EFFECT OF UNCLAIMED FINANCIAL ASSETS ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

I declare that this project proposal is my original work and has not been submitted to any other University for examination or award of a degree.

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This research project was submitted for examination with my authority as the University supervisor.

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# ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>CAR</td>
<td>Capital Adequacy Ratio</td>
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<tr>
<td>CAMEL</td>
<td>Capital adequacy, Asset quality, Management efficiency, Earning ability and Liquidity</td>
</tr>
<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GOK</td>
<td>Government of Kenya</td>
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<td>UFAA</td>
<td>Unclaimed Financial Assets Authority</td>
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<td>ROA</td>
<td>Return on Assets</td>
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ABSTRACT

Kenya enacted legislation to regulate the management of unclaimed financial assets from various institutions. The Unclaimed Financial Assets Act of 2011 is the main regulation that outlines the way these institutions are supposed to handle unclaimed assets in their custody over a specified period of time. The Act provides for the legislative framework for dealing with unclaimed financial assets. The bill came about after several surveys done by the Government of Kenya which stated that quite a number of billions are held by financial institutions as unclaimed is circulating in the financial system to earn interest. The Act states that all the holding institutions should declare these assets and surrender to the Authority on 1st November every year.

The overall objective of this study was to examine the effects of unclaimed financial assets on the financial performance of commercial banks in Kenya. Ten years consolidated reports for 43 commercial banks in Kenya was analyzed using linear multiple regression. In this study the effect of determinants on the financial performance of banks as expressed by Return on Assets (ROA) was evaluated. Both The scatter plot analysis and multiple regression analysis have shown that unclaimed financial assets as an independent variable has a significantly effects on the financial performance of commercial banks in Kenya.

Results of the study showed that Unclaimed Financial Assets positively correlates with financial performance of commercial banks in Kenya. The correlation coefficient of unclaimed financial assets with ROA was 0.804 at 95% confidence level. The researcher used capital adequacy, asset quality, liquidity, and cost of operation as moderating factors of commercial banks financial performance in the study. The findings also revealed that these factors have a statistical significant relationship of 0.895, -0.867, 0.576, -0.977 respectively. From the secondary data analyzed it showed that so far the Commercial banks have not complied with the Act, hence these banks are still enjoying holding these assets.
CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

According to Ministry of Finance (2008) quite a number of billions are held by financial institutions as unclaimed is circulating in the financial system to earn interest. Financial system is the system that allows the transfer of money between savers (and investors) and borrowers. A financial system can operate on a global, regional or firm specific level. Financial systems are crucial to the allocation of resources in a modern economy. They channel household savings to the corporate sector and allocate investment funds among firms; they allow inter-temporal smoothing of consumption by households and expenditures by firms; and they enable households and firms to share risks. These functions are common to the financial systems of most developed economies. Yet the form of these financial systems varies widely.

Wachira (2013) stated that Kenya has a well-developed financial system comprising of a wide variety of institutions, markets, instruments and services. The financial sector plays an important catalytic role of facilitating the growth of all other sectors of the economy. Though the degree of financial intermediation is high, weaknesses exist at levels of access to financial services, efficiency of service provision and stability of financial institutions. The key players in Kenya's financial sector include commercial banks Non-Bank financial institutions and the capital markets that provide various financial instruments for debt and equity financing.

Ministry of finance report (2008) showed that overall universe of unclaimed financial assets in the financial system, the corporate sector and other institutions, including utilities, may exceed KSh. 200 billion. Actuaries estimate that about 60% or more of these unclaimed assets may never be reunited with their owners or beneficiaries. Reasons behind this is lack of unification include the passage of time, death of owners, missing records, lack of asset tracking mechanisms
and the absence of legal and regulatory requirements for institutions to declare the unclaimed assets that they hold.

1.1.1 Unclaimed Financial Assets

Andreoli and Osibodu (2004) generally defined unclaimed property as a liability a company owes to an individual or entity when a debt or obligation remains outstanding after a specified period of time. An uncashed payroll or dividend check is a common type of unclaimed property. The value of the negotiable instrument represents the debtor’s obligation to the payee. When the payee does not extinguish the debt by cashing the check, this creates a property right protected by state unclaimed property laws.

As per the Unclaimed Financial Assets Act (2011), unclaimed assets are tangible or intangible property that has gone unclaimed by its rightful owner or assets where there has been no owner-generated activity for a defined period. They include bank account balances, shares, insurance policies and dividends. The Act states that some of the reasons for Unclaimed assets are as a result of Passage of time, emigration, change of name, address or the change in the national postal address system, death, missing records and no tracking mechanism, no requirement for holding institutions to declare assets as unclaimed, Collapse or change in corporate structures, such as with mergers, acquisitions, etc.

Kimosop (2010) stated that many developed countries have explicit policy frameworks for the management of unclaimed financial assets. International best practice includes the management of information and data related to such assets. This typically entails the identification of unclaimed financial assets according to prescribed definitions as well as the segregation, reporting and remittance of such assets into a central reclaim fund and the establishment of an unclaimed assets agency to regulate and manage these assets. The portion of remitted funds in
excess of those required to meet claims of asset owners is invested for social, community, and economic benefit.

1.1.2 Financial Performance

Samadquadri (2013) defines financial performance as a measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

According to Business Dictionary (2011) any of many different mathematical measures to evaluate how well a company is using its resources to make a profit. Common examples of financial performance include operating income, earnings before interest and taxes, and net asset value. It is important to note that no one measure of financial performance should be taken on its own. Rather, a thorough assessment of a company's performance should take into account many different measures. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining. In this particular case, the researcher considered link between the performance of a commercial banks visa vi the amount held in the dormant accounts.

Alvarado (2011) explained that financial performance is important element which shows whether a firm is profitable or making losses. Financial ratios tools can be used to help business owners measure the financial performance of their business. When calculated accurately and timely, financial ratios can provide critical information to business owners that allow them to make
better decisions. In this particular case, the study revealed the relationship of dormant/unclaimed accounts held by banks and its financial performance.

1.1.3 Effects of Unclaimed Financial Assets on Financial Performance of Commercial Banks

Many countries around the globe have enacted laws that govern the management of unclaimed assets from various companies. According to Garner (2009), the unclaimed assets law stems from the Term “Bona Vacancia” which implies vacant goods. These were goods without the owner and it was deemed equitable to transfer them to the crown instead to a third party who was not a beneficiary. Kelly (n.d) argues that several countries around the world have in place unclaimed property law that is based on the British Uniform Unclaimed property Act. Diamond (2011) argues that most governments are forced to look for alternative means of raising revenue in the wake of an economic crisis. He further notes that the enactment of unclaimed property laws is one of the alternatives that most governments resort to whenever they need to get additional sources of revenue that are not based on tax increment. In Kenya, the Unclaimed Assets Bill was passed in the year 2011 by parliament. The bill gives detailed information on the determination of unclaimed assets; the duties and responsibilities of the company holding the unclaimed assets and the setting of unclaimed assets trust fund and authority. (Unclaimed Assets Bill, 2011).

