commercial bank performance. The study reviewed theories and different reports which relate to the banking sector.. Through this review, it is clear that most scholars used past information which cannot be relied upon to reflect current diversities in banking industry. Also, most scholars presented their findings based on a wide coverage which makes their findings not very reflective of our environment. Thus, this study addresses this gap by adopting current information based on new data using five commercial banks in Dar es Salaam.

2.6 Chapter Summary

The chapter has presented both theoretical and empirical reviews together with conceptual framework related to the banking industry. The aim was to understand what other researchers have already done related to the study so as to point the gap more clearly as a basis for conducting this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Chapter Overview

This chapter describes the methodology that was used to undertake the study. It includes the research design, area of the study and population of the study. This chapter also explains the sample, sampling procedures, recruitment procedures, sample size and study protocol. In this chapter, the researcher elaborates on data collection methods, validity and reliability, data analysis methods and plan. The researcher also considered ethical issues relevant to the study and some limitations of the study.

3.2 Research Design

3.2.1 Descriptive Design

Research design is the overall plan for relating the conceptual research problem to relevant and practicable empirical research (Kothari, 2009). According to Cooper & Schindler (2014) research design is the set of procedures that guides the researcher in the process of verifying a particular hypothesis and excluding all other possible hypothesis or explanations.

The current study adopted case study design strategy. This type of research design is usually employed when studying few cases from many cases that form the population of cases. The researcher used case study design because data from the case studies are greatly comprehensive and reliable because of their ability to explore instances in-depth and enables the researcher to get information which is purposive and comprehensive (Kothari, 2009). The design therefore, facilitated the acquisition of the most required in-depth information that aided the analysis of bank charges and performance of commercial banks.

3.2.2 Research Approach

The study widely adopted a qualitative approach though quantitative approach was also employed in few cases such as computation of percentages, means and tabulations. Correlation analysis was also employed in assessing the impact of bank charges on performance of commercial banks inters of ROE and ROA. The qualitative research approach was used because it gives an opportunity for one aspect of a problem to be studied in depth and enables the researcher to collect

facts and study their relationship in order to find sources as well as solutions for the problem.

3.3 Study Setting

3.3.1 Location of the Study Area

The study was carried out in five banks located in Dar-es-Salaam region namely; Community Rural Development Bank (CRDB), National Microfinance Bank (NMB), Akiba Commercial Bank (ACB), Dar Es Salaam Community Bank (DCB) and Tanzania Postal Bank (TPB).

Dar-es-Salaam city consists of three administrative districts: northern Kinondoni, central Ilala, and southern Temeke. The region has a population of 4,364,541 (National population Census, 2012). Data was collected from different locations so as to acquire critical findings that facilitated to reach at optimal conclusion.

The choice of the five commercial banks in Dar-es-Salaam was based on their urban location where commercial activities subject to banking services are widely spread. The researcher believed that these commercial banks have all the necessary information about noninterest bank charges in relation to commercial bank performance. Also due to time constraints, these banks could be easily accessed.

3.4 Population of the study

According to Kothari (2009) "population in research is defined as the entire group a researcher wishes to study or to learn about." In this study, the sample population of the study included employers and employees found in all five selected commercial banks which are CRDB, NMB, ACB, DCB and TPB. It involved tellers, customer cares, branch managers, marketing officers, information technology officers, finance officers and others depending on the bank setting. The researcher gathered information from these banks and analyzed them to reach the conclusion of the study.

3.5 Sampling

3.5.1 Sample Size

In this study, the sample constituted 100 respondents from five Commercial banks in Dar-es-Salaam region which included CRDB, NMB, ACB, DCB and TPB. Twenty respondents were selected from each bank to make a total of 100 respondents.

3.5.2 Sampling Techniques

There are two sampling techniques namely probability sampling and non-probability sampling (Kothari, 2009). The study adopted purposive/ judgmental and simple random sampling methods from non- probability and probability sampling techniques respectively.

3.5.2.1 Simple random sampling

This is a sampling technique in which each element in the population is given an equal chance to be selected. This technique was used to select tellers, customer cares, branch managers, marketing officers, information technology officers, finance officers and others depending on each bank's setting.

3.5.2.2 Purposive sampling

This sampling technique is useful when selecting samples believed to be very representative of the target population. Therefore, this technique allowed the researcher to involve respondents who were knowledgeable on the topic and willing to participate.

3.6 Data Collection Methods and Instruments

The researcher used various methods to collect data from different respondents. The methods of data collection used were questionnaires, interviews and documentary reviews.

3.6.1 Questionnaire

Structured and unstructured questionnaires were used to collect data from the banks' internal finance officers particularly to those who were less occupied while interview was used for those most occupied. The questionnaires were prepared in English, in case where the respondent could neither read nor write English, the researcher assisted by translating.

3.6.2 Face to face Interview

This method was employed to solicit information from branch managers, internal bank officers and other respondents who had essential information related to the study. Interview was used because these people were occupied with several administrative works. This method was found modest because it provides opportunity to ask additional questions for further clarification and saves time.

3.6.3 Documentary Review

This method enabled the researcher to get secondary data. Secondary data are those that are already available as collected by other researchers. Documentary review is a process of reading various extracts found in offices or places dealing with or associated with issues related to what the researcher is investigating (Kothari, 2009).

In this context, the researcher was able to access some documents related to the study topic. The documentary review that enriched this study included bank's financial reports, finance reports, bank charges reports and other potential documents. The aim of using this method was to help the researcher in obtain useful information to support the study findings.

3.7 Methods for Ensuring Validity and Reliability

Basically, validity refers to the extent to which the concept one wishes to measure is actually being measured by a particular scale or index (Cooper & Schindler, 2014). That is the extent to which an account accurately represents the social phenomena to which it refers. According to Cooper & Schindler (2014), it is vital for a test to be valid in order for the results to be accurately applied and interpreted. On the other hand, reliability of a measure may be defined as a consistency with which repeated measures produce the same results across observations.

