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DEPARTMENT OF ACCOUNTING

THE IMPACT OF PREDOMINANT RELIANCE ON NON – INTEREST INCOME ON SUSTAINABLE BANK PERFORMANCE (CASE STUDY OF BARCLAYS BANK OF ZIMBABWE)

BY

MUNYARADZI KASHIRI

R137397W

A DISSERTATION SUBMITTED TO THE FACULTY OF COMMERCE IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING.

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DECLARATION FORM

I Munyaradzi Kashiri declare that this project is my own piece of work which has not been copied from any source without the acknowledgement of the source.

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The undersigned certify that they have read and recommended to the Midlands State University for acceptance, a dissertation entitled; **The impact of predominant reliance on non – interest income on sustainable bank performance (Case study of Barclays Bank of Zimbabwe)** submitted by Munyaradzi Kashiri in partial fulfilment of the requirements for the degree of Bachelor of Commerce Accounting Honours degree at Midlands State University.

Supervisor: ……………………………………. **Date………………………………………….**

Chairperson: ………………………………….. **Date: …………………………………………**

RELEASE FORM

NAME OF STUDENT: Munyaradzi Kashiri

DISSERTATION TITLE: Impact of predominant reliance on non – interest income on sustainable bank performance, (Case study of Barclays Bank of Zimbabwe).

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YEAR DEGREE WAS GRANTED 2017

SIGNED:…………………………………………..

PERMANENT ADDRESS: **3406 Chiedza**

Karoi

DATE: **28 April 2017**

DEDICATION

This project is dedicated to my Mom and Dad, Mr and Mrs Kashiri and my late uncle Mr T Madiro. Your love and support for me is unforgettable.

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I would like express my greatest gratitude to the LORD ALMIGHTY JEHOVAH NISSI, for his undeserved favour which has propelled my academic journey to this level, if it was not because of him, my story would be different. I would also want to give thanks to my supervisor Ms C. Mhaka for her special guidance throughout my research. I extend my gratitude to Barclays Bank of Zimbabwe for their assistance during my research process. I would also want to express my gratitude to my aunties Ms T Madiro and Mrs T Gwanzurah, your support will forever be cherished. Last but not least, I want to give thanks to my friends Kudzai Munoda and Taisley Tenssen Tandayi for their support and inspiration throughout our four years at University.

ABSTRACT

The aim of this research was to analyse the impact of non – interest income on the financial performance of banking institutions in Zimbabwe. The researcher adopted both quantitative and qualitative methods of research to gather data. Likert Scale based questionnaires were distributed to a stratified sample of 26 individuals out of a total population of 35. 3 interviews were also carried out in addition to questionnaires to maximize the effectiveness of the research. More so, the ordinary least squares (OLS) regression test was carried out by use of the EVIEWS statistical package. The result of the regression test showed a positive relationship between non – interest income and bank profitability in Zimbabwe. The increase in a bank's non – interest income actually results in an increase in its profitability level ceteris paribus. It was discovered that the business of non – interest income maximises risk exposure for banks, however, operating costs need to be watched carefully when conducting the business of generating non – interest income because such activities were discovered to be the major drivers of bank operating costs. Inflation, risk policies, political stability and bank strategy were found to be other determinants of bank performance in spite of non – interest income. The researcher recommended that banks should broaden streams from which transaction based income is earned since it is the major source of non – interest income. Over and above, the researcher established that banks need to depend more on the business of non – interest income more than interest income since the research showed a positive relationship between non – interest income and bank profitability.

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CHAPTER ONE

INTRODUCTION

1. Introduction

In a bid to achieve a sustainable performance in the financial sector, particularly commercial for a sustainable level of profitability. (DeYoung and Rice (2010), Zhrekar (2012), Roland and Chanelle (2015), Rasidah and Tumin (2010), Aebi et al. (2011) and William (2014)) argued that banks need to embrace their traditional interest earning activities for a sustainable bank performance because the profits of a bank are dependent on the amount of interest charged on loans. On the other hand, (Osman et al. (2013), Huang and Chen (2010), Mahcdevan (2015), Saunders et al. (2016), Brunnermeir et al. (2012) and Anita et al. (2010)) are of the view that banks need to drift away from relying on traditional interest income and diversify into non – interest income activities. These authors argued that non – interest income does not render banks to risk exposure, thereby becoming a safer source of revenue. From the two sets of theories above, there has not been a clear cut consensus on whether banks should in deed shift dependence from interest income to start concentrating on non - interest income activities for sustainable profitability. This research therefore, seeks to investigate the relationship and impact of non – interest income on bank profitability in the Zimbabwean context and shed more light on other variables which also affect bank performance using a case of Barclays Bank of Zimbabwe.

1.1 Background of Study

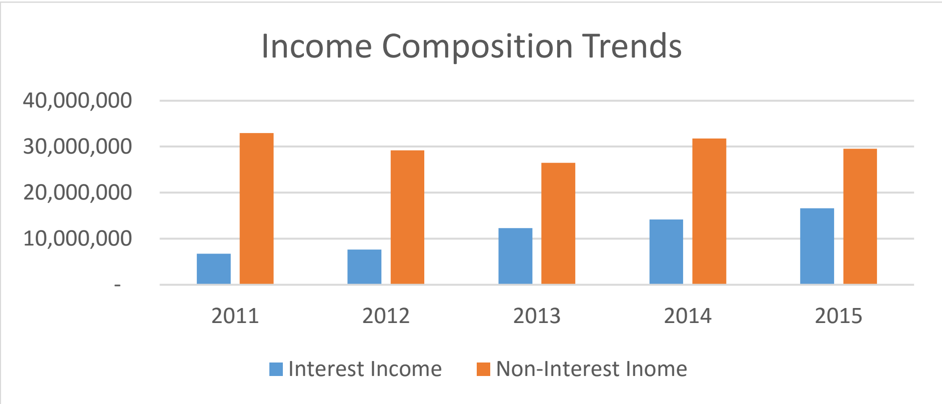
Barclays Bank of Zimbabwe adopted a strategy to switch its dependence from non – interest income to interest income over the five years from 2011 to 2015. This shift was aimed at improving profitability levels and attain a sustainable level of performance for the bank. As stated by the managing director of the bank, Guvamatanga (2014), indicated that the bank was on a strategy to continue growing its loans since 2011 of which loans are the source of interest income. This shift of dependence from non – interest income to interest income resulted in a rise in the profit growth rate initially from 2012 to 2013. However, from 2013 the profit growth rate of the bank had since been declining persistently to 2015. Figure 1. and Figure 2. below show the income composition trends of Barclays Bank from 2011 to 2015 in percentage (%) and dollar ($) terms respectively.

Table 1.1 Barclays Bank Income Composition Trends (%) 2011 – 2015

Income Composition Trends	**2011**	**2012**	**2013**	**2014**	**2015**
Interest Income	17%	21%	32%	31%	36%
Non – Interest Income	83%	79%	68%	69%	64%

Source: Barclays Bank 2015 Annual Report

Figure 1.1 Barclays Bank Income Composition Trends ($) 2011 – 2015

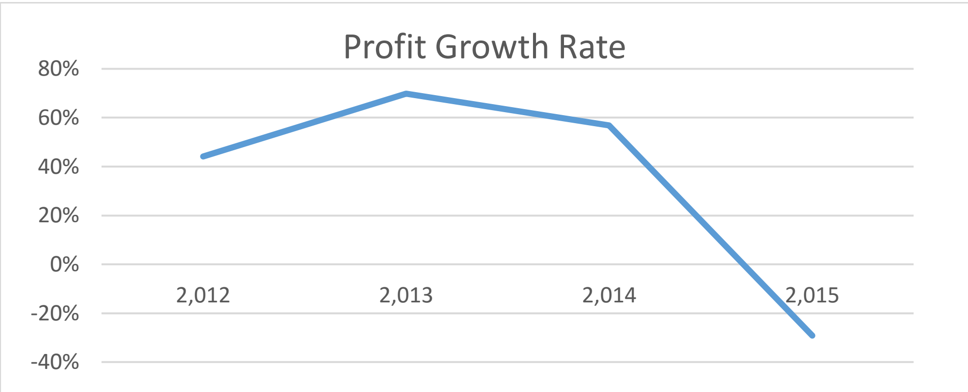


Source: Barclays Bank 2015 Annual Report

The income composition trends above indicate that Barclays Bank of Zimbabwe in the year 2011 had its non – interest income constituting a dominant 83% of total income leaving 17% for interest income, as shown in Fig 1. This indicates that the bank was largely relying on non

– interest income as its major source of revenue. However, from the year 2011 to 2015 non – interest income composition dropped from the dominant 83% to 64% which saw interest income proportion rise from 17% to 36% during the same period. Fig 2 above also shows that by the year 2015 interest income was above $15m, a huge increase from just about $6m in 2011. It becomes apparent that the bank over the five years was shifting reliance from non – interest income to interest income. Fig 3. below shows how the profit growth rate responded to the shift from non – interest income.

Figure 1.2 Profitability Growth Rate Trends



Source: Barclays Bank 2015 Annual Report

Fig 3. shows the profitability growth trend of Barclays Bank of Zimbabwe during the same period under review. The trend shows that the profit growth rate of Barclays initially rose from 2012 to 2013, however, it has since declined seriously from 2013 up to 2015. As noted earlier that Barclays Bank adopted a strategy to shift dependence from non – interest income. The profit growth rate responded negatively to the shift by dropping from about 40% in 2012 to nearly -20% by 2015, as shown in Fig 3. The decline in dependence on non – interest income was followed by a serious decline in the profitability growth of the bank as shown above. This leaves a puzzling question in mind about the impact that non – interest income has on local banks' performance.

1.2 Problem Statement

The background above provides a footstool that has made the researcher want to explore the relationship and the impact that non – interest income has on bank profitability in Zimbabwe. As shown earlier that the shift that has been made by Barclays Bank from dominantly depending on non – interest income has seen the profit growth rate grow initially from 2012 to 2013 and decline sharply thereafter. It is therefore important to scrutinize the relationship that exists between non – interest income and bank profitability in Zimbabwe, and shed more light on other factors which also affect bank performance.

1.3 Main Research Question

Is relying predominantly on non – interest income the key to sustainable bank performance?

1.4 Sub Research Questions

- What are the effects of non – interest income on risk exposure for banks?
- What is the impact of non – interest income activities on operating costs for banks?
- What are other determinants of a bank's profitability?
- How do other banks survive on non – interest income only?
- What is the relationship between non – interest income and revenue collection for banks?