According to Kanyi (2013) the management of unclaimed financial assets has received a lot of attention in the banking sector for the last three years. The predominant view is the transfer of these financial assets to the Government entity for reunification to the owners or legitimate beneficiaries. The goal of this study is to examine whether there is any relationship in the
volumes of unclaimed financial assets held by a bank and its financial performance. The commercial banks use these financial assets to lend to borrowers and earn interest in returns.

Simpson (2008) explained that the largest source by far of funds for banks is deposits; money that account holders entrust to the bank for safekeeping and use in future transactions, as well as modest amounts of interest. Generally referred to as "core deposits," these are typically the checking and savings accounts that so many people currently have.

From the current surveys done by the government of Kenya (GOK 2008) that lead to creation of new ACT, it showed that commercial banks are holding funds which are not claimed by owners for years thus using the same funds to make money for years. This means that commercial banks can use these funds to invest and lend earn interest for years. Some of the theories that guide this study include; Loan Pricing Theory, Theory of Multiple Lending, Hold-up and Soft-budget constraint Theory and Unclaimed Assets Theory. The study shows the link between the independent variables and the dependent variable (Bank profit). Empirical generally will points to the existence of a relationship between unclaimed financial assets and profitability of commercial banks in Kenya. This study will address whether there is possible relationship of unclaimed financial assets and commercial Banks profitability in Kenya. The study analysis is based on a sample of ten commercial banks in Kenya.

1.1.4 Commercial banks in Kenya

The origin of commercial banking in Kenya related to commercial connections in East Africa, which existed towards the end of the 19th Century. First of all there was National Bank of India in Kenya in 1896 after the establishment of the British in the region. It was followed by Standard
Bank of South Africa in 1910. In 1916, the National Bank of South Africa merged with Anglo-
Egyptian Bank Ltd to form Barclays Bank (dominion Colonial). The Standard Bank of South
Africa and Barclays Bank were just branches of British banks based in London. Their
establishment in Kenya was just in line with the practice of British banks to follow the
development of trade in their colonies and concentrate on finance of international trade. National
Bank of India operated mainly in India while the Standard Bank of South Africa had its main
business in South Africa. Since the banks had links with Europe, South Africa and India their
businesses affected their operations, because they were mainly dealing with customers from their
respective areas. Open opportunities for traders and settlers who had come to Kenya and the
growing community provided initial sources of deposits in excess; and the surplus, which
remained unutilized in Kenya were invested in London. Deposits were also made locally. This
situation prevailed mainly because there was a gap between bankers and prospective borrowers.
(World Bank 2010)

CBK (2013) reported that Kenyan banking sector comprised of 43 commercial banks, 1
mortgage finance company, 6 deposit taking microfinance institutions, 2 credit reference
bureaus, 3 representative offices and 124 foreign exchange bureaus. Section 33(4) of the
Banking Act empowers the Central Bank of Kenya to issue guidelines to be adhered to by
financial institutions so as to maintain a stable and an efficient banking and financial system. As
custodians of public funds, banking institutions have the responsibility to safeguard their
integrity and credibility in order to maintain public confidence. Institutions are required to
periodically publish their financial statements in order to avail timely information to
stakeholders. These financial statements and other disclosures should first be submitted to the Central Bank of Kenya for clearance at least two weeks before publication.

The Banking ACT does not expressly provide for what duties a bank has in regard to unclaimed deposits held by them. The CBK has also not provided clear policies or guidelines in relation to the governance of such assets. Thus, there is a gap that has allowed banks to devise their internal policies to guide them in dealing with dormant accounts. Other banks report such balances as liabilities that are dues on demand while others stick to the 7 year period as provided by the Statute of Limitation. However, the National Bank of Kenya in its financial report discloses unclaimed dividends that have not been collected by the shareholders.

Simpson (2008) explained that Commercial banks basically make money by lending money at rates higher than the cost of the money they lend. More specifically, banks collect interest on loans and interest payments from the debt securities they own, and pay interest on deposits, CDs, and short-term borrowings. The difference is known as the "spread," or the net interest income, and when that net interest income is divided by the bank’s earning assets, it is known as the net interest margin. In this case, banks are holding funds which are not claimed by owners, thus no interest paid by the bank, but interest earned wholly belongs to the bank and not the net interest margin.

1.2 Research Problem

Kanyi (2013) stated the regulation on the management of unclaimed financial assets is not new since a number of countries around the world have already enacted laws that assist companies to deal with this issue. The submission of unclaimed assets to governments is one of the strategies
that governments use to earn extra revenue to finance their operations in the provisions of public services. Some countries are very strict on these regulations in order to ensure companies comply with the regulations Kenya recently through the Unclaimed Financial Assets Act of 2011 joined the list of countries that require companies to account and submit proceeds of unclaimed assets to the government. This regulation is likely to affect the performance of a number of companies more especially those in the banking industry.

The Unclaimed Assets Act was assented by the President into law on 2nd December 2011, the law says in section 4 of the act, subsection one; Any sum payable in Kenya on a travelers cheque that is outstanding for more than two years after its` issuance, is presumed abandoned, section 6 subsection states, any demand, savings or matured time deposit with a bank or financial institution including a deposit that is automatically renewable and any funds paid toward the purchase of a share, a mutual investment certificate or any other interest in a bank or financial institution is presumed abandoned. Section 39 of the Act establishes the unclaimed Financial assets Authority, as a body corporate with perpetual succession and a common and shall in its` corporate name be capable of suing and being sued, taking, purchasing, or otherwise acquiring holding, charging or disposing of movable and immovable property.

Nine months after the Unclaimed Financial Assets Act (2011) became law, the Unclaimed Financial Assets Authority was appointed, opening doors to its implementation would oversee the beneficiaries and owners reclaim their assets. Besides establishment of the Authority’s board, the Unclaimed Assets law also provides for formation of an Unclaimed Financial Assets Trust Fund, into which monies such as those held by third parties will be paid. Creation of the
Unclaimed Financial Assets Authority (UFAA) is aimed at tracking down owners of huge amounts of unclaimed assets that remain in the hands of institutions like banks, insurance companies, social security funds, and utility service providers.

Kanyi (2013) stated that previously before the Act was passed, any unclaimed assets were treated as part of the income of the holding institutions. However this will now change and is likely to have some impact on the performance of these holding companies. With these funds expected to be transferred to the authority/Government of Kenya, it means it will have a negative financial implication to the holding institutions, especially financial institutions that are definitely in the financial system of lending and borrowing hence earning interest.

