

Effect of the financial regulations on the profitability of SACCOS: a case study of SACCOS in Nyeri town

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Abstract:

The SACCO movement provides financial services to large numbers of people throughout Kenya. Over the last ten years there has been significant growth and innovation with new services offered to an expanding membership base. However this development has been accompanied by various challenges such as an increasing level of risk and concern that the institutional capacity of many SACCOs to manage risk has not developed at the same pace. Increasing levels of competition from a more vibrant banking system are set to increase the potential threat faced by the SACCO movement. These challenges therefore prompted the government to come up with a policy to regulate the Sacco sub sector in order to promote financial soundness in the industry. The Saccos Societies Act 2008 was enacted into law and was operationalized in 2010 with an aim of regulating all deposit taking Saccos. The purpose of this study was to investigate the effect of the financial regulations on the profitability of Saccos in Nyeri Town. The specific objectives of this study included, establishing if capital adequacy requirement has affected profitability of Saccos, to determine the effect of licensing on the profitability of Saccos and to identify whether credit management requirement has affected the profitability of Saccos. The study is considered important to various stakeholders including the government, Saccos, researchers, academic etc. The literature review identified what other researchers have done in the area of financial regulations and performance in terms of profitability of Saccos. The study was conceptualized to determine the relationship between the dependent and independent variables and the influence of the intervening variables on the relationship between the dependent and the independent variables. The study consisted of 30 out of 35 Sacco Societies registered in Nyeri town and was conducted on top and middle level managers of Saccos in Nyeri town. The respondents were issued with self-administered questionnaires to collect primary data. The researcher used descriptive research design with stratified random sampling technique for primary data and secondary data was obtained from researched work and articles, economic surveys CBK annual report. Data collected was analyzed by use of descriptive statistics, Statistical Program for Social Sciences (SPSS).