In order to ensure validity and reliability of the study, the research instruments were tested before using them. Specifically interview questions and questionnaires were pre-tested on a number of respondents who were similar to those included in the study in terms of background characteristics. This was done so as to ensure that instructions and meanings of the questions are simple, clear, unambiguous and beneficial to the subjects. Changes were made accordingly and the inputs provided

by respondents were taken into consideration. This helped the researcher to evaluate the extent to which respondents understood the questions equally.

3.8 Data Analysis

Descriptive statistical analysis was used as the tool for initial data analysis. Content analysis was then applied in analyzing issues based on the statement of the problem, research objectives and research questions. The data from questionnaires was coded and then analyzed using a statistical programme known as Statistical Package for Social Sciences (SPSS). The rationale of using SPSS was based on its ability to perform the entire statistical analysis required for this study and also for its user friendly attribute.

Data was coded into SPSS and then the programme was run to get initial results which included frequency tables and descriptive statistics. A Pearson correlation analysis and t-statistic were used to determine the association and correlation of each explanatory variable including non interest bank charges or service charges in affecting the performance of banks. The moderating effect of ownership identity was also evaluated by using ownership as a dummy variable.

3.8.1 Profitability Performance Measures

This study used profitability as a measure of banks performance. It was measured using two variables which are return on asset (ROA) and return on equity (ROE). These are obtained by calculating the ratio of annual return with asset and equity respectively. These variables stood as dependent variables. Specific variables from respective banks were used based on their attributes such as adequacy, reliability and openness to public. This data set consists of banks' publications (bank charges), balance sheets and income statements.

In this study bank charges as an independent variable has been classified into savings account, current account, foreign exchange account, ATM transactions and money remittances. These categories have various charges subcomponents, thus, the study included at least two subcomponent charges in each category depending on accessibility across all selected banks in the panel and its time frame.

Table 3.1: Selected Bank Charge Variables in the Commercial Banking Institutions

Main Category	Savings & Current accounts	Electronic fund transfer	ATM transactions	Mobile/sms banking
Bank Charges to Customers	Statement fee	outward transfer	Issue of ATM cards	Payments
	Cheque book charges	inward transfer	ATM withdrawals	Transfers

3.9 Ethical Considerations

In order to ensure ethics were preserved, the researcher used research clearance obtained from SJUT research Committee.

Moreover, the researcher used codes rather than names to ensure confidentiality of respondents. Also limited access of data to the researcher was considered.

Additionally, respondents were informed on the purpose of the study in advance. Verbal consent was obtained including prior information on the time and benefits of the study. Location of the interview was also of great consideration so as to encourage respondents' participation in providing the responses.

Finally, in dealing with plagiarism references and all other sources have been indicated at the end to show authenticity and originality of the information. Paraphrasing and direct quotation was adopted for the same purpose.

3.10 Plans for Dissemination of Research Results

The research results will be disseminated to the Bank of Tanzania (BOT) and the library of St. John University of Tanzania. The study will benefit all stakeholders who are interested with financial matters particularly in banking sectors. The study findings will provide them with insights on how to set bank charges that increase bank performance with minimal diversification risks.

3.11 Overall Limitations of the Study

The study involved respondents from five banks in Dar es Salaam only to represent all commercial banks in Tanzania. Time was also a constraint, thus, only four months were used for data collection.

Another major limitation was unwillingness of some respondents to cooperate effectively due to fears of their business structures being copied.

3.12 Summary of the Chapter

This chapter has shown the methodology that is adopted in undertaking the study. It has shown necessary procedures which were used in the course of this research so as to obtain adequate and reliable results that are also representative...

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Chapter Overview

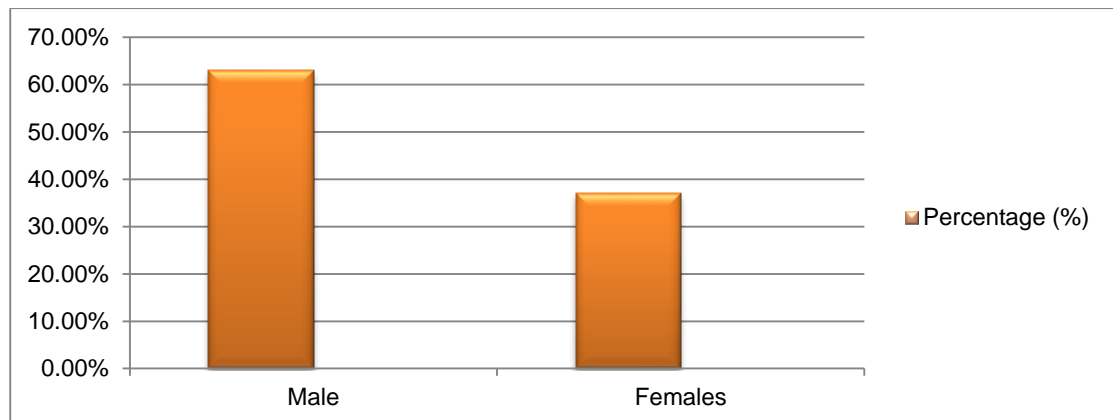
This chapter constitutes data presentation, analysis and discussion of study findings. The chapter is mainly divided into two parts. The first part presents, analyzes and discusses demographic characteristics of the respondents while the second part presents, analyzes and discusses on variables used in the study area for addressing research objectives. Most of the data are presented using charts and tables followed by brief explanations/descriptions.

4.2 Study sample characteristics

4.2.1 Gender of Respondents

In this study, 37% of respondents were females while 63% were males as shown in figure 2. This implies lower participation of females as compared to males though representation of both sexes is evident.

Figure 4.1: Gender Distribution of Respondents



4.1.2 Age Distribution of respondents

Age is one of the aspects which help to determine the maturity of respondents. Results in Table 4.1 reveal that majority of respondents (36%) were in the age group of 26 – 35 years, followed by 25% of age group 36 – 45 years while age groups of 18 – 25 years and 46 and above years were 20% and 19% respondents respectively.

These findings imply that majority of respondents were adults with good reasoning capacity and knowledge related to the study. It was also observed that those respondents with 46 years and above hold higher positions in the bank.