This study revealed how this Act passed in 2011 will affect the performance of holding commercial banks in Kenya. Research on unclaimed assets laws shows that various researchers have divergent views on this issue. Kanyi (2013) did a study on unclaimed assets in insurance companies. The study showed that unclaimed assets contributed positively to financial performance in these companies. Diamond (2011) carried out a study on unclaimed property laws and gift cards. The study revealed that the purpose of unclaimed property laws was to reunite the owner and the property though this never takes place most of the time. The study recommended that gift cards should be exempt from the laws. Ryan (2012) carried out a study on the unclaimed assets in banking industry. The study observes that the escheatment of unclaimed assets belonging to customers is a regulation that is most likely to kill the relationship between banks and their customers. A study by Smith, Bergstrom & Yopp (2010) on the unclaimed property audits and their reality on insurance companies established that these audits are quite
involving and insurance companies need to ensure they conduct proper reporting of these assets. Despite the studies mentioned above, it is clear that there is scanty research on the unclaimed assets regulation and performance of commercial banks. This leaves a gap that needs to be filled through research. This study therefore sought to establish the relationship between the recently passed regulation on unclaimed assets and the impact it has on the financial performance of holding commercial banks in Kenya. The research question is; what is the effect of unclaimed financial assets to financial performance of commercial banks in Kenya?

1.3 Research Objectives

The objective of the study is to determine the effect unclaimed financial assets on the financial performance of commercial banks in Kenya.

1.4 Value of the study

The show the relationship between the unclaimed financial assets held by commercial banks visa vie their financial performance. The study help the commercial banks understand the implication of handing over of unclaimed financial assets to the Government of Kenya. Unclaimed Financial Assets ACT is new in Kenya thus this study provides learning materials academicians. The study also shed lights on the unclaimed financial assets the Government of Kenya expects from commercial banks and the returns expected from investing the same.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the literature that relates to unclaimed financial assets and performance of commercial banks in Kenya. It discusses the key theories underlying unclaimed financial assets, develops a conceptual framework and expounds on the research gaps on these assets and financial performance.

2.2 Theoretical Framework

A theory is a reasoned statement or group of statements, which are supported by evidence meant to explain some phenomena. A theory is a systematic explanation of the relationship among phenomena. Theories provide a generalized explanation to an occurrence. Therefore a researcher should be conversant with those theories applicable to his area of research (Kombo and Tromp, 2009, Smyth, 2004). According to Trochim (2006) Aguilar (2009), and Tormo (2006), a theoretical framework guides research, determining what variables to measure, and what statistical relationships to look for in the context of the problems under study. Thus, the theoretical literature helps the researcher see clearly the variables of the study; provides a general framework for data analysis; and helps in the selection of applicable research design.

The theories reviewed and which inform the study are; Loan Pricing Theory, Theory of Multiple Lending, Interest rate charged on borrowers and Effects of Market interest rate to bank profits. The theories reviewed inform the source of the variables of the study and the interactions between the dependent and independent variables.
2.2.1 Loan Pricing Theory

Banks cannot always set high interest rates, e.g. trying to earn maximum interest income. Banks should consider the problems of adverse selection and moral hazard since it is very difficult to forecast the borrower type at the start of the banking relationship (Stiglitz and Weiss, 1981). If banks set interest rates too high, they may induce adverse selection problems because high-risk borrowers are willing to accept these high rates. Once these borrowers receive the loans, they may develop moral hazard behaviour or so called borrower moral hazard since they are likely to take on highly risky projects or investments (Chodecai, 2004). From the these theories, banks can only offer loans if they have cash at their disposal, unclaimed financial assets form apart of available cash.

2.2.2 Theory of Unclaimed Assets

The theory of escheatment provides that until the rightful owner is located, all citizens of the state, rather than an individual holder, derive benefits from the unclaimed property. Unclaimed property law finds its genesis in early English common law where unclaimed property would escheat, or revert, to the king upon abandonment. In modern times, a custodial theory has replaced confiscation. In the United States, the laws of the individual states govern abandoned property and escheatment. The meaning of escheatment has broadened to include property of every kind and description that remits to the state for want of individual ownership. Accordingly, the definition of unclaimed property involves hundreds of categories of property. As a rule of thumb, if a person or entity has a legal or equitable right to the property, then a state’s unclaimed property law governs it.
2.2.3 Hold-up and Soft-Budget-Constraint Theories

Banks choice of multiple-bank lending is in terms of two inefficiencies affecting exclusive bank firm relationships, namely the hold-up and the soft-budget-constraint problems. According to the hold-up literature, sharing lending avoids the expropriation of informational rents. This improves firms’ incentives to make proper investment choices and in turn it increases banks’ profits (Von Thadden, 2004; Padilla and Pagano, 1997). As for the soft-budget-constraint problem, multiple-bank lending enables banks not to extend further inefficient credit, thus reducing firms’ strategic defaults. Both of these theories consider multiple-bank lending as a way for banks to commit towards entrepreneurs and improve their incentives. None of them, however, addresses how multiple-bank lending affects banks’ incentives to monitor, and thus can explain the apparent discrepancy between the widespread use of multiple-bank lending and the importance of bank monitoring. But according to Carletti et al (2006)

2.3 Determinants of Financial Performance in Commercial Banks

The determinants of bank performances can be classified into bank specific (internal) and macroeconomic (external) factors (Al-Tamimi, 2010; Aburime, 2005). These are stochastic variables that determine the output. Internal factors are individual bank characteristics which affect the banks performance. These factors are basically influenced by internal decisions of management and the board. The external factors are sector-wide or country-wide factors which are beyond the control of the company and affect the profitability of banks. The overall financial performance of banks in Kenya in the last two decade has been improving. However, this doesn't mean that all banks are profitable, there are banks declaring losses (Oloo, 2010). Studies have shown that bank specific and macroeconomic factors affect the performance of commercial banks (Flamini et al. 2009). In this regard, the study of Olweny and Shipho (2011) in Kenya
focused on sector-specific factors that affect the performance of commercial banks. Yet, the effect of macroeconomic variables was not included. Moreover, to the researcher's knowledge the important element, the moderating role of ownership identity on the performance of commercial banks in Kenya was not studied. Thus, this study was conducted with the intention of filling this gap.

2.3.1 Bank Specific Factors/Internal Factors

As explained above, the internal factors are bank specific variables which influence the profitability of specific bank. These factors are within the scope of the bank to manipulate them and that they differ from bank to bank. These include capital size, size of deposit liabilities, size and composition of credit portfolio, interest rate policy, labor productivity, and state of information technology, risk level, management quality, bank size, ownership and the like. CAMEL framework often used by scholars to proxy the bank specific factors (Dang, 2011). CAMEL stands for Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity. Each of these indicators are further discussed below.

