EFFECT OF UNCLAIMED FINANCIAL ASSETS ON THE FINANCIAL PERFORMANCE OF DEPOSIT TAKING SAVINGS AND CREDIT COOPERATIVES IN KENYA

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DECLARATION

I declare that this research is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

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D61/6309/2017

This Research Project has been submitted for examination with my approval as the University of Nairobi Supervisor.

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ABBREVIATIONS AND ACRONYMS

BOSA   Back Office Service Activity

CAEL   Capital Adequacy, Asset Quality, Earnings and Liquidity

CAMEL   Capital Adequacy, Asset Quality, Management Quality, Earnings and Liquidity

DT –Sacco   Deposit taking Savings and Credit Cooperative

FOSA   Front Office Service Activity

ROA   Return on Asset

SACCOS   Savings and Credit Cooperative Society

SASRA   Sacco Society Regulatory Authority

SPSS   Statistical Package for Social and Statistical Scientists

UFAA   Unclaimed Financial Assets Authority

ABSTRACT

Kenya in 2011 enacted into law the Unclaimed Financial Assets Act to regulate the management of all unclaimed financial asset. The Act requires holding institutions to declare and surrender these assets to the authority by 1st of November every year and established the Unclaimed Financial Assets Authority (UFAA) mandated to obtain, safeguard and reunite unclaimed assets to their rightful owner. A survey done by UFAA in October 2018 estimates that the Sacco held three percent of the total unclaimed financial assets yet to be handed over to the authority, this means that of the estimated Ksh. 241.1 billion unclaimed financial assets being held by about 477,000 institutions, Ksh 7.2 billion was in circulation within the 174 DT Saccos, this mostly being abandoned members dividends, deposits and share capital. The objective of this study was to establish the effect of unclaimed financial assets on the performance of Deposit Taking Saccos in Kenya. The study used secondary data in published financial statements for the period 2014-2018. Statistical Package for Social Science (SPSS) was used for the analysis of data of 15 Deposit Taking Saccos operating in Nairobi County which was subjected to multilinear regression. The study results show that Unclaimed Financial Assets had a significant positive correlation with Return on Assets as a measure of financial performance. This could be interpreted to mean that if the Saccos were to submit this the unclaimed assets held the authority the ROA would drastically reduce. This is the most expected outcome as the regulator gets up for increased collection by putting in place a policy framework initially lacking. The Saccos will also be faced with stiffer penalties on failure to declared and remit unclaimed assets as required by the acts as required to be done every 1st of November for every 12 months period ending 30th June, this penalties may as well wipe out any gains made by the Saccos during the period of non-compliance.

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

The House of Commons Finance Committee (2007) report on unclaimed financial assets reported that Banks and Building Societies in the UK held approximately £400 million to £500 million in dormant accounts having lost contact with the asset owner. The government had therefore proposed to establish an unclaimed asset scheme where these unclaimed funds would be put to productive use while continuing to recognize the ongoing right of original owner or their beneficiaries to reclaim their funds.

At almost the same time the Kenya Ministry of Finance (2008) report indicated that banks and financial institutions held unclaimed financial assets running to up to Ksh.200 billion continuing to circulate within the financial systems. The report further indicated that it was estimated that about 60% of the unclaimed assets may never be reunited to their owners or legal beneficiaries due to passage of time, death of owners, missing records, lack of assets tracking mechanism, absence of legal and regulatory requirement for institutions to make declaration.

In 2011, Kenya enacted into law the Unclaimed Financial Assets Act. The Act requires holding institutions to declare and surrender these assets to the authority by 1st of November every year and led to the formation of the Unclaimed Financial Assets Authority (UFAA) mandated to obtain, safeguard and reunite unclaimed assets to their rightful owner. A survey done by UFAA in October 2018 estimated that the Sacco held three percent of the total unclaimed financial assets yet to be handed over to the authority, this means that of the estimated Ksh. 241.1 billion unclaimed financial assets being held

by about 477,000 institutions, Ksh 7.2 billion was in circulation within the 174 DT Saccos, this mostly being abandoned members dividends, deposits and share capital (UFAA, 2018).

The history of cooperatives in Kenya date back to 1908 when the 1st cooperative was formed, by the year 1969, over one thousand eight hundred (1800) society's had been registered, currently there are more than 14,000 registered cooperative societies operating in Kenya. Sacco Society's Regulatory Authority (2015) guidelines on good governance indicated that Cooperatives are founded and operate on the core values of cooperation such as democracy, equality, equity, mutual self-help, openness and social responsibility, these principles are based on the notion of brotherhood and human development conveyed through working together to bring about a better life for all.