Table 4.1: Age Distribution of Respondents

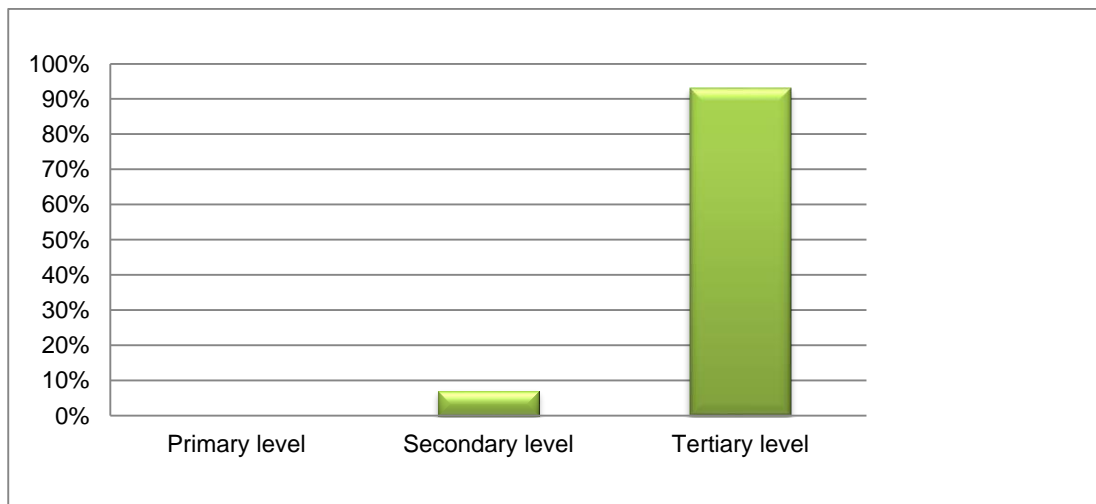
Age group	Frequency (n)	Percentage (%)
18 – 25 years	20	20
26 – 35 years	36	36
36 – 45 years	25	25
46 years and above	19	19
Total	100	100

4.1.3 Distribution of Respondents according to Education Levels

Figure 4.2 shows the distribution of respondents as per education level. These included primary, secondary and tertiary education levels. Results show that only 7% of respondents had attained the secondary education level whereas the rest had attained the tertiary education level.

This implies that majority of bank employees are well educated and possess necessary skills to fulfill their operations. It also shows that the study used knowledgeable respondents to acquire information that was needed to fulfill its objectives.

Figure 4.2: Distribution of Respondents by education levels



4.1.4 Respondent's Employment Terms and Duration

Table 4.2 presents the respondent's employment terms. It is evident that majority of respondents are full time employees (84%) with only 16% as part time employees. On a further note, respondents were also assessed on their duration of work at the bank. Results show that most respondents (47%) had worked for five years and above, 24% had worked for 3-4 years, 13% had worked for 1-2 years and 16% had worked for less than one year. This implies that, most of the employees in banking sector are full time employees with enough working experience sufficient to provide useful information regarding the sector. The researcher believes that, information obtained from these respondents was critical to provide objective answers for the study.

Table 4.2: Distribution of Respondent by employment terms and Duration

	Employment Terms	Frequency	Percent
Valid	Full time employee	84	84%
	Part time employee	16	16%
	Total	100	100
	Duration of working at the bank	Frequency	Percent
Valid	Less than one year	16	16%
	1 – 2 years	13	13%
	3 – 4 years	24	24%
	5 years and above	47	47%
	Total	100	100

4.2 Presentation and Analysis of the Main Findings

This section presents the main findings of the study based on the on nature of noninterest bank charges, the way they influence banks' performance and their associated financial risks in commercial banks of Tanzania.

4.2.1 The Nature of Noninterest Bank Charges in Commercial Banks of Tanzania

The results presented in Table 4.3 show that most of the employees in the banking sector in Tanzania are familiar with noninterest bank charges as 97% responded positively to this. This implies that noninterest banking charges are part of most banks' daily operations.

Table 4.3: Response on the awareness of the noninterest bank charges

Response	Frequency	Percentage (%)
Yes	97	97.0
No	3	03.0
Total	100	100.0

Respondents were also asked on noninterest bank charges they offer to their customers. Results in table 4.4 below show that most commercial banks apply more than one noninterest charge, the service charge on customer accounts being dominant as pointed by all. Other commonly applied charges include transaction charges when using automatic teller machines (97%), foreign exchange account charge (68%), mobile banking charges (63%) and account maintenance fee 61%). It is only internet banking charges, lending charge and cash management charges that were found to be less applicable to customers for most banks.

Table 4.4: Nature of noninterest bank charges offered by commercial banks in Tanzania

Noninterest bank charges offered	Frequency	Percentage (%)
Service charge on customer accounts	100	100.0
Foreign exchange account charges	68	68.0
Automatic teller machines transactions charges	97	97.0
Mobile banking charges	63	63.0
Internet banking charges	22	22.0
Credit cards fee	41	41.0
Account maintenance fee	61	61.0
Cash management	35	35.0
Lending	27	27.0
Total	>100	>100

Note: Frequency and percentage are based on multiple responses

This implies that most people uses banks for saving rather than other purposes. Also, the limited applicability of internet banking and cash management charges implies that majority of users are individuals rather than organizations or corporations.

4.2.2 The Influence of noninterest bank charges on financial performance of commercial banks in Tanzania

The study sought to identify noninterest bank charges applied by commercial banks in Tanzania and their influence on banks' financial performance.

According to the findings as presented in Table 4.5, all respondents agreed at different degrees that noninterest bank charges had an influence on commercial banks' financial performance. However, majority (45%) were of the opinion that noninterest bank charges have moderate influence on commercial banks' financial performance whereas 24% and 15% were of the opinion that these charges had a high influence and very high influence respectively. Only 16 respondents were of a contrary opinion of low influence of these charges on banks' financial performance. This generally implies that most banks understand the influence that noninterest charges have on their financial performance.