2.3.1.1 Capital Adequacy

Capital is one of the bank specific factors that influence the level of bank profitability. Capital is the amount of own fund available to support the bank's business and act as a buffer in case of adverse situation (Athanasoglou et al. 2005). Banks capital creates liquidity for the bank due to the fact that deposits are most fragile and prone to bank runs. Moreover, greater bank capital reduces the chance of distress (Diamond, 2000). However, it is not without drawbacks that it induce weak demand for liability, the cheapest sources of fund Capital adequacy is the level of capital required by the banks to enable them withstand the risks such as credit, market and operational risks they are exposed to in order to absorb the potential loses and protect the bank's
debtor. According to Dang (2011), the adequacy of capital is judged on the basis of capital adequacy ratio (CAR). Capital adequacy ratio shows the internal strength of the bank to withstand losses during crisis. Capital adequacy ratio is directly proportional to the resilience of the bank to crisis situations. It has also a direct effect on the profitability of banks by determining its expansion to risky but profitable ventures or areas (Sangmi and Nazir, 2010).

2.3.1.2 Asset Quality
The bank’s asset is another bank specific variable that affects the profitability of a bank. The bank asset includes among others current asset, credit portfolio, fixed asset, and other investments. Often a growing asset (size) related to the age of the bank (Athanasoglou et al., 2005). More often than not the loan of a bank is the major asset that generates the major share of the banks income. Loan is the major asset of commercial banks from which they generate income. The quality of loan portfolio determines the profitability of banks. The loan portfolio quality has a direct bearing on bank profitability. The highest risk facing a bank is the losses derived from delinquent loans (Dang, 2011). Thus, nonperforming loan ratios are the best proxies for asset quality. Different types of financial ratios used to study the performances of banks by different scholars. It is the major concern of all commercial banks to keep the amount of nonperforming loans to low level. This is so because high nonperforming loan affects the profitability of the bank. Thus, low nonperforming loans to total loans shows that the good health of the portfolio a bank. The lower the ratio the better the bank performing (Sangmi and Nazir, 2010).

2.3.1.3 Management Efficiency
Management Efficiency is one of the key internal factors that determine the bank profitability. It is represented by different financial ratios like total asset growth, loan growth rate and earnings growth rate. Yet, it is one of the complexes subject to capture with financial ratios. Moreover,
operational efficiency in managing the operating expenses is another dimension for management quality. The performance of management is often expressed qualitatively through subjective evaluation of management systems, organizational discipline, control systems, quality of staff, and others. Yet, some financial ratios of the financial statements act as a proxy for management efficiency. The capability of the management to deploy its resources efficiently, income maximization, reducing operating costs can be measured by financial ratios. One of this ratios used to measure management quality is operating profit to income ratio (Rahman et al. in Ilhomovich, 2009; Sangmi and Nazir, 2010). The higher the operating profits to total income (revenue) the more the efficient management is in terms of operational efficiency and income generation. The other important ratio is that proxy management quality is expense to asset ratio. The ratio of operating expenses to total asset is expected to be negatively associated with profitability. Management quality in this regard, determines the level of operating expenses and in turn affects profitability (Athanasoglou et al. 2005).

2.3.1.4 Liquidity Management
Liquidity is another factor that determines the level of bank performance. Liquidity refers to the ability of the bank to fulfill its obligations, mainly of depositors. According to Dang (2011) adequate level of liquidity is positively related with bank profitability. The most common financial ratios that reflect the liquidity position of a bank according to the above author are customer deposit to total asset and total loan to customer deposits. Other scholars use different financial ratio to measure liquidity. For instance Ilhomovich (2009) used cash to deposit ratio to measure the liquidity level of banks in Malaysia. However, the study conducted in China and Malaysia found that liquidity level of banks has no relationship with the performances of banks (Said and Tumin, 2011).
2.3.2 External Factors/ Macroeconomic Factors

The macroeconomic policy stability, Gross Domestic Product, Inflation, Interest Rate and Political instability are also other macroeconomic variables that affect the performances of banks. For instance, the trend of GDP affects the demand for banks asset. During the declining GDP growth the demand for credit falls which in turn negatively affect the profitability of banks. On the contrary, in a growing economy as expressed by positive GDP growth, the demand for credit is high due to the nature of business cycle. During boom the demand for credit is high compared to recession (Athanasoglou et al., 2005). The same authors state in relation to the Greek situation that the relationship between inflation level and banks profitability is remained to be debatable. The direction of the relationship is not clear (Vong and Chan, 2009).

2.4 Empirical Literature

Empirical literature review is a directed search of published works, including periodicals and books, that discusses theory and presents empirical results that are relevant to the topic at hand (Zikmund et al., 2010). Literature review is a comprehensive survey of previous inquiries related to a research question. Although it can often be wide in scope, covering decades, perhaps even centuries of material, it should also be narrowly tailored, addressing only the scholarship that is directly related to the research question (Kaifeng and Miller, 2008). Through the use of a systematic approach to previous scholarship, literature review allows a researcher to place his or her research into an intellectual and historical context. In other words, literature review helps the author declare why their research matters (Kaifeng and Miller, 2008).

Kanyi (2013) did a study on effect of unclaimed assets on the financial performance of life assurance companies in Kenya. The purpose of this study was to establish the effect of unclaimed assets on the profitability of life assurance companies in Kenya. The study adopted a
survey research design that included all the life assurance companies in Kenya. The number of life assurance companies was 9 by June 2013. The researcher opted for a census this was a small number. The study made use of secondary data that was collected from published accounts of the life assurance companies in Kenya. The data was analyzed using simple linear regression with unclaimed assets as the independent variable and profitability as the dependent variable. The study revealed that unclaimed assets formed a significant percentage of the profits that were declared by life assurance companies in Kenya before the year 2011. However, after the enactment of the bill on unclaimed assets in 2011, all the life assurance companies were required to submit their unclaimed assets to the government and this significantly affected their total profits. Their profits seemed to significantly drop for the years 2011 and 2012 when the unclaimed assets were removed from the profit and loss. The study concluded that unclaimed assets formed a significant percentage of the profits that were declared by life assurance companies in Kenya before the year 2011. However, after the enactment of the bill on unclaimed assets in 2011, all the life assurance companies were required to submit their unclaimed assets to the government and this significantly affected their total profits. Their profits seemed to significantly drop for the years 2011 and 2012 when the unclaimed assets were removed from the profit and loss accounts of the life assurance companies.