1.5 Research Objectives

- To assess the impact of non – interest income on risk exposure for banks.
- To assess the impact of non – interest income activities on operating costs for banks
- To identify other determinants of a bank's profitability.
- To assess how other banks survive on non – interest income only
- To determine the relationship between non – interest income and revenue collection of banks.

1.6 Justification of Study

This research is being undertaken in partial fulfilment of the requirements of the Bachelor of Commerce Accounting Honours Degree at the Midlands State University. The research is hopefully going to be beneficial to other researchers as they may use it for their literature review in other studies. It also aims to elucidate on the variables and factors that affect bank performance and recommend an approach which banks can make use of to enhance sustainable performance.

1.7 Delimitation of Study

The findings of this research are delimited to banks situated in Zimbabwe, particularly Barclays Bank of Zimbabwe headquartered in Harare. The time frame of findings in this study is limited to the period 2011 to 2015. This research is also confined to the Finance Department of Barclays Bank and finance officers of the company.

1.8 Limitations of Study

During the study, the researcher could not be provided with some information that was deemed to be confidential due to confidentiality policies of the financial industry. Some individuals in the researcher's sample were not willing to participate in the research which reduced the potential scope of information that the researcher could gather from the research.

1.9 Assumptions

- The people who will respond to the researcher have got relevant expertise and knowledge pertaining to this topic.
- These respondents will provide unbiased information to the best of their knowledge.
- Barclays Bank of Zimbabwe is operating on a going concern basis.

1.10 Definition of Terms

- Interest income – the revenue earned by banks from lending. Zhrekar (2012)

- Non – Interest Income – revenue which financial institutions earn from operations outside their traditional activities. Karanja (2012)
- Profitability – the capacity to make profit from operations. Nolle (2010)

1.11 Chapter Summary

The purpose of this chapter was to introduce the topic under review. It comprises the introduction, background of study, problem statement, the research questions, research objectives, justification of study, delimitations of study, limitations of study, the assumptions of the study and definition of terms.

CHAPTER TWO

LITERATURE REVIEW

2. Introduction

The researcher in this chapter aims to make comprehensive review of the literature concerning this area of study in order to show the level of current knowledge about this area of study. This section is going to review the literature by other authors around non – interest income and sustainable bank performance under different objectives of this study.

2.1 The impact of non – interest income on risk exposure for banks

According to DeJonghe (2010) and Elsas (2013) banks with higher magnitudes of non – interest revenue in comparison with interest revenue are typical of having less risk exposure compared to those with lower proportions of non – interest revenue. The authors are of the view that non – interest revenue reduces capital risk and credit risk for banks.

2.1.1 Credit Risk

Elsas (2013) defined credit risk as the risk that a bank is exposed to if customers default repayments of borrowed funds. DeYoung (2013) cited that banks which have higher levels of non – interest income normally do not have to worry about credit risk. The author noted that this is so because much non – interest income comes from trading activities such as bank charges, foreign exchange income and ATM fees. Kunt (2010) carried out a sample research on European banks and concurred to the idea that non – interest income does not render banks to any credit risk. Holzhaeuser (2010) supported the above mentioned idea and explained that non – interest income comes from the business which is outside lending activities, and for that reason banks do not suffer any credit risk as a result of undertaking non – interest income activities.

However, Kunt (2010) and Huizinga (2012) agreed to the idea that banks which invest much of their efforts in non – interest income business still need to watch the extent of their credit risk exposure since a part of their investments may be still in the form of loans. Specifically, Kunt (2010) noted that banks whose income is largely dependent on non – interest activities such as commissions, fees and foreign exchange income need to keep a reasonable portfolio of loans and advances in order to cushion the bank against uncertainties in the market environment. Therefore, Kunt concluded that even if a bank keeps much of its revenue as non – interest income, it does not render them completely immune to credit risk. Stiroh (2011) also supported the idea and stated that risk policies need to be applied uniformly to all banks despite of the level of non – interest income they accumulate. Stiroh explained this idea noting that all banks despite how low their loan books are, they are still exposed to some element of credit risk because the few amount of loans that will be kept in their loan books can still suffer defaults by customers and as a result banks can lose depositors’ funds. Hence Huizinga (2012) and Stiroh (2011), concluded that robust risk policies need to be in place for all banks because no bank is immune of credit risk.

Neutrally, Arellano (2010) is of the view that the extent of risk exposure for a bank does not depend on whether or not it has high or low proportions of non – interest income but rather cited that the extent of risk exposure for banks is mostly raised by its level of internationalization. Torna (2013) also explained that different regulatory frameworks in different countries render banks to greater risk of closure if they fail to be consistent with regulations of every country they operate in. Gredhami (2015) supported the notion of internationalization citing that it is also relatively difficult for banks which are largely internationalized to effectively investigate the credit profiles of high risk customers which can lead to credit risk exposure. The authors do not associate the level of non – interest income accumulated by a bank with risk exposure but rather suggest that risk exposure of banks is driven by the extent of its internationalization.

The impact of non – interest income on credit risk exposure for banks is an area that has been explored by various authors and researchers with regards to developed economies in Europe in most of the cases. Not much ground has been yet covered concerning this issue as far as developing economies such as Zimbabwe are concerned. For this reason, this study aims to explore the impact of non – interest income on credit risk in the Zimbabwean context using a case of Barclays bank of Zimbabwe.

2.1.2 Capital Risk

Concerning capital risk, Elsas (2013) from an international sample investigated on European banks between 2010 and 2012, the author denoted that banks which have higher non - interest income levels are normally associated with greater return margins which translate into higher profits and ultimately higher stock prices. DeJonghe (2010) was also in line with the same notion and explained that a bank which has higher stock prices is likely to attract more capital from investors since a higher stock price are deemed to be associated with greater returns. From these authors' point of view, banks which accumulate more non – interest income are normally cushioned against capital risk as they are likely to attract fresh injection of capital from investors.

In addition, Mahcdevan (2015) also supported the idea that non – interest income reduces capital risk for banks. The author carried out a research on North American banks and first concurred to the idea that banks who have higher non – interest income usually have higher returns. Mahcdevan went further to explain that the higher return margins made from non - interest income can further be appropriated to revenue reserves and other reserves which increase the capital base of a bank, therefore, mitigating capital risk to the banks.

On the contrary, Mazambani (2014) argued that banks with higher proportions of non – interest income to interest income are prone to capital risk. King (2015) also supports the same notion that banks which depend much on non – interest income are prone to higher capital risk. King used a measure known as the “Tail Beta” probability measure in the United States and from the author’s results, banks which have higher non – interest income have a higher probability of stock price declines. King (2015) and Mazambani (2014) explained the idea citing that the high probability of stock price declines puts banks at higher risk with regards to capital mobilization, hence the higher the non – interest income, the higher the capital risk for a bank. King’s idea is based on the notion pointed out earlier by DeJonghe (2010) that a bank which has higher stock prices is likely to attract more capital from investors since a higher stock price is deemed to be associated with greater returns.

In neutral view, Walter (2016) and Roman (2014) did not associate capital risk with non – interest income. The authors rather found bank size to be the major driver of capital risk for banks. Walter (2016) is of the idea that insolvency is the risk that mostly affect banks if banks fail to mobilize adequate capital. Walter noted that the common risk of insolvency is prominent in small and medium banks in terms of size and from the author’s research on British banks, no evidence proved that risk of insolvency affects large banks. In support, Roman (2014) also noted that capital risk is largely associated with bank size citing that the smaller the bank, the larger the capital risk and vice versa. The authors agreed to the conclusion that risk exposure for banks is mainly driven by size and not whether a bank has more or less non – interest income.

The above discussed authors have propounded different contrasting ideas regarding the impact of non – interest income on capital risk for banks. These authors have carried out studies in America and in Britain to come up with the above mentioned views. However, they did not agree to one conclusion as to whether non – interest income reduces or increases capital risk for banks. This research therefore, seeks to investigate the impact of non – interest income on risk exposure for banks in Zimbabwe using a case of Barclays bank of Zimbabwe.

2.2 The impact of non – interest income activities on operating costs for banks

According to Roland (2011) activities that generate non – interest income result in lower operating costs for a bank. The author argued that non – interest earning activities such as ATM services, Point of Sale (POS) facilities and Mortgage facilitation are operations which are based on the immediate need of a customer to use the services. Therefore, non – interest activities minimize operating costs by reducing relationship maintenance costs and fixed costs.

2.2.1 Relationship Maintenance Costs

According to Roland (2011) banks whose incomes are largely composed of non -interest income do not have much need to invest in building strong relationships with customers as those banks whose revenues are largely interest income because non – interest income activities such as foreign exchange income and transactional fees are not based on relationships. Rice (2013) in support noted that most interest income comes from borrowers who are largely corporates and to maintain loyalty of these corporate customers, banks use a strategy identified by Rice as “relationship management.” Roland (2011) and Rice (2013) both cited that relationship management is a costly exercise since it involves expensive marketing strategies such as promotions, incentives, sound customer service and experienced personnel. Kiser (2012) in support specifically pointed out that banks which earn much of their non – interest income have to employ personnel known as relationship managers for each corporate customer to keep in touch and maintain good relations with the corporate customers. Roland (2011), Rice (2013) and Kiser (2012) therefore, agreed that by undertaking more non – interest income activities, a bank avoids these high relationship maintenance costs, thereby, reducing operating costs for banks.

On the other hand, Stiroh (2011) cited that banks which focus on non – interest income activities to avoid high relationship maintenance costs and earn much of their revenue from what the author referred to as fee income. Stiroh stated that banks with such non – interest income activities are not usually required to hold very little fixed assets and regulatory capital unlike those banks which rely much on lending activities. Burr (2012) in support denoted that the absence of tight regulatory demands for such banks to hold capital thresholds actually cause them to be reluctant in mobilizing what they referred to as "own funds". Burr (2012) stated that it means these banks would have much of their activities financed by debt, henceforth, increasing their fixed interest expense. Stiroh (2011) and Burr (2012) concluded that banks which rely much on non – interest income may actually stretch their operating expenses higher through finance costs compared to those which maintain lower levels of non – interest income.

On a more neutral view, Huang (2014) is of the view that it is not that a bank which operates largely on non – interest income is the one that minimises its operating costs or rises its operating costs compared to that which operate on interest income. The author argued that if a bank's management decides to concentrate on any one source of income, whether non – interest or interest income, it is likely to enjoy some form of economies of scale since much of its operations would be centralized on a single series of activities. Chen (2014) supported the idea and noted that a bank can reduce operating costs by capitalizing on economies of scale that is if it focuses its activities either of the two sources of revenue. Shamu (2014) is also of the view that reducing operating costs does not lie around the dependence on non – interest income neither on depending on interest income. Rather, the author argued that a bank needs to make a decision and concentrate its operations largely on either of the two sources of income and still enjoy economies of scale. Shamu said the effect of economies of scale remain the same whether a bank depends on non - interest income or interest income.