1.1.1 Unclaimed Financial Assets

Unclaimed assets refers to an item of value held by one party but belongs to another who has failed to transact with the account or item for a defined period of time, this item could in form of be a dormant bank accounts, a payroll or dividend or traveler's cheque that was never cashed, stock, refunds and unredeemed gift cards (Teagan, 2011).

The Unclaimed Financial Assets Act (2011) defines unclaimed assets as assets presumed abandoned and have become unclaimed assets as guided by the Act, assets surrendered to the UFAA under the Act, and those assets that have been deemed unclaimed and payable to the authority under any other law, including all income, dividend or interest thereon but excludes any lawful charge thereon. According to the said Act, in addition to the assets listed by Teagan (2011) these assets include life endowment insurance policy or

annuity contracts, deposits for utility services, assets held in a deposit or safe custody box among other assets presumed abandoned under the Act.

Before 2011 Kenya did not have a well-developed and institutionalized policy framework in place to guide and direct institutions in handling unclaimed assets. This led the financial institutions within the sector to devise their own way to manage them (Kimosop, 2010). SASRA (2010) Regulation 27 indicates that a Sacco Society shall deem an account as dormant if there were no transactions made therein for duration of six months. It also provides that funds due to a member may be deemed abandoned where the principal member or his nominee has not contacted the Sacco Society in person or in writing or in any other way indicating an interest in the funds within a period of five years. The Regulations further directs the board of the Sacco Society to give the member or nominee a ninety day notice to the last known address advising them of its intention to close the account and transfer the abandoned asset to the public trustee. Where the member or nominee cannot be traced, the board of directors may, upon approval of the members' Annual General Meeting, transfer the funds to the public trustee, notifying the member or other interested party of the action taken using the last known address. In the United Kingdom, courts have criticized the legality of some unclaimed property laws that seem more focused on revenue generation than reuniting the asset to its actual owners.

1.1.2 Financial Performance

Financial performance is the measure of a firm's overall financial health. It reports of how a firm's assets are being utilized in the conduct of its primary business and in revenue generation. Financial performance measures are used by analysts and investors to

compare similar firms, industries or sectors in aggregate. Ginevicius and Askoldas (2011) define financial analysis as the process of determining the firm's financial and operational characteristics with an objective of determining the company's leadership performance.

The Central Bank of Kenya (2017) used CAMEL ratings to measure performance of banks in Kenya while according to SASRA (2016) Capital Adequacy, Asset Quality, Earnings and Liquidity (CAEL) remain the key measure of the financial soundness and stability of DT-Saccos. Muriuki (2010) simply defined Sacco financial performance as a measure of a Sacco's financial operations in economic terms. SASRA (2017) report indicates that to remain relatively competitive as alternative financial institution, DT-Saccos need to mobilize and retain member's funds more aggressively than they are demanded for loans, reporting that in 2017 the aggregate loan to deposit ratio remained above 108% for the second year running, while the desire ratio was 70-80%. This implies that Saccos lent out more than their entire deposit portfolio leaving no room for alternative investments.

1.1.3 Unclaimed Financial Assets and Financial Performance

Ngoley (2014) indicates that commercial banks locked unclaimed assets in suspense account and continue to earn interest from them, at the time of her study the banks were yet to comply with the Unclaimed Financial Assets Act majorly due to the authority's lack of administrative and operational structure. Globally, businesses and other holders are however seen to be making all effort to avoid surrendering the assets to the government, this commonly involved including a provision in the contract that surrenders

the right of ownership to property to the holder prior to the time it would escheat. For example, an instrument issued by a business may contain a statement declaring that if the owner fail to negotiate the instrument within a certain period, the property ownership will automatically reverts back to the business (private escheat), a practice seen by majority of courts as directly aimed at circumvention of public policy in attempt to avoid compliance.

The theories guiding this study were the unclaimed assets theories, the loan pricing theory and agency theory. Unclaimed financial asset is the independent variable while DT-Sacco financial performance is the dependent variable. This study seeks to assess the impact that unclaimed assets held in DT-Saccos have on their financial performance.

1.1.4 Deposit Taking Savings and Credit Co-operatives Societies in Kenya

Financial Sector Regulators Forum (2018) report for the year 2017 indicated that the Kenya's financial sector consist of deposit taking institutions and Non-deposit taking institutions. The deposit taking institutions comprise of commercial banks, mortgage finance companies, Microfinance banks and deposit taking Sacco while Non deposit taking institutions comprise of insurance industry, pension industry, capital markets industry and development finance institutions, and financial markets infrastructure providers.

World Bank (2016) report on Kenya country Economic Memorandum indicated that Saccos form an important segment of Kenya's financial sector that help in channeling savings to investment, particularly in rural areas noting that SASRA had outlined policy reforms aimed at allowing prudentially supervised Saccos to access the payment system if they met the operational requirements and expand the liquidity management system.