Table 4.5: Response on the influence of noninterest bank charges and its effect on financial performance of Commercial banks

Response	Frequency	Percentage (%)
Very high influence	15	15.0
High influence	24	24.0
Average influence	45	45.0
Low influence	11	11.0
Very low influence	5	5.0
Total	100	100.0

The study also sought to determine the extent to which specific noninterest charges had on banks' financial performance for the past five years. Results as presented in Table 4.6 reveal that most banks' earn income through service charge imposed on customer accounts as agreed by at least 48% of respondents. Other noninterest charges through which banks earned income include foreign exchange accounts, ATM transactions and mobile banking.

Table 4.6: Response on the influence of specific noninterest bank charges on financial performance of Commercial banks

Noninterest bank charges		Very great	Great	Moderate	Little	No	Total
Service Charge on Customer Account.	Fq.	48	37	14	1	0	100
	%	48.0	37.0	14.0	1.0	0.0	100.0
Foreign Exchange Account Charges	Fq.	30	38	20	8	4	100
	%	30.0	38.0	20.0	8.0	4.0	100.0
ATM's Charges	Fq.	27	33	21	16	3	100
	%	27.0	33.0	21.0	16.0	3.0	100.0
Mobile Banking Charges	Fq.	34	41	18	7	0	100
	%	34.0	41.0	18.0	7.0	0.0	100.0
Internet Banking Charges	Fq.	5	3	45	33	14	100
	%	5.0	3.0	45.0	33.0	14.0	100.0
Credit Cards Fees	Fq.	9	13	39	30	9	100
	%	9.0	13.0	39.0	30.0	9.0	100.0
Account maintenance fee	Fq.	2	7	49	32	10	100
	%	2.0	7.0	49.0	32.0	10.0	100.0
Cash Management	Fq.	4	5	43	35	13	100
	%	4.0	5.0	43.0	35.0	13.0	100.0
Other noninterest bank services	Fq.	1	3	56	29	11	100
	%	1.0	3.0	56.0	29.0	11.0	100.0

Respondents also had varied opinions regarding those noninterest charges which do not occur regularly but have significant contribution on banks' income such as internet banking and cash management charges.

These findings imply that banks are aware of the contribution of noninterest charges on their income, thus, design them carefully to ensure they achieve maximum gains.

An analysis of banks' performance was also conducted in this study by using several performance ratios. The findings as presented in Table 4.7 show that overall performance of the five commercial banks is good particularly on profitability sales turnover as at least 44% reported on its being improved. Other measures that were pointed as doing well include stock returns profitability and sales turnover market share as agreed by 32% and 41% of respondents respectively as being improved. On the other hand, measures of return on assets and market share return on assets were found to have constant improvements as agreed by 56% and 51% of respondents respectively.

This implies that commercial bank are performing well on the areas of profitability sales turnover, market share return on assets, stock returns profitability, sales turnover market share and return on assets which result from the services issued to the customers. These measures may change due to the change of service charges issued.

Table 4.7: Response on the measure of financial performance of Commercial bank

Measure of performance		Very highly Improved	Improved	Constant	Decreasing	Very highly Decreased	Total
Profitability	Fq.	16	44	35	5	0	100
Sales turnover	%	16.0	44.0	35.0	5.0	0.0	100.0
Market share	Fq.	10	28	51	9	2	100
Return on assets	%	10.0	28.0	51.0	9.0	2.0	100.0
Stock returns	Fq.	27	32	31	10	0	100
Profitability	%	27.0	32.0	31.0	10.0	0.0	100.0
Sales turnover	Fq.	30	41	22	7	0	100
Market share	%	30.0	41.0	22.0	7.0	0.0	100.0
Return on assets	Fq.	10	29	56	3	2	100
	%	10.0	29.0	56.0	3.0	2.0	100.0

Description of Bank Performance

Table 4.8 below presents the average financial performance of commercial banks as expressed by ROA, ROE for the year 2010 to 2015.

Table 4.8: Five years average Financial Performance of the selected Commercial Banks in Tanzania

	ROA	ROE
MAIN SCORE	4.75	16.85

As can be observed from the Table 4.8, the average ROA and ROE for the selected commercial banks are 4.75 and 16.85 respectively. If compared to other countries banks' performances as expressed by the above ratios, Tanzanian banks' performance is average. This is consistent with the findings of Flamini et al. (2009.) According to Flamini et al, the average ROA in Sub-Saharan Africa (SSA) is about 2%. Thus, the average ROA of the five commercial banks is about average of the SSA.

4.2.3 The Relationship between Bank Performance (ROA and ROE) and non interest bank charges/bank service charges)

This section presents the relationship between the identified non interest bank charges and banks' performance as expressed by ROA and ROE. The relationship is explained by parameter coefficients between the explanatory and explained variables. The coefficients show the magnitude and direction of the relationships, whether it is strong, weak, positive or negative. The higher the values the stronger the relationship, and the smaller the coefficient, the weaker the relationship. The sign also shows the direction of the relationship. A positive sign shows a positive relationship and a negative sign shows the opposite.

Results in Table 4.9 show that commercial banks return on asset (ROA) is highly correlated with various non-interest bank charges like foreign exchange account charges ($r = 0.8194$, $p < 0.01$). This implies that there is a strong positive relationship between the selected commercial banks' ROA and increase in foreign exchange account charges. The same was observed for service charge on customer account ($r = 0.7464$, $p < 0.05$), Automatic teller machines transactions charges ($r = 0.6778$, $p < 0.01$) and mobile banking charges ($r = 0.5745$, $p < 0.01$) indicating positive and strong association/ relationship between them and increase in ROA of the selected commercial banks.

Other variables that were observed to have significant correlation with ROA are mobile banking charges ($r = 0.5745$, $p < 0.01$), internet banking charges ($r = 0.4846$, $p < 0.01$) which is positive medium correlation and credit card fees ($r = 0.2149$, $p < 0.01$) that is low positive correlation. Therefore, these variables are significantly correlated to increase in return on asset (ROA) among commercial banks in Tanzania.