Kimosop (2010) did a comparative study on the management of unclaimed financial assets: Kenya and other developed countries. Kenya has not had a policy on the management of unclaimed assets to date. The development of policy framework would therefore have far-reaching effects for the country’s financial sector. This would also help in achieving financial stability and renewed confidence in the financial sector. With an effective regulatory infrastructure in place, the financial markets will also grow and develop to support other
government programmes that heavily rely on the financial sector. Stability in the financial sector is closely associated with efficiency; but this on its own does not guarantee that the all will be well, stronger systems and structures which are supported by good laws and polices are essential. This explains why it is imperative for a country to devise appropriate laws and policies to guide operations in the financial system. An effective framework is useful in ensuring that there is an enabling environment for all players to conduct business. The absence of a legal framework has led to institutions developing their own internal polices to address the management of unclaimed assets. There are those that disclose them and those that don’t and this is not healthy for the progress of the sectors in the financial system at a time when the global community is moving to adopting best practices in different issues. It is imperative that Kenya moves ahead with the work that it has started in addressing the subject of unclaimed assets, particularly now that it has taken the preliminary steps by appointing a Taskforce to undertake a baseline survey on the issue of unclaimed assets.

A study by Smith, Bergstrom & Yopp (2010) on the unclaimed property audits and their reality on insurance companies established that these audits are quite involving and insurance companies need to ensure they conduct proper reporting of these assets. For instance Diamond (2011) carried out a study on unclaimed property laws and gift cards. The study revealed that the purpose of unclaimed property laws was to reunite the owner and the property though this never takes place most of the time. The study recommended that gift cards should be exempt from the laws. Ryan (2012) carried out a study on the unclaimed assets in banking industry. The study observes that the escheatment of unclaimed assets belonging to customers is a regulation that is most likely to kill the relationship between banks and their customers.
In South Africa, the Association for Savings and Investment South Africa (ASISA)(2012) indicated that it reserves the right to holding and growing unclaimed policy benefits until the rightful owner is found, no matter how long it takes. This was as a reaction to a new law that would deny them the chance to continue holding the unclaimed benefits after some time. The association also indicates that irrespective of the source of the unclaimed assets, the life company must make sure that the money is invested in such a way that the policyholder or beneficiary, once traced, receives an amount in line with the expectation created by the risk policy or investment policy contract.

2.5 Summary of Literature Review

According to the literature reviewed, governments are adopting regulations that are meant to manage the unclaimed assets that are held by financial institutions. The review confirms that studies on the effect of regulations on unclaimed assets and financial performance of companies and other financial institutions are rare in Kenya. It is however clear that other countries unclaimed financial assets is not a new law because content of the same is in the laws that they enacted. Minimal research activity has been seen in this area. This leaves a very huge research gap that has to be filled. This study therefore seek to fills this existing gap.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on methodology that the researcher used to accomplish the already established research objective. This mainly refers to data collection, processing and analysis methods. Data collection instruments and procedures are also discussed as well as the target population and study sample.

3.2 Research Design

Polit and Beck (2003) describe a research design as the overall plan for obtaining answers to the questions being studied and for handling some of the difficulties encountered during the research process. Rajendra (2008) described research design as the linkage and organization of conditions for collection and analysis of data in a manner that aims at combining relevance to the research purpose with economy in the procedure. He further argues that research design focuses on the structure of an enquiry, which leads to the minimization of the chance of drawing the wrong casual inferences from the data. This study used descriptive study of all commercial banks that are operating in Kenya. A descriptive study is one in which information is collected without changing the environment (i.e., nothing is manipulated). A descriptive study is appropriate for this study because it allows the researcher to examine the effect of unclaimed assets on the financial performance of banks across the same industry.

3.3 Population of the study

The total population is the entire spectrum of a system or process of interest. It is the universe of people to which the study can be generalized (Johnston and VanderStoep, 2009). The target
population was all the commercial banks that are operating in Kenya. CBK (2013) reported that the Kenyan banking sector comprised of 43 commercial banks. A census survey of all the banks was undertaken.

### 3.4 Data Collection

The study used secondary data of published financial reports of commercial banks and reported unclaimed financial assets. Kothari (2004) defines secondary data as data that is already available, referring to the data which have already been collected and analyzed by someone else. Polit and Beck (2003) explain that secondary research involves the use of data gathered in a previous study to test new hypotheses or explore new relationships. They also indicate that secondary analysis of existing data is efficient and economical because data collection is typically the most time-consuming and expensive part of a research project. The data for this study relates to a duration of ten years from 2004-2013. The study made use of data on profitability as well as data on interest earned from unclaimed financial assets by commercial banks in Kenya.

### 3.5 Data Analysis

The study used multiple linear regression analysis to test the statistical significance of the various independent. Regression analysis is a statistical tool for the investigation of relationships between variables. Usually, the investigator seeks to ascertain the causal effect of one variable upon another. The general purpose of multiple regressions (the term was first used by Pearson) (1908)) is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable. The study used descriptive survey research design According to Polit and Beck (2003) in a descriptive study, researchers observe, count, delineate, and classify. They further describe descriptive research studies as studies that have, as
their main objective, the accurate portrayal of the characteristics of persons, situations, or groups, and/or the frequency with which certain phenomena occur. The researcher also used graphs to demonstrate linear relationship between the variables.

3.5.1 Analytical Model

The majority of studies on bank profitability, such as Athanasoglou et al. (2005), Goddart et al. (2004) and Ali et al. (2011), use linear regression models to estimate the impact of various factors that may be important in explaining bank profits. In this study multiple regression analysis helps the researcher discover the relationship and the level of significance of each variable that contribute to profitability of a commercial bank. To examine the effects of unclaimed financial assets to the financial performance of commercial banks, the researcher employed the following specification of the empirical model:

\[ \text{ROA}_t = C + \alpha_1 \text{CAP}_t + \alpha_2 \text{ASQ}_t + \alpha_3 \text{LIQ}_t + \alpha_4 \text{UFA}_t + \alpha_5 \text{CIR}_t \]

Where:
- \( \text{ROA}_t \) = Profitability of bank at time \( t \) - 
- \( \text{CAP}_t \) = Capital adequacy of bank at time \( t \)
- \( \text{ASQ}_t \) = Asset quality of bank at time \( t \)
- \( \text{LIQ}_t \) = Liquidity of bank at time \( t \)
- \( \text{UFA}_t \) = Unclaimed Financial Assets at time \( t \)
- \( \text{CIR}_t \) = Operational cost efficiency of bank at time \( t \)

Where \( t = 2004 \ldots 2013 \), \( C_i \) = constant for Commercial bank (fixed effects), \( \alpha \) = bank specific factors coefficients.
The study used both a t-statistic and F-test at 5% significant level to determine the significance of the variables.