2.2.2 Fixed Costs

Nolle (2010) cited that in undertaking non – interest income activities such as processing of ATM transactions and foreign exchange transactions, service charges, banks incur much of their costs in the form of fixed costs of labour involved in the activities. In support of the same notion, Ayturk (2011) compared the costs of processing non – interest income transactions with those needed in undertaking interest income activities and denoted that a firm that needs to earn higher revenue from interest income would have to also incur much interest expense in the form of interests on deposits in order to mobilize funds for lending. Nolle and Ayturk concurred to the idea that the costs of undertaking non – interest business are less variable and remain constant regardless of any increase in the levels of income. Osman (2013) in support of the idea cited that banks which rely on interest income incur interest expense over and above the fixed costs of labour that would have been paid to the work force within the same bank. Osman (2013) therefore, concluded that banks which have larger percentages of non – interest income are likely to have lower operating costs than those who concentrate more on interest income because much of their costs are fixed to labour thereby, avoiding interest expense.

In contrast, Shmid (2013) cited that although banks which rely more on non – interest income avoid interest expense, however, they are also likely to stretch their operating costs through technological costs and training costs. Shmid's notion was supported by Rumble (2015) who noted that non – interest income is based on electronic transactions such as ATM transactions and mobile banking facilities which are machine intensive and require modern technology to remain competitive in the market. The author then cited that the relevant modern technology is relatively expensive to purchase, service and utilize. Yanik (2011) added on to the same notion and cited that new technologies in non – interest income business always require training and retraining of personnel as well as payments of software licences and this is quite costly to banks which base their revenue largely on non – interest income. The above mentioned authors concurred to the idea that operating costs of a bank can actually rise up as a result of greater dependence on non – interest income activities which push up technological costs.

DeYoung (2014) on neutral view noted that non – interest income activities do not have a direct impact on whether minimizing or increasing operating costs of a bank. The author argued that operating costs of a bank are incurred regardless of whether the bank rises its reliance on non – interest income or not. William (2014) supported the idea propounded by DeYoung and cited that the strategy to minimize operating costs should be looked at from a holistic point of view and suggested that for a bank to minimize its operating costs, it needs to have a diverse approach which encompasses both non - interest and interest revenues. Mazambani (2014) added on to the same idea saying that a diverse approach on both interest and non – interest revenue can actually capitalize of the strengths of each source of income and cover up for each other's weaknesses. Therefore the authors concluded that operating costs of a bank cannot be directly attributed to non – interest earning activities only.

Given that various authors have argued on the impact that non – interest income activities have on operating costs of a bank. They all have however failed to reach a consensus on the matter, some arguing for a positive impact, some for a negative impact and others saying that there is no direct impact between non – interest income and operating costs of a bank. This research therefore, is going to investigate the impact of non – interest income activities on operating costs of local banks using Barclays Bank of Zimbabwe.

2.3 Other determinants of a bank's performance

Other than non – interest income, various authors have identified a number of factors which they found to also have an influence on a bank's performance. According to Gul et al. (2011), a bank's performance is determined by factors that can be classified into two, namely internal factors and external factors. Gul et al. described internal factors as elements which are influenced by decisions made by a bank's management and external factors as those elements which are influenced by industrial conditions as well as macroeconomic conditions. Smith (2013) in support of the same notion identified risk appetite and conduct as the internal factors which normally affect a bank's performance. The author also identified regulatory framework and Gross Domestic Product (GDP) as the external factors which affect bank's performance as well.

2.3.1 Internal Factors

2.3.1.1 Risk Appetite

Smith (2013) and Makadok (2011) identified the level of risk appetite of a bank to be a major factor that influences a bank's performance. Makadok noted that the higher the risk that management is willing to take, the higher the return the bank is likely to achieve. Staikouras (2012) supported this idea and stated that banks which apply very robust policies on client screening before advancing loans to them have a lower risk appetite compared to those which adopt a more lenient approach on their credit worthiness policies. On the same notion, Smith (2013) termed those banks which have a lower risk appetite as "risk averse" and those who have a higher risk appetite as "risk takers." Wood (2011) added on saying that banks which earn higher returns are those which are willing to take the risk of advancing higher amounts of money to its customers in order to accrue higher interests into their books. Wood went on to say that banks which are risk averse do not grow large loan books because their customer screening processes are too tight to allow large amounts of funds to be advanced to customers. Torna (2013) also asserted that the financial industry is a risk based industry and as a result, the management's risk policy adoption determines a bank's level of performance.

2.3.1.2 Conduct

In addition to risk appetite, Barney (2010) pointed out that another internal factor that affects a bank's performance is conduct. By conduct, the author referred to it as the manner in which a bank interacts with its stakeholders especially customers. Barney denoted that if a bank is to boost its revenue and profits, it has to invest in its marketing strategies to both retail and corporate customers. Karanja (2012) also argued that in modern day business, firms which create value for their customers are the ones which are more likely to survive market pressures across all industries. Burr (2012) added on citing that management of any bank has to ensure that the way the bank interacts with customers creates value and sentiment in order to promote loyalty from its customers for long term returns.

However, outside internal factors pointed out above Gul et al. (2011) and Smith (2013) also identified external factors to have an impact on a bank performance in the form of Gross Domestic Product (GDP) and regulatory framework.

2.3.2 External Factors

2.3.2.1 Gross Domestic Product (GDP)

Boven (2011) asserted that a bank's level of performance can be determined by a country's GDP in which it is operating. Boven cited that GDP is a substantial factor contributing to the level of bank performance. According to Rumble (2015) who also supported the same notion banks which operate in countries with higher GDP perform better compared to those which operate in countries characterized by lower GDP. Panayiotis (2013) supported the same idea and cited that higher GDP is characterized by higher cash flows and higher GDP per capita. For this reason, Rumble (2015) explained that better cash flows are followed by better funds mobilization and customers become encouraged to deposit and borrow from banks, thereby, improving banking activities. Therefore, the above mentioned authors concurred to the idea that banks' performances can actually be driven by the level GDP in a country.

2.3.2.2 Regulatory Framework

Barney (2010) cited that the regulatory framework put in place by a country's central bank is a major external factor that determines a bank's level of performance. Barney explained that the regulations that are imposed by central banks take the form of interest rate limits, bank charge limits, capital regulations and cash holding limits and these determine a bank's level of performance. Ayturk (2011) supported the idea and noted that if the central bank of a country imposes low interest rate limits, banks would then earn lower interest margins from loans which translate into lower profitability. Kiser (2012) carried out a research in Russia and also denoted that banks in countries with lower interest rate margins are characterized by relatively lower interest margins compared to those which operate in countries with higher limits.

In addition to the external factors, Gul et al (2011) identified transaction charge limits as another regulatory factor which determines the level of performance of a bank. Gul et al. cited that the transaction charge limits determine the amount of non – interest income that a bank collects. Johnson (2013) supported the notion and stated that the limits on bank charges are regulated by central banks. The author in support explained that if the government of a country wants to improve cash circulation in the country, it can lower down bank charge limits so as to encourage money transfers in the economy. Johnson (2013) concluded that if limits are lowered by the central bank, banks would accrue less income compared to when the bank charge limits are higher.

Despite the internal and external factors pointed out by the above mentioned authors to be other determinants of a bank's performance. Authors such as DeYoung and Rice (2010) Tumeit (2012) and Zhrekar (2012) are still of the view that a bank's performance is mainly propelled by the source of revenue that a bank chooses to rely on, and in their view it is the interest income which determines the level of performance of a bank.

Given that the internal and external determinants discussed above have been mainly been researched on in countries that are developed. This research is therefore going to elucidate the determinants of a bank's performance that affect local banks using a case of Barclays Bank of Zimbabwe.

2.4 How other banks survive on non – interest income only

A good amount of literature has been written by various authors concerning how banks survive on non – interest income only. Zhrekar (2012) described non – interest income as income that is earned outside lending activities of a bank. Couto (2012) went on to suggest that banks which survive basically on non – interest income only are those which base their income on transaction based income, custodial and investment income from investment properties.

2.4.1 Transaction Based Income

Couto (2012) defined transaction based income as income that is earned by banks through charging fees on transactions they process for customers. Couto cited that in struggling economies where loan takers are relatively low, banks resort to non – interest earning activities for survival. William (2014) also supported the notion and stated that in such economies it is not easy to mobilize deposits for lending purposes, therefore banks survive on the back of transaction processing fees and ledge fees. Schmid (2013) added on that such non – interest income would then be sustained by creating wide transaction networks such as mobile banking facilities in order to push volumes of transactions high so as to accrue as much income as possible.

In addition, William (2014) supported the idea that banks survive on non – interest income. William (2014) emphasized the idea of foreign exchange gains as a major source of non –

interest income that can sustain a bank. Roland (2011) in support cited that as the world is moving towards becoming a global community, banks can take advantage of the transition and create global networks which facilitate cross border transactions in order to make foreign exchange gains in the process. Roland (2011) went on to say that for a bank to survive on non – interest income provided they offer efficient and convenient services to the customers who will in repay the effort by becoming loyal to the bank.

2.4.2 Custodial and Investment Income

In another view, Anita et al. (2010) noted that over and above transaction based income, banks can increase their non – interest income base through offering services to third parties and earn custodial income. Tumin (2010) identified custodial income as income that accrues to a bank through offering trustee services to third parties such as management of customers' assets and other investments on behalf of them. Roland and Chanelle (2015) added on to the notion and cited that income that is earned from offering custodial services to customers serves as an alternative source of non – interest income on which a bank can enhance its survival. Anita et al. (2010) pointed out that banks which survive well on non – interest income are those which are able to blend both transaction based income and income from services to third parties.

Huizinga (2012) added on to the idea of survival of banks on non – interest income citing that when banks decide to survive on non – interest income, The authors denoted that banks need to also move towards rental income in order to broaden their non – interest income base. Mazambani (2014) supported the idea suggesting that banks which survive on non – interest income only are those which increase their portfolio and earn income from various revenue sources. For this reason the author pointed out the need to own investment properties in order to earn rental income also known as investment income. The whole idea of the above mentioned authors was centred on increasing revenue earning sources for those banks which survive on non – interest income.