Table 4.9: Pearson correlation analysis between various non-interest bank charges and ROA

Variables	Coefficient	P – value
Service charge on customer accounts	0.7464	0.0471**
Foreign exchange account charges	0.8194	0.0032*
Automatic teller machines transactions charges	0.6778	0.0000*
Mobile banking charges	0.5745	0.0000*
Internet banking charges	0.4846	0.0000*
Credit cards fee	0.2149	0.0047*
Account maintenance fee	0.3101	0.6017ns
Cash management	0.5368	0.2185ns
Lending	0.4907	0.4051ns

Note: * and **significant at 1% and 5% respectively and ns = non-significant

With regards to the influence of non – interest service charges on ROE of commercial banks, results from Table 4.10 show that commercial banks' ROE is highly correlated with various non-interest bank charges like foreign exchange account charges ($r = 0.5281$, $p < 0.05$) implying a strong positive relationship between the selected commercial banks' ROE and increase in foreign exchange account charges., This is also true for service charge on customer account ($r = 0.6161$, $p < 0.05$), and Automatic teller machines transactions charges ($r = 0.7101$, $p < 0.05$) both indicating strong positive relationship with selected commercial banks' ROE. Other non – interest bank charges including internet banking charges, cash management, account maintenance fee and credit fees were found to have no significant relationship with the banks' ROE.

Table 4.10: Pearson correlation analysis between various non-interest bank charges and ROE

Variables	Coefficient	P – value
Service charge on customer accounts	0.6161	0.0071**
Foreign exchange account charges	0.6281	0.0492*
Automatic teller machines transactions charges	0.7101	0.0371*
Mobile banking charges	0.5031	0.0219**
Internet banking charges	0.2801	0.1913ns
Credit cards fee	0.1682	0.0891ns
Account maintenance fee	0.4131	0.5641ns
Cash management	0.0729	0.2185ns
Lending	0.1193	0.0988ns

Note: * and **significant at 1% and 5% respectively and ns is non-significance

4.2.3 The financial risks associated with noninterest bank charges among the commercial banks of Tanzania

The researcher intended to know the risks associated with noninterest bank charges among commercial banks of Tanzania. Before further investigation, the researcher questioned respondents regarding financial risks associated with noninterest bank charges at different levels of agreement.

The results as presented in Table 4.11 show that majority of respondents (45%) strongly agree that there are financial risks associated with noninterest bank charges, followed by 32% of respondents who agreed that there are financial risks associated with noninterest bank charges.

On the contrary, 13% of respondents were neutral regarding the association of financial risks and non interest bank charges while 9% and 1% of respondents disagreed and strongly disagreed respectively on this association. This implies that there are financial risks associated with noninterest bank charges as findings reveal and these risks occur either directly or indirectly depending on organizational settings.

Table 4.11: Responses on the association between and noninterest bank charges

Response	Frequency	Percentage (%)
Strong agree	45	45.0
Agree	32	32.0
Neutral	13	13.0
Disagree	9	9.0
Strong disagree	1	1.0
Total	100	100.0

The study also examined the extent to which financial risks are associated with noninterest bank charges. Results in Table 4.12 show that unsystematic risk (diversifiable), foreign exchange risk and market risk (volatility) highly influences noninterest bank charges as agreed by 45%, 41% and 41% of respondents respectively. However, systematic risk (undiversifiable) is pointed to have moderate influence on bank charges by 56% of respondents. Other risks agreed by respondents to have high influence on noninterest bank charges include credit/default risk (35%) and interest rate risk (31%). This implies that banks' undergo certain type of risks in their daily operations related to noninterest charges, thus, proper monitoring of such risks is crucial for their survival.

Table 4.12: Response on the risks associated with noninterest charges of Commercial bank

Financial risks on noninterest	Very high influence	High influence	Average influence	Low influence	No influence	Total
Unsystematic Risk (diversifiable)	Fq. 32 % 32.0	45 45.0	12 12.0	8 8.0	3 3.0	100 100.0
Systematic Risk (Undiversifiable)	Fq. 8 % 8.0	18 18.0	56 56.0	10 10.0	8 8.0	100 100.0
Credit or Default Risk	Fq. 24 % 24.0	35 35.0	31 31.0	10 10.0	0 0.0	100 100.0
Foreign-Exchange Risk	Fq. 30 % 30.0	41 41.0	22 22.0	7 7.0	0 0.0	100 100.0
Interest Rate Risk	Fq. 29 % 29.0	30 30.0	31 31.0	3 3.0	7 7.0	100 100.0
Market Risk (volatility)	Fq. 28 % 28.0	41 41.0	24 24.0	6 6.0	1 1.0	100 100.0

4.3 Discussion of the findings

This section discusses the findings in depth and includes supporting literatures to back up the findings. The discussion is centered on the nature of noninterest bank charges, effects of noninterest bank charges on financial performance of commercial banks and financial risks associated with noninterest bank charges among commercial banks of Tanzania.

4.3.1 Nature of Noninterest Bank Charges in Commercial Banks of Tanzania

The main findings of the study on the nature of noninterest bank charges show that noninterest bank charges are well known by the bank servants and they apply daily such services to customers. These findings are supported by Fang et al. (2011) who determined the relationship between bank performance and awareness of employees on the nature of the bank services. In his study, he found that most of the employees in banking industry are aware with the services they offer to the customers. According to him an employee who is aware of the nature of a bank service will offer the service in an optimal manner.

The main findings of the study show that most commercial banks of Tanzania adopt a mix of traditional and non-traditional noninterest bank charges such as foreign exchange account charges, mobile banking charges, service charge on customer accounts, automatic teller machines transactions charges, internet banking charges, account maintenance fee, credit cards fee and cash management fees.

The findings are supported by Benter (2013) who made an investigation of the effects of income source diversification on financial performance of commercial banks in Kenya and found that most of the commercial banks extended their services so as to diversify their income and performance. Commercial banks diversified into noninterest bank charges such as foreign exchange charges, mobile banking charges, automatic teller machines transactions charges, internet banking charges and others.

