The effects of financial innovations on the financial performance of commercial banks in Kenya

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Abstract:

Financial innovations are now thought to hold the promise of a new commercial revolution by offering an inexpensive and direct way to sell or buy products and services. This revolution in the marketplace has set in motion a revolution in the banking sector for the provision of a payment system that is compatible with the demands of the electronic marketplace. The purpose of this study was to investigate the effects of financial innovations on the performance of commercial banks in Kenya. The other specific objectives of this study included: to determine the level of development in financial innovations, identify an: possible parallel financial innovations, establish the effects of financial innovations on the financial performance of commercial banks in Kenya, examine the rate of influence of environmental context factors on the relationship between financial innovation and financial performance among commercial banks in Kenya and determine the influence of organisational context factors on the relationship between the innovation and financial performance among commercial banks. The study is considered important to various stakeholders including major players in the financial sector, i.e CBK, Bankers Association, commercial banks, researchers, academic etc. The study consisted of 30 (representing 70%) commercial banks of 43 in Kenya and was conducted on four top and R&D management staff in Nairobi at their head offices and each branch of these sampled banks. The respondents were issued with self-administered questionnaires to collect primary data. The researcher employed the descriptive survey research design with multi-stage sampling technique for primary data and secondary data will be obtained from researched work and articles, economic surveys CBK annual report and library. Data collected was analysed by use of descriptive statistics, Pearson coefficient of correlation multiple regressions; perception index using Statistical Program for Social Sciences (SPSS).The study adopted tables and figures to report its findings. The literature review identified what other researchers have done in the area of financial innovations and financial performance of intermediaries. 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. However in all, the major findings of the study were that the development and the challenges of financial innovations had no significant relationship with the financial performance of commercial banks but there was a significant relationship between financial innovation and financial performance of commercial banks. It was again found that organizational and environmental context factors bore significant influence on the adoption of financial innovation and the financial performance of commercial banks. This study concludes that financial innovation development should be enhanced, challenges affecting the growth of innovations should be seriously looked at and the aforementioned organizational and environmental context factors require to be addressed in a bid to encourage financial institutions to improve their financial products. The study is important because banks have been blamed for not adequately satisfying demand for financial services. The research contributes to the debate on how to enhance access to financial services in Kenya.