However, on a more neutral point of view to the idea of surviving on non – interest income for banks, Roman (2014) cited that the idea of expanding the non – interest portfolio to base survival on it can either facilitate financial stability or can actually facilitate financial instability of a bank. The authors denoted that the question on survival on non – interest income only rests on how well a bank's product portfolio of facilities which generate income from non – interest sources is managed. Markowitz (2011) added on to say that indeed banks can diversify its services into dominantly non – interest income and survive but also noted that it will only depend on the nature of diversity of the services and how well are those non – interest earning services \marketed in order to obtain greater acceptance from the market.

Shamu (2014) on another neutral view on survival of banks on non – interest income only cited that the best way to survive in the financial industry for commercial banks is not to depend only on non – interest income nor interest income. Shamu was of the idea that survival of banks needs a recipe of both interest earning activities and non – interest earning activities in order to conquer both internal and external risk.

From the ideologies discussed above on banks' survival on non – interest income only, authors have been found to differ on their views on how banks can survive on non – interest income only. Hence, this research is going to assess how banks in Zimbabwe survive on non – interest income, using a case of Barclays bank of Zimbabwe.

2.5 The relationship between non – interest income and profitability for banks

The relationship between non – interest income and revenue collection for banks has been a favourite area for authors who researched and wrote about revenue sources of banking institutions. Osman et al. (2013) and Brunnermier (2012) identified transactional fees and ledger fees also known as bank charges to be the major elements of non – interest income which determine bank performance. Mahcdevan (2015) supported the idea that transaction based income is the significant element of non – interest income and went on to claim that profit before tax is the corresponding relative measure of sustainable bank performance. Therefore, literature under this relationship is going to be reviewed between transactional fees and profitability.

2.5.1 Transactional income and bank profitability

Transactional fees as defined by Couto (2012) is income earned through charging fees on transactions processed by a bank for its customers, also known as bank charges. Samuelson and Athanasoglou (2011) concluded that there is a significant positive relationship between income from transactional fees and profitability for banks. The researchers carried out a study in Northern Ireland using a measure known as the ordinary least squares method to deduce a conclusion. The authors drew a conclusion that a bank's profit level respond strongly positive to increases in transaction based income. The notion was supported by Schmid (2013) who also concluded that a bank's profitability is sustained by increasing the volumes of transactions so as to subsequently increase the non – interest income and profit at large. In addition, Markowitz (2011) carried out a study on Russian banks between 2009 and 2010 using the natural logarithm of profitability measure and the results of the study also showed a significant positive relationship between transaction based income and bank profitability.

From another angle of argument, King (2015) and Walter (2016) both settled on a positive relationship to be existent between transactional fees and sustainable performance of banks. The authors were supported by William (2014) who pointed out that the level of profitability for banking institutions can be sustainable if sources of non – interest income such as transactional income are fetching adequate revenue. Therefore, the authors agreed on the notion that as transactional income increases, the profitability of a bank responds positively to the increase. Karanja (2012) on the same notion argued that a positive relationship exists between transactional income and profitability of banks. However, the author went on to cite that the relationship does not necessarily become strong since there are other variables outside transactional income which also improve profitability of a bank such as asset base and risk policies.

However, there is contrasting empirical evidence on the relationship between non – interest income from transactions and bank profitability. Rice (2013) and Nolle (2010) carried out two separate studies on banking institutions in Southern America during almost same period between 2009 and 2011 Rice used the panel data regression model whereas, Nolle used the panel data generalisation method but both denoted a negative relationship between transactional fees and profitability of a bank. As supported by Chen (2014), the author argued that in the absence of other sources of income, transactional fees alone do not necessarily lead to sustainable profitability. Chen (2014) also noted that the income generated from bank charges and other transactional fees alone is diluted by costs of earning it such as high software licences and other regulatory fees leading to a weak negative relationship between income from non – interest sources and profitability of banks.

From a neutral point of view, other authors also carried out empirical studies in different regions of the world and did not associate sustainable bank performance with sources of income, whether non – interest income nor interest income. These authors however, found sustainable profitability to be related to other variables other than non – interest income. Tumeit from a Kenyan study in 2009 found a positive relationship between a bank performance and bank size. The author explained that the larger the banking institution, the higher the levels of profitability and the higher the chances of sustainable performance. In addition DeYoung and Rice (2010) on 46 U.S.A. commercial banks using the panel data regression model found that sustainability of bank performance is dependent on its size, its credit risk and inflation in the economy. Another author on a neutral view to the relationship under this study, Tumin (2010) associated sustainability of bank performance to be significantly dependent on monetary policies issued by the central banks. These authors did not deduce any relationship on non – interest income and sustainable bank performance which makes their arguments neutral to the relationship under this study.

From the arguments that have been discussed above, it is quite apparent that authors came up with different explanations about the impact of non – interest income on revenue collection and sustainable bank performance on the bases of transactional fees and profitability. Some motivated for a positive relationship, some a negative relationship and others have actually found no impact on profitability, whether a bank has more or less non – interest income. These neutral authors have rather associated sustainable bank performance with other factors such as size, monetary policies and other macroeconomic factors. The empirical studies that have been used to review literature on this relationship were carried out in developed regions of the world.

Not much ground has been covered about this relationship in developing countries. Hence, this research aims to take this relationship further by looking at it from a Zimbabwean point of view, using a case of Barclays Bank of Zimbabwe.

H1*: There is a positive relationship between non – interest income and bank profitability.*

Chapter Summary

A number of authors and researchers discussed in this chapter have propounded theories and have drawn conclusions concerning the factors and variables around income from non – interest sources and profitability of banks. The author s have discussed some literature on the impact of non – interest income on risk exposure, operating costs, revenue collection for banks, other determinants of a bank's profitability and how banks survive on non – interest income. However the literature in this chapter is based on studies carried out in Europe, Latin Am.erica and others on Asian banks. Therefore, most of the literature and researches discussed I this chapter may not be useful to a larger extent with regards to policy recommendations in developing countries such as Zimbabwe. This study therefore, aims to investigate the impact of predominant reliance on non – interest income on sustainable bank performance on local banks using a case of Barclays Bank of Zimbabwe.

CHAPTER THREE

RESEARCH METHODOLOGY

3. Introduction

This chapter intends to outline the research methodology used by the researcher in trying to answer the research questions and objectives. The chapter outlines the research design, sampling techniques and sources of primary and secondary data used by the researcher as well as the justification for their use. The validity and reliability of collected data is also discussed in this chapter.

3.1 Research Design

According to Mamabolo (2012) research design refers to the intended arrangement of techniques for the collection and analysis of data in a way that combines relevance and economy to the study. The purpose of the research design is to spell out relevant and appropriate research methods and techniques to obtain data in order to meet the research objectives and research questions. In this study, the researcher adopted a mixed research design which comprises the quantitative and the qualitative research methods. This was so because some of the research objectives in this study require a qualitative research method and the relationship objective requires a quantitative approach in order to investigate the hypothesis in this study. The mixed research design is also beneficial because it nullifies the weaknesses of each individual research method and capitalize on their strengths, as supported by Amviko (2012).

3.1.1 Quantitative Research

The quantitative research method is an approach which aims to yield maximum objectivity and fair generalization of facts by using numerical data, as defined by Wagner (2013). Sounders (2012) also noted that the quantitative research technique is a good way of settling arguments as well as approving or dismissing a hypothesis. The researcher adopted this research method since it incorporates independent truth given by numerical data and eliminating human bias as supported by Gimsley (2013). The researcher made use of Barclays Bank full year annual reports from 2012 to 2015 to carry out quantitative analyses on the relationship objective. The researcher made use of the EVIEWS to perform the regression analysis since the results shown by such a statistical package are legit as backed by Wagner (2013). The quantitative research method also makes use of data and results that are gathered using qualitative techniques, henceforth, this research could not dismiss the use of qualitative research methods.

3.1.2 Qualitative Research

Qualitative methods of research are research techniques which discover perspectives, experiences as well as thoughts of respondents, (Klave 2013). This type of research design was employed for the purpose of this study because of some inherent benefits which go together with qualitative research techniques. The qualitative approach obtains information which relates to situations at hand, (Klave 2013) and linked well with the research questions and objectives of this study. As most respondents do not want their practices, systems and procedures to be affected as a result of responding to researchers' questions, (Howell 2013), a descriptive was adopted since it obtains information about a subject without affecting it. The qualitative descriptive approach was preferred most because it serves time and money since these are some of the constraints to this study already pointed out in chapter one. This kind of an approach was also used because it involves less preparation and it is relatively easier to administer as noted by Myers (2013) and Mamabolo (2012). The researcher employed the descriptive approach in a bid to achieve fairness in the opinions expressed by respondents, an idea suggested by Howell (2013).

3.2 Research Population

Research population refers to a group of individuals with similar attributes which make them interesting for a particular research. The target population used in this study comprises of 35 individuals that are both managerial and non – managerial staff for Barclays Bank of Zimbabwe. The individuals are from the Finance department, Retail Risk department, Corporate Risk department and Treasury department. The target population selected by the researcher was significant to this study because it is a group of employees directly involved with the collection and accounting of non – interest income and other revenue sources as well as the formulation of risk policies around revenue collection for the bank. The accessible population comprises of 26 individuals sampled from the target population of 35 as illustrated below.

Table 3.1 Research Population

Participants	**Target Population**	**Sample Size**	**Sample Population**
Finance Department	10	8	80%
Retail Risk Department	7	5	71%
Corporate Risk Department	6	4	67%
Treasury Department	12	9	75%
Total	**35**	**26**	**74.3%**

According to Wagner (2013), any sample that is above 50% of the total population is representative of the total population, therefore, the selected sample of 26 individuals that constitutes 74.3% of the total population represents the targeted population at Barclays Bank of Zimbabwe. The 74.3% accessible population gives an allowance that even if some targeted individuals fail to gives responses, the 50% threshold will still be surpassed.

3.3 Sampling

A sample is an extract of a target population drawn to give results representative of the total population, (Amviko 2012). In this study, two sampling methods were used to draw the samples for the research, that is, stratified and judgemental sampling. A sample of 7 individuals from the Finance department, 3 from the Retail Risk department, 3 from the Corporate Banking department and 7 from the Treasury department were selected from a population of 10, 6, 6 and 10 respectively.

3.3.1 Stratified Sampling

It is a method which reduces samples into less extreme categories called strata to ensure representation of all parts of the population, (Mamabolo 2011). This method was used because it increase effectiveness and efficiencies of the study as noted by Wagner (2011). The researcher also used this approach to ensure all section of the population ate represented prior to the application of judgemental sampling. Categorizing the sample into strata was substantial to the study because it improved the quality of the sample by minimizing sampling bias as it focused on a few individuals from each stratum, as support by Howell (2013).