4.3.2 Influence of non interest bank charges on financial performance of the commercial banks in Tanzania

The study found that noninterest bank charges have an impact on the financial performance of Commercial banks in Tanzania, that is, banks can perform better under well designed noninterest charges. Fang at al. (2011) found that noninterest charges have a positive effect on financial performance of commercial banks under good management and rate of customer utilization.

The study findings also revealed that noninterest bank charges born by customers on regular basis bring more income to commercial banks. Such charges include service charge imposed on customer accounts, foreign exchange account charges, automatic teller machines transaction charges, mobile banking charges and internet banking charges as imposed by commercial banks in Tanzania. These findings are supported by Benter (2013) who found that bank charges affected financial performance of Commercial banks to a great extent and effective management of diversified income is fundamental to bank's safety and soundness.

Also on the other hand commercial bank earn income from the banking charges that do not occur regularly such charges includes internet banking charges, credit cards fees, account maintenance fee, cash management and other noninterest bank services as imposed by the commercial banks in Tanzania.

The main findings of the study also shows that bank charges affected financial performance of Commercial banks positively the surveyed bank is performing well on the areas of profitability sales turnover, market share return on assets, stock returns profitability, sales turnover market share and return on assets which result from the services issued to the customers. These measures may change due to the change of service charges issued.

4.3.3 Financial risks associated with noninterest bank charges among Commercial banks of Tanzania

The main findings show that there are financial risks associated with noninterest bank charges, and that these risks occur either directly or indirectly depending on organizational settings.

The findings further show that most occurring risks are unsystematic risk (diversifiable), foreign-exchange risk, systematic risk (undiversifiable), credit or default risks and market risk (volatility).

4.4 Chapter Summary

This chapter was centered on data presentation, analysis and discussion of findings from the study. The chapter presented, analyzed and discussed on the demographic characteristics of respondents followed by the variables that were studied in the case study area so as to address the research objectives. Most of the data were presented in charts and tabular form followed by brief explanations/descriptions.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Chapter overview

This chapter consists of summary, conclusions and recommendations.

5.2 Conclusion

The general objective of the study was to assess the impact of bank charges on performance of commercial banks in Tanzania. Specifically, the study aimed to understand the nature of noninterest bank charges, to examine their influence on banks' financial performance and to identify their association with financial risks among commercial banks of Tanzania with reference to five commercial banks in Dar-es-Salaam. The study gathered information from 100 respondents through questionnaires and interview methods and the data were presented, analyzed and discussed so as to address the research objectives in chapter four.

The study found that most commercial banks adopt a mix of both traditional and non-traditional noninterest bank charges. These include foreign exchange account charges, mobile banking charges, service charge on customer accounts, automatic teller machines transaction charges, internet banking charges, account maintenance fee, credit cards fee and cash management fees.

The study found that most banks earn income through these services particularly those that are regularly used by customers such as automatic teller machines transactions, foreign exchange account services, mobile banking services and service charge on customer accounts. However, other charges such as internet banking charges, credit cards fees, account maintenance fee, cash management and other noninterest bank services were also found to contribute to banks' income though not used regularly by customers.

The study also found that noninterest bank charges have an impact on financial performance of Commercial banks in Tanzania. That is, proper adoption of noninterest bank charges leads to better financial performance of a bank. This further means that increase of noninterest charges by banks increases their income provided that customers use such services regularly. On a further note, measures of profitability sales turnover, market share return on assets, stock returns profitability,

sales turnover market share and return on assets were pointed as leading performance indicators of commercial banks in Tanzania.

Lastly, findings revealed on the existing relationship between noninterest charges and financial risks. It was observed that these risks may occur directly or indirectly depending on organizational settings. The most commonly occurring risks are unsystematic risk (diversifiable), foreign-exchange risk, systematic risk (undiversifiable), credit or default risks and market risk (volatility).

5.3 Recommendations

With reference to the findings of the study, below are recommendations put forward by the researcher;

The researcher recommends Commercial banks of Tanzania to increase services that bear noninterest charges on customers particularly those which have low risk but used frequently by customers such as ATM and foreign exchange services.

Also, in order to increase volume of sales and performance, it is important that commercial banks of Tanzania maintain a certain minimum bank charge so as to attract more customers to utilize their services. For instance, banks can reduce or eliminate charges involved in opening accounts and maintenance or reduce fees involved in checking balances.

Also commercial banks should extend their investments so as to earn more income; example if they invest in government securities will to get earnings on commission from treasury bonds and bills, also if they invest in governmental activities they will earn more return from the investments, but should be of short term investments.

5.4 Suggestions for Further Research

This study was carried out in five commercial banks in Dar-es-Salaam only. Further studies should be carried out in other banks and regions in Tanzania so as to learn more on the nature of noninterest bank charges and their impact on performance of commercial banks in Tanzania.

REFERENCES

- Acharya, V., Hasan, I., Saunders, A. (2002). Should banks be diversified? Evidence from individual bank loan portfolios. Bank for International Settlements, BIS *Working Papers No 118*.
- Ahmed, M., B. (2009). Measuring the Performance of Islamic Banks by Adapting Conventional Ratios German University in Cairo Faculty of Management Technology, *Working Paper No .16* pp 1-26.
- Alexandru, C., Genu, G., Romanescu, M.L. (2008), The Assessment of Banking Performances- Indicators of Performance in Bank Area. MPRA Paper No. 11600.
- Al-Tamimi, H., Hassan, A. (2010). *Factors Influencing Performance of the UAE Islamic and Conventional National Banks*. Department of Accounting, Finance and Economics, College of Business Administration, University of Sharjah
- Arora, S. and Kaur, S. (2009). Internal determinants for diversification in banks in India an empirical analysis. *International Research Journal of Finance and Economics*. 24, 177-185.
- Bank of Tanzania (1996). Banking regulation and supervision in Tanzania, problems and prospectus, *workshop paper*.
- Bank of Tanzania (BOT) (2014)."*Directory of Commercial Banks Operating In Tanzania*". Bank of Tanzania (BOT). Dar es salaam, Tanzania.
- Benter Akinyi (2013), *An Investigation of the Effects of Income Source: Diversification On Financial Performance of Commercial Banks In Kenya*. Master of Science in Commerce Finance and Accounting. KCA University, Kenya
- Bert, S., & Dick Van, W. (2009). A Critique of the Theory of Financial Intermediation. *Journal of Banking and Finance*, 24, 1243-1251.
- Bisignano, J. (2010). *Structure of Financial Intermediation Corporate Finance and Central Banking*. Bank for International Settlements, Mimeo.
- Casu, B ., Molyneux, P .And Girardone, C .(2006). *Introduction to Banking*, Prentice Hall/Financial Times, London.
- Cooper, R. D. & Schindler, S. P. (2014) *Business Research Methods*, (2nd Ed), McGraw- Hill/Irwin: New York.
- Crigwell, R., & Chanelle, M. (2008). *Non-Interest Income and Financial Performance at Commercial Banks in Barbados*. Bridgetown: Central Bank of Barbados.
- Fang, Y., Hasan, I. and Marton, K. (2011). Institutional development and its impact on the performance effect of bank diversification: Evidence from transition economies. *Emerging Markets Finance & Trade*, 47(4), 5-22.