The variables are measured as follows:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability (ROA)</td>
<td>Ratio of profit before tax to total assets.</td>
</tr>
<tr>
<td>Capital Adequacy</td>
<td>Ratio of total equity to total assets</td>
</tr>
<tr>
<td>Asset Quality</td>
<td>Ratio of non-performing loans to gross loans. Higher ratio indicates poor asset quality</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Ratio of liquid assets to total liability deposits.</td>
</tr>
<tr>
<td>Unclaimed Financial</td>
<td>Ratio of interest earned on unclaimed assets (interest on dormant accounts) to gross loans</td>
</tr>
<tr>
<td>Assets</td>
<td></td>
</tr>
<tr>
<td>Operational Cost efficiency</td>
<td>Ratio of operating costs (staff wages and administrative expenses) to net operating income (net interest income, net foreign exchange income, net fees and commission, and other income). Higher ratio indicates inefficiency</td>
</tr>
</tbody>
</table>
CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The purpose of this study was to establish the effect of unclaimed financial assets on the performance financial of commercial banks in Kenya. The study made use of secondary data that was collected from published accounts of commercial banks in Kenya and consolidated in Central bank supervisory annual reports. The researcher was able to collect data from Central bank annual supervision report on all 43 Commercial banks in Kenya.

4.2 Description of Variables

Table 4.2 presents the descriptive statistics of the specific variables bank specific that determine the financial performance of commercial banks in Kenya. As indicated in the Table, the average capital ratio of Commercial Banks in Kenya was 0.1412. The figure is above the 8% statutory requirement set by CBK (Olweny and Shipo, 2011).

Table 4.2 Descriptive Statistics of Independent Variable

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return On Assets</td>
<td>.038350</td>
<td>.0069273</td>
<td>10</td>
</tr>
<tr>
<td>Capital Adequacy</td>
<td>.141160</td>
<td>.0136494</td>
<td>10</td>
</tr>
<tr>
<td>Assets Quality</td>
<td>.038531</td>
<td>.0254409</td>
<td>10</td>
</tr>
<tr>
<td>Liquidity</td>
<td>.028350</td>
<td>.0033550</td>
<td>10</td>
</tr>
<tr>
<td>Unclaimed Financial Assets</td>
<td>.036570</td>
<td>.0375810</td>
<td>10</td>
</tr>
<tr>
<td>Cost Of Operation</td>
<td>.695930</td>
<td>.0419656</td>
<td>10</td>
</tr>
</tbody>
</table>

This shows that the Kenyan commercial banks hold more capital than required. This could imply that banks could prefer less risky investment, which results in lower profit. The average asset
quality of the commercial banking sector in the stated period was as high as 0.3853. This shows the existence of high exposure to credit risk and has relationship negative with profit. The Liquidity which was derived by liquid assets to total liability deposits shows 0.2835. This shows that banks keep more than the statutory liquidity requirement. Customer deposit is one of the cheapest sources of fund due to the high margin between deposit and lending rate that banks utilize to generate income. Moreover, the figure shows that commercial banks in the country target domestic resources, mainly customer deposit, for their banking business. Another important factor which is the key objective of the study in unclaimed financial assets shows 0.3857. Management efficiency, proxied by operating income to total income was 0.6959 on average. It shows that in Kenya approximately 69% of commercial banks income is derived from the conventional intermediation (operating) function.

4.3 The Relationship between Financial Performance and Determining Factors

The researcher assessed the general relationship between two variables before subjecting them to multiple linear regression analysis to ascertain whether there are linearly related or not. This section therefore aimed at establishing the relationship between the financial performance of commercial banks and the five determining factors.

4.3.1 The Relationship between Financial Performance and Capital Adequacy

The results presented in figure 4.3.1 indicate that the capital adequacy ratio \((\text{CAP})\) is positively related to return on assets \((\text{ROA})\), the financial performance measure. The coefficient of correlations is 0.895 which indicates that the relationship is strong. These results provide reasonable evidence to the consistent view that, the higher the capital levels, the higher the
profitability. Generally banks that depends more on leverage will experience more volatile earnings and this also affects the credit creation and liquidity function of the banks.

Figure 4.3.1: Relationship Analysis, Financial Performance and Capital Adequacy

4.3.2 The Relationship between financial performance and Assets Quality

Figure 4.3.2 presents the relationship between assets quality or credit risk and profitability. It is clear from this figure that there is a negative and strong relationship between poor assets quality and profitability as the plots are clustered strongly around the trend and the coefficient of correlation is -0.867. This means banks which fail to monitor their credit loans tend to be less profitable than those which pay particular attention to assets quality.
4.3.3 The Relationship between Financial Performance and Liquidity

Figure 4.3.3 shows a correlation coefficient of 0.576 between profitability and liquidity, indicating a positive correlation between the two variables. This shows evidence that liquid banks are associated with better profitability.
4.3.4 The Relationship between Financial Performance and Unclaimed Financial Assets

Figure 4.3.4 shows a correlation coefficient 0.804 between profitability and unclaimed Financial Assets, indicating a positive correlation between the two variables this shows evidence that the higher the unclaimed financial assets are the higher the interest earned on them hence associated with better profitability.

![Figure 4.3.4: Relationship between Financial Performance and Unclaimed Financial Assets](image)

4.3.5 The Relationship between Financial Performance and Operational Costs Efficiency

The nature of the relationship that exists between operating costs and profitability is presented in Figure 4.3.5. The coefficient of correlation(r) of -0.977, suggests a strong negative correlation between profitability and Operational costs. This simply means the higher the operation cost the lower the profitability of a bank.
4.4 Results for the Effects of Unclaimed Financial Assets on Financial Performance of Commercial Banks

The relationship analysis has shown that all the variables are somehow related to profitability. The aim of this section is to explore in detail the above relationships by using regression analysis which is more robust that the scatter plot analysis.

4.4.1 Summary Statistics of Regression Model

Table 4.4.1 reports the summary statistics of the regression model. The R2 of the analysis regression was 0.985, R was 0.993, and Std. Error of the Estimate reads 0.00126.
Table 4.4.1 Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.993^a</td>
<td>.985</td>
<td>.967</td>
<td>.0012562</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Cost Of Operation, Liquidity, Unclaimed Financial Assets, Capital Adequacy, Asset Quality

The R2 is a measure of the goodness of fit of the determining factors variables in explaining the variations in commercial bank financial performance. This means the variables jointly explain about 99% of the variation in the profitability of banks. Thus these variables collectively, are good explanatory variables of the profitability of commercial banks in Kenya. R value is 0.993 which represent multiple correlation coefficients. R can be considered to be one measure of the quality of the prediction of the dependent variable 0.993 indicates a high degree of correlation. Std. Error of the Estimate - This is also referred to as the root mean squared error. It is the standard deviation of the error term and the square root of the Mean Square, 0.001 show a very low std error thus the accuracy of the variables.

4.4.2 Regression Results for the Relationship between Commercial Bank Financial Performance and Its Determinants

This section presents the relationship between the identified commercial banks independent variables and its relationship with bank financial performance as expressed by ROA and also the relationship among the variables. The coefficients shows the magnitude and direction of the relationships, whether it is strong, weak positive or negative. The higher the values the stronger the relationship, and the smaller the coefficient is an indicator of a weak relationship. The sign
also shows the direction of the relationship. The positive sign shows a positive relationship and the negative shows the opposite.