3.3.2 Judgemental sampling

Judgemental sampling is a technique which was used based on personal judgement in the selection of the final sample which was best capable of answering the research questions and objectives as supported by (Myers 2013). This sampling technique was adopted by the researcher in the selection of respondents to interviews and questionnaires. In undertaking the process, the researcher considered employees who work in direct connection with matters affecting non – interest income and bank performance in order to obtain relevant information.

The researcher also considered experience in selecting the final sample under judgemental sampling and excluded four employees who were students because they were less experienced with regards to the topic under research. The judgemental sampling technique was adopted because it is cheaper, convenient and faster as supported by Kvale (2013).

3.4 Sources of data

The researcher used a mix of primary and secondary sources of data to gather relevant information on the impact of predominant dependence on income from non – interest sources on profitability of banks.

3.4.1 Primary sources of data

Primary data refers to a set of facts that are gathered to address and answer tackle research questions for the very first time, (Wagner 2013). The researcher used primary sources gather data because they obtain information specific to the research topic. Questionnaires and interviews were used by the researcher as primary sources of data as they give reliable first hand information concerning the research area, as supported by Mamabolo (2012). In addition, primary research made it easier for the researcher to exercise more control over the collection and accuracy of data. The originality of the data enhanced the researcher’s understanding of the area under research.

3.4.2 Secondary Data

Secondary data refers to second hand information collected from distinct sources in order to fulfil research objectives, (Howell 2013). Secondary data was used by the researcher as it supplements questionnaires and interviews in that some of the information obtained using secondary data cannot be obtained using primary sources of data. Secondary data was also found to have minimum subjectivity to intentional bias relative to primary sources of data, (Boyd 2014). Secondary data was relatively cheaper and quite easier to access because most of it was readily available at the researcher’s disposal in form of Annual Financial Statements and Annual Reports.

3.5 Research Instruments

Research instruments are tools used by a researcher to obtain relevant data and information for the research, (Mamabolo 2012). Questionnaires and interviews were used by the researcher to obtain data and information which relate to the opinions of targeted respondents.

3.5.1 Questionnaires

Questionnaires were chosen by the researcher since they are able to collect a large amount of information within a short space of time as supported by Boyd (2014). They enabled respondents to express objective opinions since their identities were not disclosed, as supported by Amviko (2012). The questionnaires comprised of closed ended questions which made it faster in the collection of data. In addition to the close ended questions, respondents were able to express other comments relevant to the matters of concern in the questionnaires.

3.5.2 Likert Scale

A Likert Scale is an instrument which measures the extent to which a respondent agrees or disagrees to questions (Boyd 2014). The researcher found it necessary to use ratings to the responses in order to make it easier for respondents to express their real opinions on the questionnaires, as noted by (Amviko 2012). It was also easier for the researcher to design the Likert Scale and as well it was easier for the respondents to interpret it which made it user friendly as supported by Gimsley (2013)

Table 3.2 Likert Scale

Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
5	4	3	2	1

Source: Cunninghum – Sabo (2011)

3.5.3 Interviews

Personal interviews were used to obtain information on major questions and aspects of this study, especially where questionnaires could not express matter with more preciseness. Interviews are more flexible than questionnaires because they allow the interviewee to more insight into their opinions of the subject matters, (Myers 2013). Interviews were also crucial as they allowed instant feedback on issues of clarity to both the interviewer and the interviewee. Interviews also enabled the interviewer to comprehend non – verbal communications from the interviewees, (Klave 2013). However, interviews were quite time consuming and other unnecessary information was also given by the interviews.

3.6 Reliability and Validity of instruments

3.6.1 Reliability

The reliability of a research instrument is the extent to which the strategy used for data collection is dependable (Wagner 2013). The questionnaires were distributed before to make sure that all respondents understand the content in the questionnaires and to assess whether the questions were concise and precise. For interviews, questions were asked by the researcher himself to gather all the needed information, therefore, there is no doubt was reliable as supported by Boyd (2014). The research instruments were used together with the stratified and the judgemental sampling techniques to enhance the reliability of the research instruments as supported by Amviko (2012).

3.6.2 Validity

According to Boyd (2014), validity is the degree of fulfilment of the intended purpose by the research instrument. Validity of an instrument is enhanced if it is appropriate and if it gathers relevant information to the research area, Wagner (2013). The research instruments used for this research were valid as they asked only relevant questions in line with the research objectives of this study. A combination of questionnaires and interviews was adopted in order to capitalize on the advantages of each one and nullify the weaknesses of each other.

3.7 Ethical considerations

Ethics of a research as defined by Gimsley (2013) is the code of conduct of the researcher right through the whole research process. During the research process, the researcher thrived to maximize convenience to the employees of Barclays Bank of Zimbabwe, mentally, emotionally and morally. This idea was backed by Sounders (2012) who cited that it is of great importance to observe rules of humanity and morality when conducting a research which involves people. The researcher was also very respectful and maintained the dignity of the respondents during the research process, guided by the organizational values of Barclays Bank of Zimbabwe.

3.8 Data Analysis and Presentation

3.8.1 Data Analysis

Data analysis refers to the logical explanation of gathered data from a research, (Myers 2013). Data collected was manipulated and sorted in order for it to be meaningful for analysis purposes. The researcher made use of measures of central tendency, mean mode and median and Microsoft Excel in order to analyse how responses were spread as supported by Sounders (2012).

For the relationship question of this study, the researcher employed the simple linear regression method to test the relationship between reliance on non – interest income and sustainable bank performance. The following regression model was used by the researcher;

$$\mathbf{Y = a + bX}$$

where; **Y** = financial performance (dependent variable)

a = the **Y** intercept (the value of **Y** when **X** is zero)

b = the gradient/slope of the graph

X = non - interest income (explanatory/independent variable)

3.8.2 Data Presentation

The gathered data was compiled into percentages and statistical tables for analysis purposes. The use of illustrative methods mentioned above was to facilitate easy identification of important variables and the extent of their significance to the research findings. The other reason for illustrative methods was to enable literature review for future studies as noted by Wagner (2013).

Chapter Summary

This chapter pointed out the research methods and techniques used to gather research findings by the researcher. The research design, research population, sampling techniques and sources of data are also outlined in this chapter.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4. Introduction

This chapter presents and analyses data gathered for the purposes of this study using the methodology outlined in chapter 3 above. The chapter mainly aims to establish the relationship that exists between non – interest income and financial performance of banking institutions as well as other related factors outlined in the previous chapters.

4.1 Questionnaire response rate

Table 4.1 Summary of questionnaire response rate

Name of Department	Questionnaires distributed	Questionnaires returned	Response rate
Finance Department	8	8	100%
Retail Risk Department	5	3	60%
Corporate Risk Department	4	2	50%
Treasury Department	9	6	67%
Total	**26**	**19**	**73%**

26 questionnaires were circulated amongst 4 departments within Barclays Bank of Zimbabwe. Of the 26 circulated, 19 were completed and returned to the researcher, giving a questionnaire response rate of 73% comparing it with the number of those distributed. Comparing the number of questionnaires responded with the total population of 35 indicated in Chapter 3, it gives a success rate of 54%. This shows that information gathered by the researcher can be used with

a greater degree of reliance since the respondents who managed to participate surpass the 50% threshold denoted by Wagner (2013) who outlined that responses above 50% of a population can be used to represent total the population.

4.2 Level of education

Table 4.2 Summary of respondents' level of education

Level of Education	Frequency	Percentage (%)
'O' Level and below	0	0
'A' Level	0	0
Certificate	0	0
Diploma	3	16
Degree	7	37
Degree +	9	47
Total	**19**	**100**

Source: Raw Data

Regarding the level of education of the respondents who participated during the research, none were at certificate level and below. This means that the employees of Barclays within these departments are educated enough to give reasonable responses to this research from an informed point of view. 3/19(16%) of respondents attained diplomas meaning that if only 16% of the respondents were at diploma level, more of them attained higher levels of education making the responses of this research even more reliable because they were given by knowledgeable people. 7/19(37%) were at degree level which means that comparing with the rest of this population of respondents, the highest number of respondents were actually above the degree level, clearly meaning that most responses were from 9/19(47%) of respondents who can give reliable and realistic views from a knowledgeable point of view as supported by Howell (2013).

4.3 Responses to questionnaires

4.3.1 Risks associated with non – interest income

4.3.1.1 Credit risk

Table 4.3 Results on non – interest income on credit risk

Responses	Frequency	Percentages
Strongly Agree	**0**	**0%**
Agree	**2**	**11%**
Neutral	**3**	**16%**
Disagree	**8**	**42%**
Strongly Disagree	**6**	**32%**

Source: Raw Data

From the collected data, it is noticeable that 0/19(0%) of the respondents strongly agreed that credits risk is associated with non – interest income, while 2/19(11%) agreed to the notion that non – interest income can increase a bank's credit risk. 3/19(16%) were neutral, 8/19(42%) disagreed and 6/19(32%) strongly disagreed to the fact that non – interest income can raise or lower a bank's credit risk. Noticeably, 14/19(74%) of the responses were in disagreement suggesting that non – interest income does not render banks to any credit risk whatsoever, a notion supported by DeYoung (2013) who cited that banks which have higher levels of non – interest income normally do not have to worry about credit risk since such income does not come from any lending activities. Having only 2/19 (11%) of respondents agreeing to the idea, shows that credit risk is barely associated with income from non – interest sources as highlighted by DeYoung in Chapter 2 that non – interest income is normally immune of credit risk. 3/19(16%) of respondents who were neutral or uncertain is an indication that it is sometimes hard to tell whether or not the credit risk of a bank is really influenced by non – interest income or other sources of income within the bank. This idea was supported by Arellano (2010) who particularly cited that the extent of a bank's risk exposure does not depend on whether or not it has higher or lower proportions of non – interest income but rather is influenced by other factors such as its level of internationalization.

Using mode as a measure of central tendency, it can be noticed that 14(74%) of respondents disagreed that non – interest income is associated with credit risk of a bank, therefore, it can be concluded that non – interest income does not increase a bank's credit risk. This notion is also backed by Holzhaeuser (2010) who cited that non – interest income comes from the business which is outside lending activities, and for that reason banks do not suffer any credit risk as a result of undertaking such activities.