- Froot, K.A. (2013). "Bank Capital and Risk Management: Issues for Banks and Regulators." *International Finance Risk Institute Research Paper No. 8*.
- Goetz, M. (2008). Quantitative Analysis Unit. Bank Diversification, Market Structure and Bank Risk Taking: Theory and Evidence from U.S. Commercial Banks. Boston: *Working Paper No. QAU12-2*, Federal Reserve Bank of Boston.
- Heffernan, S. (2006). *Modern Banking*. Chichester: John. Wiley.
- Heffernan, S. A. (1996). *Modern Banking in Theory and Practice*. John Wiley.
- Khrawish, H.A. (2011) Determinants of Commercial Banks Performance: Evidence from Jordan. *International Research Journal of Finance and Economics*, 5 (5), 19-45.
- Kiyota, H. (2009). Efficiency of Commercial Banks in Sub-Saharan Africa: A Comparative Analysis of Domestic and Foreign Banks. *A paper prepared for the CSAE conference 2009 on "Economic Development in Africa" held at the University of Oxford*.
- Kothari C.R (2009). *Research method: Method and techniques* 2nd edition; Wiley Eastern Ltd.
- Llewellyn, D. T. (1999). *The New Economics of Banking*. Amsterdam: Société Universitaire Européenne de Recherches Financières.
- Mutaitina Oswald. R (2000). Liberalization of Banking Industry in Tanzania. *The African Journal of Finance and Management Vol. 7 No.2 PDF*
- Oloo, O. (2010). *Banking Survey Report, The best banks this decade 2000-2009*, Think Business Limited, Kenya, www.bankingsurvey.co.ke
- Olweny, T., Shiphoo, T.M. (2011) Effects of Banking Sectoral Factors on the Profitability of Commercial Banks in Kenya. *Economics and Finance Review*, 1(5), 1-30.
- Samad, A. (2004). Bahrain Commercial Bank's Performance during 1994-2001. *Credit and Financial Management Review* 10(1), pp 33-40.
- Sharpe, U.F., G.D. Alexander and D. Bailey, (2006). *Investment*. Moscow: INFRA-M, 2006., pp: 1028. USA.
- Shirai S. (2011). *Designing New Regulatory Frameworks for Intermediate Financial Structure in Post -Crisis Asia*. ADB Institute and Keio University.
- Swai, T. A. (2013). *Determinants of Capital Structure and Portfolio Behavior of Commercial Banks in Tanzania*. Dar es Salaam: University of Dar-es-salaam (Unpublished Phd.).
- Tara, R., & DeYoung, R. (2004). *How do Banks Make Money? The Fallacies of Fee Income*. Economic Perspectives (Federal Reserve Bank of Chicago), 34.
- United republic of Tanzania (2010). *Tanzania Banking Sector Performance Review Year Ended 31 December 2009 20 May 2010*. Dar es salaam Tanzania.

APPENDICES

APPENDIX A: QUESTIONNAIRES TO THE RESPONDENTS

Topic: The Assessment of Impact of Bank Charges on Performance of Commercial Banks in Tanzania: A Case Study of Dar-Es-Salaam.

My name is Jaliwa Wilson Mlagha, a student pursuing Master of Science in Finance (Msc. Finance) of St. John's University of Tanzania (SJUT), hereby conducting the academic study to fulfill the requirement for the award of mentioned course. Kindly, I request your cooperation to fill these questionnaires according to your knowledge. All information supplied will be strictly treated confidential.

Instructions:

- Please do not write your name anywhere in this questionnaire.
- Select the right correct answer and fill empty brackets.

A: Personal details

1. Are you? (Please tick the appropriate)
 - (a) Male []
 - (b) Female []

2. Your age (Please tick the appropriate)
 - (a) 18 – 25 years []
 - (b) 26 – 35 years []
 - (c) 36 – 45 years []
 - (d) 46 years and above []

3. What is your education level? (Please select one)
 - (a) Primary education level []
 - (b) Secondary education level []
 - (c) Tertiary education level []

4. Your employment terms. (Select one).
 - (a) Full time employee []
 - (b) Part time employee []

C: Effects of noninterest bank charges on financial performance of the commercial banks in Tanzania

9. To what extent do noninterest bank charges affect financial performance of your banks? (Please put the right selection).

- (a) Very great extent []
- (b) Great extent []
- (c) Moderate extent []
- (d) Little extent []
- (e) No extent []

10. What is the extent to which the following noninterest bank charges affect the financial performance of your bank for last five years? (put a tick mark)

Noninterest bank charges	Very great extent	Great extent	Moderate extent	Little extent	No extent
Service Charge on Customer Accounts					
Foreign Exchange Account Charges					
Automatic Teller Machines Transactions Charges					
Mobile Banking Charges					
Internet Banking Charges					
Credit Cards Fees					
Account maintenance fee					
Cash Management					
Other noninterest bank services					

11. What is the trend of the following aspects of financial performance of your bank for last five years? (put a tick mark)

Measure of Financial performance of your bank	Greatly Improved	Improved	Constant	Decreasing	Greatly decreased
Profitability					
Sales turnover					
Market share					
Return on assets					
Stock returns					
Dividend payout					

D: Financial risks associated with noninterest bank charges among the commercial banks of Tanzania.