**Table 4.4.2 Correlations among the Variables**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Return On Assets</td>
<td>1.000</td>
<td>.895</td>
<td>-.867</td>
<td>.576</td>
<td>.804</td>
<td>-.977</td>
</tr>
<tr>
<td>Capital Adequacy</td>
<td>.895</td>
<td>1.000</td>
<td>-.733</td>
<td>.565</td>
<td>.690</td>
<td>-.844</td>
</tr>
<tr>
<td>Asset Quality</td>
<td>-.867</td>
<td>-.733</td>
<td>1.000</td>
<td>-.580</td>
<td>-.633</td>
<td>.854</td>
</tr>
<tr>
<td>Liquidity</td>
<td>.576</td>
<td>.565</td>
<td>-.580</td>
<td>1.000</td>
<td>.176</td>
<td>-.545</td>
</tr>
<tr>
<td>Unclaimed Financial Assets</td>
<td>.804</td>
<td>.690</td>
<td>-.633</td>
<td>.176</td>
<td>1.000</td>
<td>-.755</td>
</tr>
<tr>
<td>Cost Of Operation</td>
<td>-.977</td>
<td>-.844</td>
<td>.854</td>
<td>-.545</td>
<td>-.755</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Gujarati (2007) has pointed that secondary data must be subjected to econometrics test as there could be multicollinearity problem presence. Multicollinearity may be said to be observed when two or more independent variables as a combination predict a very substantial percentage of another independent variable's variance. According Gujarati (2007) as a rule of thumb, if the VIF of a variable exceeds 10, which will happen if $R^2_i$ exceeds 0.90, that variable is said to be highly collinear. Table 4.4.2 shows that correlation between Cost of Operation to Capital Adequacy and Asset Quality is -0.844 and 0.854 respectively. Researcher maintained these variables because they are key determinants of financial performance of Commercial banks.

**4.5 Analysis of Variance (ANOVA)**

Analysis of Variance (ANOVA) consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance.
Table 4.5 ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.000</td>
<td>5</td>
<td>.000</td>
<td>53.941</td>
<td>.001</td>
</tr>
<tr>
<td>Residual</td>
<td>.000</td>
<td>4</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>.000</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Return On Assets

b. Predictors: (Constant), Cost Of Operation, Liquidity, Unclaimed Financial Assets, Capital Adequacy, Asset Quality

The $F$-ratio in the ANOVA (table 4.5) tests whether the overall regression model is a good fit for the data. The table shows that the independent variables statistically significantly predict the dependent variable, $F(5, 4) = 53.941, p < 0.05$ thus the regression model is a good fit of the data.

4.6 Coefficients Regression Analysis

Table 4.6 summarizes the results of regression equation. Column B in the table gives the values of regression coefficients and the constant, which is the expected value of the dependent variable when the values of the independent variables equal zero.
Table 4.6 Coefficients Regression

<table>
<thead>
<tr>
<th>Variables</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Lower Bound</td>
</tr>
<tr>
<td>(Constant)</td>
<td>.086</td>
<td>.024</td>
<td></td>
<td>3.624</td>
<td>.022</td>
</tr>
<tr>
<td>Capital Adequacy</td>
<td>.091</td>
<td>.061</td>
<td>.179</td>
<td>1.478</td>
<td>.213</td>
</tr>
<tr>
<td>Asset Quality</td>
<td>-.024</td>
<td>.033</td>
<td>-.087</td>
<td>-.719</td>
<td>.512</td>
</tr>
<tr>
<td>Liquidity</td>
<td>.166</td>
<td>.182</td>
<td>.080</td>
<td>.913</td>
<td>.413</td>
</tr>
<tr>
<td>Unclaimed Financial Assets</td>
<td>.033</td>
<td>.020</td>
<td>.179</td>
<td>1.670</td>
<td>.170</td>
</tr>
<tr>
<td>Cost Of Operation</td>
<td>-.095</td>
<td>.027</td>
<td>-.573</td>
<td>3.561</td>
<td>.024</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Return On Assets

Table 4.6 allows the researcher to specify multiple models in a single regression command and the number of the model being reported. The 2nd Column shows the predictor variables (constant, CAP, ASQ, LIQ, UFA and CIR). The first variable (constant) represents the constant, also referred to as the Y intercept, the height of the regression line when it crosses the Y axis. In other words, this is the predicted value of science when all other variables are 0. The research equation was ROAt = Ci+α1CAPit +α2ASQit+α3LIQit+ α4UFAit +α5CIRit, the results of the coefficient variables can be rewritten as follows;

ROAt = 0.86 + 0.91CAP – 0.024ASQ + 0.166LIQ + 0.033UFA – 0.95CIR
At 95% significant confidence level, all coefficients shows P-values are greater than 0.05 thus not statistically significant. The researcher relied on the F-test showed that the independent variables statistically significantly predict the dependent variable, $F(5, 4) = 53.941, \ p < 0.05$ thus the regression model is a good fit of the data.

4.7 Chapter Summary

The overall objective of this study was to examine the effects of unclaimed financial assets on the financial performance of commercial banks in Kenya. To achieve these objectives ten years data for 43 commercial banks consolidated report was analyzed using linear multiple regression. In this study the effect of determinants on the financial performance of banks as expressed by Return on Assets (ROA) was evaluated. Both The scatter plot analysis and multiple regression analysis have shown that unclaimed financial assets as an independent variable has a significantly effects the financial performance of commercial banks in Kenya. The correlation coefficient of unclaimed financial assets with ROA was 0.804 at 95% confidence level.
5.1 Introduction

This chapter presents the summary of findings in section 5.2; the conclusions in section 5.3; the limitations of the study section 5.4; and recommendations for further research in section 5.5.

5.2 Summary of the Study

The purpose of this study was to establish the effect of unclaimed financial assets on the financial performance of commercial banks in Kenya. The study used secondary data that was collected from Central Bank Supervisory report of all Commercial banks in Kenya for a period ten years (2004-2013). The researcher first assessed the general relationship between each specific determining variables (independent) to the dependent variables (ROA) before subjecting them to multiple linear regression analysis to ascertain whether there are linearly related or not. The data was analyzed using multiple linear regressions with unclaimed financials assets as the independent variable and financial performance of commercial as the dependent variable. The reliability was tested through statistical package for social sciences (SPSS). Correlation coefficient was used to satisfy the reliability tests.

The findings of the study revealed that the all the independent variables considered collectively and individually have an effect on commercial banks financial performance either positively or negatively. For instance capital Adequacy, Liquidity, and Unclaimed Financial Assets both showed a positive coefficient correlation with ROA of 0.895, 0.576, and 0.804 respectively. This means that these independent variables provided reasonable evidence that a strong positive relationship exist between them and the financial performance of commercial banks, hence the
higher these variables are the higher the profitability. On the other hand relationship results between ROA and Asset Quality and Operational Cost Efficiency showed a negative coefficient correlation of -0.867 and -0.977 respectively. This means that there is a negative relationship between these two variables and the profitability of the bank. The higher the risk involved in Asset Quality and the higher the Operation Cost, the lower the profit of a bank will be.