4.3.1.2 Capital Risk

Table 4.4 Results on non – interest income on capital risk

Responses	Frequency	Percentages
Strongly Agree	**6**	**31%**
Agree	**8**	**42%**
Neutral	**3**	**16%**
Disagree	**2**	**11%**
Strongly Disagree	**0**	**0%**

Source: Raw Data

The results on the impact of non – interest income on capital risk presented above review that 6/19(31%) of the respondents strongly agreed that income which comes from non – interest sources is related to capital risk. 8/19(42%) agreed, 3/19(16%) were neutral, 2/19(11%) disagreed with the idea while none strongly disagreed with the idea that capital risk is influenced by non – interest income activities. Summing up these responses into a finer three pointer scale, 14/19(73%) of the respondents agreed that the level of non – interest income a bank accumulates affects its capital risk level. This fact is also supported by Elsas (2013) who cited that if a bank accumulates more non – interest income, it likely to be cushioned against capital risk since such banks normally make larger profits which translate into higher stock prices. Therefore, they will be able to accumulate more capital from investors compared to those which have lower levels of non – interest income, as also supported by Mahcdevan (2015). Having 3/19(16%) of responses being neutral on the matter indicates that in some cases it is difficult to tell whether or not a bank's capital risk is influenced by the level of non – interest income a bank earns. This notion was supported by Walter (2016) and Roman (2014) who highlighted that a bank's level of capital risk is mainly associated by its size noting that larger banks have lower capital risks than smaller ones, not anything to do with its source of income. Only 2/19(11%) of the respondents disagreed that non – interest affects a bank's level of capital risk. The fact that the respondents in disagreement are significantly few indicates that to a greater extent, non – interest income indeed influences a bank's level of capital risk.

Considering the mode as a measure of central tendency, it is clear that 14/19(74%) being the highest proportion of responses agreed that non – interest income affects the level of capital risk of a banking institution as discussed earlier in the literature review that banks which depends more on non – interest revenue have lower levels of capital risk compared to those which have lower levels of non – interest income, (DeJonghe 2010).

4.3.2 Costs of conducting non – interest business for banks

4.3.2.1 Relationship maintenance costs

Table 4.5 Results on relationship maintenance costs

Responses	Frequency	Percentages
Strongly Agree	**7**	**37%**
Agree	**9**	**47%**
Neutral	**3**	**16%**
Disagree	**0**	**0%**
Strongly Disagree	**0**	**0%**

Source: Raw Data

From the data collected on how non – interest income activities affect relationship maintenance costs, 7/19(37%) of the respondents strongly agreed that the activities which generate non – interest income increase tend to increase relationship maintenance costs of the bank. 7/19(47%) agreed, 3/19(16%) were neutral and none disagreed nor strongly disagreed. Putting this on to a three pointer scale, a total of 19/19(84%) of the respondents agreed that relationship maintenance costs increase as a result of carrying out non – interest income business, meaning that in deed undertaking activities which generate non – interest income raises the operating costs of a banking institution through relationship maintenance costs as backed by Roland (2011) and Rice (2013) who cited that relationship management is a costly exercise since it involves sound customer care and marketing strategies. 3/19(16%) of the respondents were neutral or uncertain suggesting that these respondents were neither in agreement nor in disagreement to the assertion that income which comes from non – interest sources is related to capital risk. Since there were 0/19(0%) respondents who disagreed to the fact that relationship maintenance costs increase relationship maintenance costs, it therefore means that there is no way non – interest income activities cannot increase relationship maintenance costs.

It is therefore certain that whenever a firm decides to engage into non – interest income business, it will definitely incur some relationship maintenance costs.

The 84% of respondents who agreed represents the majority of the population which is the mode. Therefore, it can be inferred from the mode that carrying out non – interest income activities raises up operating costs of a banking institution through relationship maintenance costs.

4.3.2.2 Fixed Labour Costs

Table 4.6 Results on Fixed labour costs

Responses	Frequency	Percentages
Strongly Agree	7	37%
Agree	9	47%
Neutral	5	16%
Disagree	0	0%
Strongly Disagree	0	0%

Source: Raw Data

Of the responses gathered from the research, 7/19(37%) of the respondents strongly agreed that fixed labour expenses are costs associated with conducting non – interest income activities. 9/19(47%) of respondents agreed, 5/19(16%) were neutral and none neither disagreed nor strongly disagreed. If these results are put on to a three pointer scale, 16/19(84%) of the respondents agreed that conducting non – interest income business involves incurring fixed labour costs, as discussed earlier in chapter two under literature review. Nolle (2010) cited that in undertaking non – interest income activities, banks incur large sums of fixed labour costs because transactions involving non – interest income cannot be undertaken without man power involvement. The 5/19(16%) neutral respondents suggested that they were neither in agreement nor in disagreement to the fact that non – interest income activities raises fixed labour costs. The fact that there were 0/19(0%) respondents who disagreed that fixed labour costs is an expense of carrying out non – interest income business shows that in the Zimbabwean context, carrying out non – interest income business results in increasing fixed labour costs and there is no way non – interest business cannot be associated with fixed labour costs.

84% of agreed respondents represent the mode in terms of central tendency, that is, the majority. It is therefore clear that almost all of the respondents who participated during the research view that carrying out non – interest income business means that the bank will have to incur subsequent fixed labour costs and from the results, it can be concluded that fixed labour costs are directly related to non – interest income activities as cited by Nolle (2010) in literature review.

4.3.2.3 Technological Costs

Table 4.7 Results on Technological Costs

Responses	Frequency	Percentages
Strongly Agree	**12**	**63%**
Agree	**7**	**37%**
Neutral	**0**	**0%**
Disagree	**0**	**0%**
Strongly Disagree	**0**	**0%**

Source: Raw Data

Results from the research on whether conducting non – interest income business contributes to an increase in technological costs show that 12/19(63%) of the respondents strongly agreed to the fact that technological costs actually rise as a result of carrying out non – interest income activities, while 7/19(37%) of the respondents agreed to the matter. 0/19(0%) of the respondents were neither neutral, disagreed nor strongly disagreed that non – interest income activities raise up technological costs. Summing these results to a three pointer scale, it shows that 100% of the respondents agreed that non – interest income business involves a lot of technological costs and there is no way banks can operate in the non – interest income business without incurring technological costs. This notion was discussed earlier on in literature review where Schmid (2013) pointed out that non – interest income is earned through incurring a lot of technological costs in the form of software licence fees and costs of machinery service process in order to process electronic transactions efficiently, as also supported by Rumble (2015). There is no single respondent who suggested that non – interest income activities do not result in an increase in technological costs and there is also none who was uncertain about the matter. From this kind of a result, the researcher can conclude that banks which earn most of their revenue from non – interest income also incur large sums of technological costs to support their revenue earning capacity.

4.3.3 Other determinants of a bank's performance

4.3.3.1 Risk Appetite

Table 4.8 Results on risk appetite

Responses	Frequency	Percentages
Strongly Agree	4	21%
Agree	6	32%
Neutral	5	26%
Disagree	4	21%
Strongly Disagree	0	0%

Source: Raw Data

The results gathered on risk appetite as a determinant of a bank's performance show that 4/19(21%) of the respondents strongly agreed that a bank's level of risk appetite determines its level of performance. 6/19(32%) of the respondents agreed, 5/19(26%) were neutral, 4/19(21%) disagreed while none of them strongly disagreed. On a three pointer scale, 10/19(53%) of the respondents agreed that a bank's risk appetite affects its level of performance as supported by Smith (2013) in the literature review who cited that the risk policies of a banking institution is a major factor that influences its level of profitability. The 5/19(26%) of neutral respondents indicates that these particular respondents were neither in disagreement nor in agreement to the assertion whether risk appetite is a determinant of bank performance. 4/19(21%) of the respondents disagreed to that risk appetite is a determinant of a bank's performance. This means that in some instances, the level of a bank's risk appetite or the structure of its risk policies do not determine its level of performance. This notion was also supported by Gul et al. (2011) who particularly cited that outside internal factors such as risk appetite, there are other factors which are beyond the control of the bank which can as well determine its level of performance, such as the regulatory framework.

The 10/19(53%) of respondents who agreed represents the majority of the population which is the mode. Therefore, it can be inferred from the mode that carrying out non – interest income activities raises up operating costs of a banking institution through relationship maintenance costs.

4.3.3.2 Conduct

Table 4.9 Results on conduct

Responses	Frequency	Percentages
Strongly Agree	**5**	**26%**
Agree	**8**	**42%**
Neutral	**3**	**16%**
Disagree	**3**	**16%**
Strongly Disagree	**0**	**0%**

Source: Raw Data

On conduct, 5/19(26%) of the respondents strongly agreed that conduct is a determinant of a bank's performance and 8/19(42%) of them agreed to the same notion. 3/19(16%) of the respondents were neutral, 3/19(16%) of them were in disagreement while none strongly disagreed that conduct is determinant of bank performance. These results summed up show that 13/19(68%) of the respondents agreed that conduct is a determinant of a bank's level of profitability. This notion was also discussed in literature review where Barney (2010) highlighted that the manner in which banking institutions interact with their stakeholders, especially customers and investors has material effect on the level of their revenue collection. There were 3/19(16%) of respondents who were neutral meaning that the neither agreed nor disagreed to the assertion. Another 3/19(16%) disagreed that conduct is a determinant of bank performance. Therefore, it shows that there are circumstances when the manner in which a bank interacts with stakeholders does not affect its level of performance, especially if a bank is operating as a giant in the market. These kind of banks enjoy economies of scale which their competitors cannot enjoy as highlighted by Smith (2013) in literature review in Chapter 2.

4.3.3.3 Gross Domestic Product

Table 4.9 Results on Gross Domestic Product

Responses	Frequency	Percentages
Strongly Agree	5	26%
Agree	9	48%
Neutral	0	0%
Disagree	5	26%
Strongly Disagree	0	0%

Source: Raw Data

The results gathered to assess whether Gross Domestic Product (GDP) is a determinant of a bank's performance show that 5/19(26%) of the respondents strongly agreed, 9/19(48%) agreed, none were neutral, 5/19(26%) disagreed and none strongly disagreed. On a three pointer scale, 14/19(74%) of respondents agreed that GDP determines a bank's financial performance which was supported by Panayiotis (2013) as discussed earlier in literature review. The author noted that higher GDP is characterized by higher cash flows and higher GDP per capita which means that the number of banked persons in an economy is higher in economies with higher GDP and lower in economies with lower GDP making GDP a factor which influences a bank's level of performance. The fact that 0/19(0%) of the respondents were neutral on the matter shows that GDP is a factor which either affects a bank's performance of does not affect a bank's performance and its effect cannot be neutral in a Zimbabwean context. 5/19(26%) of the respondents who disagreed that GDP is a determinant of bank performance indicate that in very rare cases, GDP may not have any influence on the performance of a banking institution.

Using mode as a measure of central tendency, 14/19(74%) of respondents who agreed represent the majority and it is clear that a significantly higher margin of respondents are of the view that GDP influences a bank's level of performance. Therefore, to a larger extent GDP in an economy substantially determines the level of performance of banking institutions operating in it, as supported by Rumble (2015) in literature review.