12. Do you agree there are financial risks associated with noninterest bank charges your bank? (Please put the right selection).

- (a) Strong agree []
- (b) Agree []
- (c) Neutral []
- (d) Disagree []
- (e) Strong disagree []

13. What is the extent to which the following financial risks associated with noninterest bank charges occur in your bank? (put a tick mark).

Financial risks associated with Noninterest bank charges	Very great extent	Great extent	Moderate extent	Little extent	No extent
Unsystematic Risk (diversifiable)					
Systematic Risk (Undiversifiable)					
Credit or Default Risk					
Foreign-Exchange Risk					
Interest Rate Risk					
Market Risk (volatility)					
Other financial risks					

“Thank you for your cooperation”

APPENDIX B: INTERVIEW GUIDES

- **Introduction**
- **Introducing the study and purpose of the study**

1. Sex.....
2. Year of employment
3. Level of education
4. Profession
5. Staff category
6. Type of employment contract

Key issues to be covered during the interview session:

7. Are you aware with noninterest charges of your bank?
8. If yes, please state the noninterest bank charges offered by your bank?(Please select the right).
9. What are the most services used by your bank customers?

C: Effects of noninterest bank charges on financial performance of the commercial banks in Tanzania

10. To what extent do noninterest bank charges affect financial performance of your banks?
11. What is the extent to which the following noninterest bank charges affect the financial performance of your bank for last five years?

Performance indicator	Tick appropriate
Service Charge on Customer Accounts	
Foreign Exchange Account Charges	
Automatic Teller Machines Transactions Charges	
Mobile Banking Charges	
Internet Banking Charges	
Credit Cards Fees	
Account maintenance fee	
Cash Management	

12. What is the trend of the following aspects of financial performance of your bank for last five years?

Financial performance	Tick appropriate
Profitability	
Sales turnover	
Market share	
Return on assets	
Stock returns	
Dividend payout	

13. What was the amount of the following non – interest charges?

Performance indicator	Amount (Tshs)
Service Charge on Customer Accounts	
Foreign Exchange Account Charges	
Automatic Teller Machines Transactions Charges	
Mobile Banking Charges	
Internet Banking Charges	
Credit Cards Fees	
Account maintenance fee	
Cash Management	

14. What was your return on asset (ROA) and return on equity (ROE) in the previous year's 2015?

Performance indicator	Amount (Tshs)
ROA	
ROE	
Stock return	
Sales turnover	

D: Financial risks associated with noninterest bank charges among the commercial banks of Tanzania.

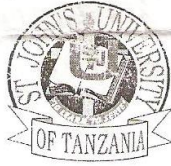
13. Do you agree there are financial risks associated with noninterest bank charges your bank?

14. What is the extent to which the following financial risks associated with noninterest bank charges occur in your bank?

Financial risks	Tick appropriate
Unsystematic Risk (diversifiable)	
Systematic Risk (Undiversifiable)	
Credit or Default Risk	
Foreign-Exchange Risk	
Interest Rate Risk	
Market Risk (volatility)	
Other financial risks	

“Thank you for your cooperation”

APPENDIX C: RESEARCH CLEARANCE CERTIFICATE



ST JOHN'S UNIVERSITY OF TANZANIA
DIRECTORATE OF RESEARCH AND CONSULTANCY
INTERNAL REVIEW COMMITTEE

RESEARCH CLEARANCE CERTIFICATE

FOR MASTER'S AND DOCTORAL STUDENTS

Date of meeting: 30th, **March 2016**

Project title: **IMPACT OF BANK SERVICE CHARGES ON PERFORMANCE OF COMMERCIAL BANKS IN TANZANIA: A CASE STUDY OF CRDB IN DAR-ES-SALAAM.**

Researcher: **MLAGHA JALIWA WILSON**

Supervisor: **DR. BATIMO SEBYIGA**

Faculty / Institute / School: **Faculty of Commerce and Business**

Degree being studied for: **MSc Finance**

This is to certify that the research proposal herein detailed has been examined and approved by the Internal Review Committee of St John's University of Tanzania

A handwritten signature in purple ink, appearing to read "M. Msendekwa".

Dr. M. Msendekwa

Ag, Director, DRCPGS

A handwritten signature in purple ink, appearing to read "Casmir Rubagumya".

Prof. Casmir Rubagumya

DVCA

**APPENDIX D: LETTER GRATING ETHICAL APPROVAL FOR DATA
COLLECTION**

ST JOHN'S UNIVERSITY OF TANZANIA

Directorate of Research, Consultancy and
Postgraduate Studies

Tel: +255 26-2390044
Fax: +255 26-2390025
Website: www.sjut.ac.tz



PO Box 47
DODOMA
Tanzania

Date: 30th, March 2016

TO WHOM IT MAY CONCERN

Graduate Student's Research Clearance

This letter serves to introduce MLAGHA JALIWA WILSON (Registration Number M/2014/5022), who is a bona fide student of St John's University of Tanzania in the Faculty of Commerce and Business.

He is currently in the research stage of her Masters studies and is required to collect data. He has already obtained ethical clearance from SJUT Internal Review Committee/

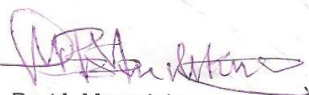
The approved research topic is:

IMPACT OF BANK SERVICE CHARGES ON PERFORMANCE OF COMMERCIAL BANKS IN TANZANIA: A CASE STUDY OF CRDB IN DAR-ES-SALAAM

Should you need further clarification please contact my office.

I wish to thank you for your kind assistance for this student.

Yours sincerely


Dr. M. Msendekwa
Ag, Director of Research, Consultancy and Postgraduate Studies
Email: mmsendekwa@sjut.ac.tz