The objective of the study was to set to establish the effect of Unclaimed Financial Assets on Financial performance of Commercial banks in Kenya. The study revealed that unclaimed financial assets raised a significant amount of interest to the commercial banks which contributed positively to its profit. Commercial banks lock these unclaimed financial assets in a suspense account but continue to earn interest. As stated above the coefficient correlation was observed to be 0.804, thus showing a strong positive relationship with banks profitability.

5.3 Conclusions

Results of the study showed that Unclaimed Financial Assets positively correlates with financial performance of commercial banks in Kenya. The new Unclaimed Financial Assets Act requires all holding institutions of these assets to hand them over to the Unclaimed Financial Assets Authority. The Act states that all the holding institutions should declare these assets and surrender to the Authority on 1st November every year. So far the Commercial banks have not complied with the Act, simply because the Authority is yet to finalize its adminstrave and operational structures, hence the commercial banks are still enjoying holding these assets.

According to Hartlage (2011) most banks use customer deposits as the raw materials for lending. Low- or non-interest bearing deposits, such as demand deposits and savings deposits, are particularly important to lenders due to their low cost. The more low- or non-interest bearing
deposits held by a bank, the higher the bank's flexibility to either lend to higher-risk customers or reduce customer lending rates. Additionally, banks are attracted to consumer-held savings and demand deposits because they are stable. Absent a bank run, these deposits are unlikely to be withdrawn all at once, allowing banks with large balances of such deposits to expand lending to more customers at lower interest rates. However, these low- or non-interest bearing deposits are also the financial assets most commonly forgotten or lost by consumers, and therefore are among the most common assets to end up in administration by state governments. Once these assets are transferred, banks may no longer use these monies for lending, which both constrains the supply of credit and increases the banks' average cost of funds.

Based on the findings of the study, it can be concluded that unclaimed financial assets influence financial performance of commercial banks in Kenya positively. With the new law of unclaimed financial assets, the banks are required to transfer these unclaimed assets to the unclaimed financial assets authority. Once Commercial banks surrender these assets to the authority, they cease from earning any benefit/interest from assets thus affecting its financial performance.

### 5.4 Limitations of the Study

Unclaimed Financial Assets Act is new in Kenya and Africa as a whole. The bill was passed in the year 2011 thus, it is still a green area where little or less have been documented on it or researched. The researcher found only two researches relating to the subject which were done in Kenya. The first research was done by Kimosop in 2010 on the management of unclaimed financial assets in Kenya and other developed countries and the second one was done in 2013 by Kanyi on effect of unclaimed assets on the Performance of life assurance companies in Kenya. On the same note little materials were at researcher disposal for comparison purposes.
Accessing data on unclaimed assets for the years in question was a big challenge since it is not directly disclosed in the published accounts of the specific commercial banks. The researcher used a more detailed central bank supervisory annual report that simplify and regroups these commercial banks published annual reports. This report breaks down all the types of income and interest earned or received by banks. There is also no clear policy in Kenya on how banks are to disclose or report these unclaimed financial assets. Most banks just disclose the number of accounts dormant during the year of reporting rather than the values or amounts of these dormant/unclaimed assets.

5.5 Recommendations for Further Research

During the duration of the research, the commercial banks have not yet complied with the law to surrender these unclaimed financial assets to the Government of Kenya. It will be important for this study to be replicated once the banks transfer these assets to the UFAA to observe the trend by then, this will show the comparison analysis before and after the commercial banks comply with the law hence a clear picture of the implication will be tested.

According to Unclaimed Financial Asset Act, these assets are classified as dormant accounts in the banks, unpaid/unpresented cheques, schools unclaimed caution money, unclaimed dividends, unclaimed shares, unpaid wages, unclaimed pensions, unclaimed life insurance covers, uncollected lottery wins unclaimed electricity and water deposits e.t.c. From the definitions unclaimed assets bill affects many other institutions including private companies. It will be important to carry out the same study in another industry for comparative reasons. This will assist in establishing the effect of unclaimed financial assets in other industries other than the commercial banks. There is also a need to research on mobile phones money unclaimed in terms
of Mpesa, Mshwari, and un utilized air time. The current Bill does not cover the mobile phone banking.

Kanyi (2013) did a study on effect of unclaimed assets on the financial performance of life assurance companies in Kenya. The purpose of this study was to establish the effect of unclaimed assets on the profitability of life assurance companies in Kenya. The study adopted a survey research design that included all the life assurance companies in Kenya. However during the time the research was done to date these life assurance companies have not surrendered these unclaimed asset thus it is recommendable for further study after these are transferred to the Authority.

Kimosop (2010) explained that in developed countries like USA, Australia, where Unclaimed Financial Assets are surrendered to states, approximately only 10% of these assets are claimed by the owners, the 90% remain unclaimed thus used for developmental and charity projects. On the same page, it is idea for a study to be carried on what volumes are claimed by the legitimate owners, the volumes of these unclaimed assets held by the Authority, the amount used for developmental or charity projects and impact to the Kenya economy as a whole.
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APPENDICES

Appendix I: Licensed commercial banks in Kenya

1) African Banking Corporation Limited (ABC) Bank (Kenya)
2) Bank of Africa
3) Bank of Baroda
4) Bank of India
5) Barclays Bank (Kenya)
6) Citi Stanbic Holdings
7) Chase Bank (Kenya)
8) Citibank
9) Commercial Bank of Africa
10) Consolidated Bank of Kenya
11) Cooperative Bank of Kenya
12) Credit Bank
13) Development Bank of Kenya
14) Diamond Trust Bank
15) Dubai Bank Kenya
16) Ecobank
17) Equatorial Commercial Bank
18) Equity Bank
19) Family Bank
20) Fidelity Commercial Bank Limited
21) First Community Bank
22) Giro Commercial Bank
23) Guaranty Trust Bank
24) Guardian Bank
25) Gulf African Bank
26) Habib Bank
27) Habib Bank AG Zurich
28) Housing Finance Company of Kenya
29) I&M Bank
30) Imperial Bank Kenya
31) Jamii Bora Bank
32) Kenya Commercial Bank
33) K-Rep Bank
34) Middle East Bank Kenya
35) National Bank of Kenya
36) NIC Bank
37) Oriental Commercial Bank
38) Paramount Universal Bank
39) Prime Bank (Kenya)
40) Standard Chartered Kenya
41) Trans National Bank Kenya
42) United Bank for Africa
43) Victoria Commercial Bank