4.3.3.4 Regulatory Framework

Table 4.10 Results on Regulatory Framework

Responses	Frequency	Percentages
Strongly Agree	**0**	**0%**
Agree	**5**	**26%**
Neutral	**4**	**21%**
Disagree	**7**	**37%**
Strongly Disagree	**3**	**16%**

Source: Raw Data

The results on whether the regulatory framework in the financial industry determines bank performance show that none of the respondents strongly agreed to the fact that the regulatory framework in the financial industry determines a bank's level of performance. 5/19(26%) of the respondents agreed that regulations determine a bank's level of performance, 4/19(21%) were neutral, 7/19(37%) disagreed and 3/19(16%) strongly disagreed that regulations determine the level of performance for banking institutions. On a three pointer scale, only 5/19(26%) of the respondents think that regulations affect bank performance meaning that in fewer cases regulations influence the level of bank profitability. 4/19(21%) were neutral meaning that they were neither in agreement nor in disagreement whether regulations determine a bank's performance. 10/19(53%) of respondents are of the view that the regulatory system does not determine the profitability of banking institutions as supported by Zhrekar (2012) as highlighted in literature review.

It can therefore be inferred from the mode of 10/19(53%) that to a greater extent regulations do not have a significant effect on the level of profitability of banking institutions as long as they are complied with. On this matter, the results of the research indicate that risk appetite, conduct and GDP can determine the level of bank profitability but regulations do not determine profitability to a greater extent.

4.3.4 Sources of non- interest Income revenue

4.3.4.1 Transaction based income

Table 4.11 Results on transaction based income

Responses	Frequency	Percentages
Strongly Agree	10	53%
Agree	4	21%
Neutral	5	26%
Disagree	0	0%
Strongly Disagree	0	0%

Source: Raw Data

Of the results gathered from the research on how banks survive on non – interest income, 10/19(53%) of the respondents strongly agreed that banks which survive on non – interest income earn their revenue on transaction based income. 4/19(21%) of them agreed, 5/19(26%) were neutral and none were in disagreement. Summing up these findings, it is noticeable that 14/19(74%) of the respondents agreed that banks which survive on non – interest income earn their revenue on transaction based income. As outlined earlier in literature review, this was supported by Couto (2012) who cited that in economies which are struggling, where loan takers are very few, banks resort to non – interest income for survival and indicated that transaction based income is a major source of revenue in such scenarios. The fact that there were 5/19(26%) respondents who were neutral means that they were neither agreeing nor disagreeing to the assertion. It is noticeable that 0/19(0%) of the respondents disagreed that banks which survive on non – interest income earn their revenue from transaction based income. This is a clear indication that transaction based income is a major source of non – interest income in the form of transfer fees and ledger fees.

4.3.4.2 Custodial and Investment Income

Table 4.12 Results on custodial and Investment Income

Responses	Frequency	Percentages
Strongly Agree	0	0%
Agree	5	26%
Neutral	8	42%
Disagree	4	21%
Strongly Disagree	2	11%

Source: Raw Data

0/19(0%) of the respondents strongly agreed that banks which survive on non – interest income earn revenue from custodial and investment income, 5/19(26%) agreed, 8/19(42%) were uncertain, 4/19(21%) disagreed and 2/19(11%) of the respondents strongly disagreed that custodial and investment income are the major sources of income for banks which survive on non – interest income. In summary, 5/19(26%) of respondents agreed that custodial and investment income is a major source of non – interest income meaning that there are some fewer circumstances when banks earn most of their non – interest income from custodial and investment income. This was discussed earlier in literature review where Roland and Chanelle

(2015) denoted that custodial income which is earned from offering trustee services to third parties is an alternative source of income on which banks can enhance their survival. 42% of the respondents were neutral to the matter meaning that it is hard to tell whether custodial and investment income can be a major source of non - interest income to rely on for survival. 6/19(32%) of the respondents disagreed that custodial and investment income is a major source of non – interest income on which banks can survive on as noted by Markowitz (2011) in literature review that if banks need to survive on non – interest income, they have to diversify their sources to enhance revenue maximization rather than rely on custodial and investment income only.

Using mode as a measure of central tendency, the majority of respondents are represented by the 42% of them who were neutral on the fact that banks can survive on custodial and investment income as their major source of non – interest income. Therefore, from such results it can be concluded that to a greater extent it is difficult to conclude whether custodial and investment income can be a source of income that can be relied upon to a greater extent by banks if they are to survive on non – interest income.

4.3.5 Relationship analysis between non – interest income and financial performance of banks

As noted in Chapter 3 earlier that a simple linear regression was to be used in carrying out a relationship analysis between income from non – interest sources and profitability of banks, the researcher used the stationarity regression test to assess the relationship the exists between non – interest income and financial performance of banking institutions, where;

Non – interest income – Independent Variable

Financial Performance – Dependent Variable

The results of the test are as follows:

Table 4.13 Summary of the stationarity regression test

Dependent Variable: FINPER				
Method: Stationarity / Least Squares				
Date: 04/23/17 Time: 15:58				
Sample: 1 5				
Included observations: 5				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
NII	0.433935	0.274488	1.580890	0.2120
C	-8102.585	8224.167	-0.985217	0.3972
R-squared	0.454467	Mean dependent var		4820.000
Adjusted R-squared	0.272623	S.D. dependent var		2372.130
S.E. of regression	2023.104	Akaike info criterion		18.35183
Sum squared resid	12278849	Schwarz criterion		18.19560
Log likelihood	-43.87957	Hannan-Quinn criter.		17.93254
F-statistic	2.499212	Durbin-Watson stat		0.597365
Prob(F-statistic)	0.212040			

The results of the stationarity regression test between income from non – interest sources (NII) and bank profitability above show a positive relationship between the two variables. The positive coefficient of (0.433935) denote a positive relationship between non – interest income and financial performance of banks. In essence what this means is that an increase in non – interest income causes a proportionate increase in the level of financial performance of a bank, ceteris paribus. These results is in line with what respondents from questionnaires were suggesting as expected. The whole research, both responses from questionnaires and the regression test suggest that banks need to embrace the business of earning non – interest revenue as their major activities for a sound financial performance. William (2014) and Schmid (2013) supported this idea, both authors noted that transaction based income and ledger fees are safer sources of income on which banking institutions can depend on for survival.

4.4 Responses to interviews

4.4.1 How significant is non – interest business to the organization's survival at large?

Three interviews were carried out due to time constraints as most of the employees at Barclays Bank could spare time for the interviews. Regarding the above mentioned question, the first interviewee noted that non – interest income is strongly significant for a bank to survive in the financial industry in Zimbabwe due to rate at which loans are being defaulted. The interviewee said that given such conditions in the country, non – interest income becomes strongly significant to the survival of a banking institution. The second interviewee also noted that non – interest income is very significant to a bank's survival citing that the larger proportion of income being generated at Barclays bank of Zimbabwe comes from non – interest income. The third interviewee noted that the significance of non – interest income to a bank's survival is very significant also owing to the economic conditions in the economy.

From the responses gathered on this question, it is clear that the structure of the financial industry of Zimbabwe encourages Barclays Bank to rely more on non – interest income given that loan takers are reducing and the rate of defaults is increasing. This idea is also pointed out in literature review by Couto (2012) who cited that in struggling economies where loan takers are relatively low, banks resort to non – interest earning activities for survival. It can also be concluded from the responses that non – interest is the most prominent source of revenue for banks in economies such as in Zimbabwe where there are shortages of cash and most transactions are now electronic.

Responses gathered from interviews on this question are in line with the 74% mode observed when questionnaire respondents agreed that transaction based income is a major source of revenue on which banks can rely on for survival as discussed earlier in this chapter.

4.4.2 What are the effects of non – interest income on risk exposure for banks?

The first interviewee reviewed that maximising non – interest income lowers credit risk for banks. The second interviewee cited that non – interest income earning business have minimum effect on risk for banking institutions especially if they are depending much on transaction based income and ledger fees. The third interviewee noted that focusing more on activities which generate non – interest income puts less pressure on capital thresholds there by reducing capital risk.

These results gathered from interviews on this question show that the sources from which non – funded income is earned have less association with risk exposure for Barclays Bank. Non – interest income comes from sources which are not related with lending therefore, automatically credit risk is eliminated by venturing into non – interest income business as noted by the first interviewee. The literature reviewed earlier also show that income that does not come from lending activities is immune of credit risk as cited by DeYoung (2013). The results on this question generally tell that the amount of risk a bank is exposed to as a result of carrying out non – interest earning activities is very minimum as also supported by Mahcdevan (2015) who cited that earning more of revenue from non – interest income has an effect of minimizing capital risk, as noted by the third interviewee.

Responses from questionnaires confirmed the same notion since the 73% majority (mode) of the respondents agreed that non – interest income is associated with capital risk in that non – interest income has an effect of cushioning banks against capital risk although there were a few respondents who did not agree to the same fact.

4.4.3 What is the impact of non – interest income activities on operating costs for banks?

The first interviewee noted that non – interest income activities rise up the operational costs of a banking institution because the greater percentage of transactions of a bank are associated with non – interest income business. The second interviewee cited that on a daily basis, a bank's activities are non – interest earning ones and therefore daily expenses of a banking institution are mostly propelled by non – interest income business. The third interviewee said that non – interest income activities contribute more to the overall operating costs of a banking institution because of infrastructural costs and costs of bringing convenience to customers.

From the responses gathered from interviews, it is clear that the operating costs of a bank are mostly propelled by non – interest earning activities. All the interviewees conformed to the idea that non – interest activities have a significant impact on the operating costs of a bank as highlighted in the literature review by Nolle (2010) that the processing of ATM transactions, foreign transactions and service charges results in banks incurring much of their costs in the form of fixed labour costs and technological costs.

Regarding the same issue, 84% majority of respondents agreed that fixed labour costs increase as a result of non- interest income activities and also 100% of respondents agreed that technological costs increase as a result of non – interest income activities. Therefore it is safe to conclude from the results gathered that the operating costs of a banking institution are largely a result of conducting non – interest income business.

4.4.4 What are other determinants of a bank's profitability?

Interviewees reviewed various responses concerning the factors which determine bank profitability. The determinants listed by the interviewees are bank strategy, brand, risk policies, interest income and cost control policies. The interviewees explained that the strategy which a firm adopts has a great influence on the revenue a bank subsequently make and the profits there of. The respondents cited that each bank targets a certain sector for lending such as mining, agriculture or manufacturing. This is important as it then determines the amount of revenue a bank is likely to make. They also explained that the risk policies which a bank adopts has a great bearing on the level of interest revenue it makes and there automatically determining its profitability as supported by Smith (2013) and Makadok (2011) in literature review. One of the interviewees cited that the amount of interest income a bank accumulates also has a bearing on its related profitability. This interviewee stated that the more interest income a bank accumulates means more revenue and more profit. There is another one who noted that the cost control policy of a banking institution can actually determine the level of its profitability. The interviewee advocated that if costs are minimized as much as possible, revenue would have more capacity to contribute towards profit.

The responses gathered from questionnaires confirm some of the results gathered from interviews such as risk appetite on which 53% majority agreed that it is a determinant of bank performance. However, there a number of other determinants which were brought up by interviewees which had not been cited by respondents from questionnaires such as strategy and cost control policies.

4.4.5 How does profitability respond to increases and decreases in non – interest income?

Regarding how profitability responds to changes in non – interest income, two of the interviews cited that increases and decreases in non – interest income also cause increases and decreases in the profitability level respectively. These interviewees concluded that income from non – interest sources is positively related to bank profitability saying that if a bank's non – interest revenue increases, the profitability of that bank significantly rises in response to the increase in the non – interest income. They noted that this is so because income from non – interest sources is often the major revenue source for banking institutions as noted by Osman et al. (2013) in literature review. The other reason that the interviewees suggested as the reason for a positive relationship between non – interest income and financial performance is that non - interest income is a safer source of revenue which does not suffer much risks such as impairment. Therefore, an increase in non – interest income would lead to an increase in profitability.

However, one interviewee gave a different response to the one suggested by the previous ones. The interviewee suggested that the relationship between non – interest income and financial performance of a banking institution is moderate or rather weak. The interviewee said that when non – interest income rises, there are related costs which will always rise in order to support the increase non – interest income. Therefore, the effect on profitability will not be significant but rather just moderate. This interviewee concluded a moderate relationship between non – interest revenue and bank profitability.

Chapter Summary

This chapter has analysed data in line with the objectives of this study. It has presented and analysed raw data with the use of statistical tables regarding various factors which affect non – interest income and bank performance. An analysis was also carried out using the simple linear regression model to establish the relationship between non – interest income and financial performance of banking institutions. The next chapter is going to outline recommendations to the banking fraternity based on the results shown.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

5. Introduction

This chapter begins by laying out summaries of each chapter in this study. It also outlines the major research findings of this research as well as giving the research conclusions and recommendations. The chapter goes on to highlight further areas to be studied in future.

5.1 Summary of chapters

Chapter one was mainly targeted at introducing the research area on which the researcher was going to focus on. Under background of study, the chapter outlined the need to carry out a research on how bank profitability is related to income from non – interest sources. Therefore, the researcher came up with the main research question of this study which was supported by sub – research questions and research objectives. It also comprises the introduction, background of study, problem statement, the research questions, research justification of study, delimitations of study, limitations of study, the assumptions of the study and definition of terms.

The second chapter reviewed literature on the impact of non – interest income on financial performance of banking institutions using the research objectives outlined in chapter one. Authors such as DeYoung and Rice (2010), Zhrekar (2012) and Chanelle (2015) argued that income from non – interest sources is not a dependable source of revenue for a sustainable bank performance. These authors rather advocated for traditional interest income to be the major source of revenue banks should rely on. However, others such as Osman et al. (2013), Brunnermier et al. (2012) and Mahcdevan (2015) were of the idea that embracing non – interest business actually improves bank performance and it is a safer source of revenue. These authors advocated for non – interest income to be a better source of revenue on the basis that it is less associated with risk exposure, thereby, making it safer for banks to depend on such a source of revenue.

The third chapter pointed out the research methods and techniques used by the researcher to gather research findings. The research design, research population, sampling techniques and sources of data were also outlined in this chapter.

The fourth chapter analysed data in line with the objectives of this study. It presented and analysed raw data with the use of statistical tables regarding various factors which affect non – interest income and bank performance. An analysis was also carried out using the stationarity regression test to establish the relationship between non – interest income and financial performance of banking institutions. The results reviewed that there is positive relationship between non – interest income and financial performance of banking institutions.

5.2 Major research findings

The impact of non – interest income on financial performance of banking institutions has been reviewed earlier based on past literature. The same was also investigated by use of questionnaires and interviews limited to Barclays Bank of Zimbabwe. The general findings were discussed in the preceding chapter but the following are the major findings of the research.

5.2.1 Impact of non - interest income on risk exposure for banks

From the research, it was found out that the business of earning non – interest income minimizes a bank's credit risk since the majority of the respondents asserted so noting that non – interest income does not come from lending operations. The same idea also mentioned by Elsas (2013) that since non – interest income does not come from lending, it is immune of credit risk making it a safer source of revenue or banks.

5.2.2 The impact of non – interest income activities on operating costs for banks

Over 80% of respondents on the impact of non – interest income on operating costs of banks suggested that the operations which generate non – interest income are the major drivers of operating costs for banking institutions. The same was also noted by Roland (2011), Nolle (2010) and Schmid (2013) that non – interest income activities contribute much to the overall costs of a bank in the form of relationship maintenance costs, fixed labour costs and technological costs.

5.2.3 Other determinants of a bank performance

The respondents during the research highlighted the following factors as other determinants of a bank's performance outside non – interest income:

- Risk policies within a bank
- Bank strategy on which market sector to target
- Gross Domestic Product in a country
- Conduct
- Inflation
- Cost control policies
- Political stability

5.2.4 How banks survive on non – interest

Most respondents noted that the major source of non – interest income is transaction based income where banks charge fees on transactions processed through them. Couto (2012) embraced the idea when the author stated that when loan takers are very few, banks resort to non – interest income for survival and indicated that transaction based income is a major source of revenue in such scenarios. Therefore, the survival of banks on income from non – interest sources depends on the relative amount of transaction based income they earn.

5.2.5 The relationship between non – interest income and financial performance of banking institutions

Hypothesis 1: There is a positive relationship between non – interest income and bank profitability

An analysis was carried out using the stationarity regression test to investigate the relation between non – interest income and financial performance of banks, where non – interest income is the independent variable and financial performance is the dependent variable. The results of the test showed that there is a positive relationship between non – interest income and financial performance of banking institutions. Therefore, it means an increase in non – interest income results causes an improvement in the level of profitability for banks. Hence, banks need to depend more on non – interest income than interest income for sustainable profitability.

5.3 Research conclusions

After carrying out the research, the researcher drew a conclusion that there is a positive relationship between non – interest income and the financial performance of banking institutions. The researcher also noted that the major reason behind the strong relationship is that there is minimum risk associated with income from non – interest sources. The research also showed that besides non – interest income there are other factors which also need to be watched by banks for a sustainable performance such as risk policies, strategy, conduct and cost control policies.

5.4 Recommendations

- Banks should embrace activities which generate income from non – interest sources as their major business and maintain their loan books as low as possible so as to minimize credit risk since the research has shown that non – interest income reduces risk exposure for banking institutions thereby, making it a safer source of revenue.

- Banks also need to broaden their streams from which transaction based income is earned, such as, mobile banking facilities, internet banking facilities, targeting all market sectors and individuals from all social classes because the study has shown that transaction based income is the major source of non – interest income on which banks can rely on.
- Banks also need to implement robust cost control policies such as overtime minimization to reduce labour costs and stationery usage controls to reduce printing costs if they are to rely on non – interest income for improved performance because this research has also shown that the operating costs of a banking are largely driven by non – interest income activities.
- Besides income sources, banks should also strictly consider their overall strategy taking into account some macro – economic factors such as GDP, inflation and political stability since these have been found to be also determinants of a bank's financial performance.

5.5 Further areas of research

The researcher is of the idea that a different result could have been obtained if other factors such as government policy and non - performing loans were taken into account. Therefore the researcher suggests that further studies be carried out to investigate the same relationship between non – interest income and bank performance taking into account the left out factors which could potentially produce different results.

The researcher also suggests that further studies be carried out to investigate the relationship between other different elements of financial performance of banking institutions and their impact thereof, using different methodologies and packages so as add more flesh to the literature on banking.

Chapter summary

This chapter has outlined the summaries of the whole study and outlined the major research findings, recommendations and conclusions.

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Appendix I

Cover letter

Midlands State University

Faculty of Commerce

Department of Accounting

P O Box 9055 Gweru

4 April 2016

The Director of Finance

Barclays Bank of Zimbabwe Limited

Corner 1st Street and Jason Moyo Avenue

Harare

Dear Mr Matsekete

RE: APPLICATION FOR PERMISSION TO CARRY OUT A RESEARCH AT YOUR COMPANY

This application seeks your permission to carry out a research on a topic "The impact of predominant reliance on non – interest income on sustainable bank performance (Case Study Barclays Bank of Zimbabwe)**.**" The research is a requirement in partial fulfillment of the Bachelor of Commerce Accounting Honours Degree program that I am currently undertaking the Midlands State University. I promise that information obtained in the research will be kept confidential and used only for academic purposes.

Yours sincerely

Munyaradzi Kashiri (R137397W)

Appendix II

Questionnaire

Instructions

Do not write your name on the questionnaire

Tick in the relevant box for your response

1. Level of education:

O Level and below ☐ A Level ☐ Certificate ☐ Diploma ☐ Degree ☐ Degree + ☐

2. The risks that are associated with non – interest income activities include:

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
Credit Risk					
Capital Risk					

Besides the risks mentioned above, what are other risks associated with non – interest income activities?

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3. The costs of conducting non – interest business include:

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
Relationship Maintenance Costs					

Fixed Labour Costs					
Technological Costs					

4. Other determinants of a bank's performance are:

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
Risk Appetite					
Conduct					
Gross Domestic Product					
Regulatory Framework					

5. Banks which survive on non – interest income only earn their revenue from:

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
Transaction Based Income					
Custodial and Investment Income					

6. Elements in non – interest income which improve revenue collection and profitability for banks include:

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
Transaction Based Income					
Ledger Fees					
Commission Income					

What are other elements in non – interest income which also affect revenue collection and profitability for banks?

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Your cooperation is greatly appreciated

Yours faithfully

Munyaradzi Kashiri

Appendix III

Interview Guide

Impact of predominant reliance on non – interest income on sustainable bank performance.

Interview questions below seek to gather responders' opinions on the above mentioned subject matter. The responses gathered shall be used academic purposes only.

Questions

1. How significant is non – interest business to the organization's survival at large?
2. What are the effects of non – interest income on risk exposure for banks?
3. What is the impact of non – interest income activities on operating costs for banks?
4. What are other determinants of a bank's profitability?
5. How does bank profitability respond to increases and decreases in non – interest income levels?