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SASRA (2017) reported that an upward growth trend continued in 2017 total assets grew by 12.4% to increase to Ksh.442.27 billion, with the loan book growing by 11.29% to Ksh.331.2 billion while deposits increased by 12% to Ksh.305.3 billion.

SASRA (2017) supervisory report indicated that unlike other countries in the world, the Kenyan Sacco subsector is divided into two; primarily differentiated by the type of deposits mobilized from their membership, first segment is the deposit taking Saccos and the other is Non deposit-taking Saccos, the former offers front office services (FOSA) by taking savings/fixed deposits and offer current accounts services over and above the Back office services (BOSA), the latter only offers back office services (BOSA) through mobilization of deposits from members which are used as multiplier and collateral for loans. The report observed that while DT- Saccos remain a key player in the economy, the financial sector deposit taking business is predominantly controlled by the commercial banks. SASRA (2011) supervisory report observed that even though some Saccos continued to upgrade the management information systems, the overall business automation among the DT-Saccos was largely low, this was due to lack of adequate technical capacity within the sub-sector to allow optimization while reducing the risks involved.

Opiyo (2013) indicated that just like with commercial banks where you have to open an account before you can be allowed to have a savings plan, you must first buy shares in a Sacco to become a member. Every Sacco has a minimum share capital payable in lump sum or in instalments, it is no refundable and only transferable upon leaving the Sacco, it is advisable to look for a member to whom you can transfer your shares if you plan to

exit. He further indicated that unlike savings schemes offered by commercial banks where the customer can put away something if he wishes, a Sacco saving scheme is not optional and is strictly regular. This means monthly contributions must be maintained throughout the course of membership without default, this is primarily because Saccos unlike banks rely on Members savings and shares as their only source of capital to lend out. This therefore means that Sacco share capital is retained and dividend continues to accumulate once a member exits the Sacco and is not able to transfer the share capital to another member and may eventually ends up being unclaimed, this is compounded by the fact that Saccos have been slow in adopting information technology with translates to poor member data management.

1.2 Research problem

The Unclaimed Financial Assets Act no.40 of 2011 is evidently fairly new in Kenya but not to the world as Kanyi (2013) indicates that most countries have put in place such laws. The Act requires all institutions to declare and surrender unclaimed assets that were held for the period ended 30th June, to the unclaimed assets authority on 1st November of every year. The requirement to declare and submit unclaimed asset is seen as a government strategy to raise additional revenue to finance public expenditure. Before passing of the Act into Law, most holders treated any unclaimed assets as part of their own income and therefore the requirement to transfer the asset to the government was unwelcomed and is seen negatively impact the financial status of the holders (Kanyi, 2013).

UFAA (2018) baseline survey estimated that the Saccos contribute three percent of the total outstanding unclaimed financial assets holding but have only surrendered one percent of the abandoned assets. SASRA (2017) Annual supervision report shows that dormant membership constituted 13.41% of the total membership down from 14.84% in 2015. They also reported that majority of complaints reported by Sacco members to the Authority in the year 2017 where on claims to refund savings/deposits accounting for 48% of the total complaints. This showed that Saccos were not strictly observing the regulation that requires that refunds of the non-withdrawable deposits are done within sixty days upon receiving membership withdrawal notice. Kimosop (2010) in his research on unclaimed assets noted that the Cooperative societies Act (1997) did not provide explicitly the mechanism for managing unclaimed assets that have been abandoned or forgotten by members, the law then did not obligate a cooperative society to refund or remit the shares of the deceased member and it therefore acts when circumstances occur on its own discretion and in most cases out of goodwill which makes it subject to abuse particularly when you have a big membership and weak systems in place.

Teagan (2011) urges that since states/governments cannot be declared bankrupt, the owner's property is protected while it rest in the hands of the state from this inherent risk faced by individual holder. He noted that while owners can claim for abandoned property from the bankruptcy estate, these efforts does not assure the owner or their beneficiaries a complete repossession. US chamber (2014) however notes that in times of budget constraints, Governments have adopted aggressive collection of unclaimed assets to cover their deficit. It further indicates that the value of unclaimed property nearly doubled in the past decade due to aggressive interpretation and enforcement of laws on unclaimed

assets, this including use of private auditors to make collection for the state for a contingency fee. It is estimated that presently New York state has unclaimed property worth over $12 billion collected since the year 1942.

Since enactment of the Unclaimed Financial Assets Act, compliance has been growing at a steady rate, Nyanga'u (2016) however observed that most banks were yet to comply to the directive to the letter. He further noted that banks prefer to use customer savings and deposits due to their low cost which offering banks the funds to lend to high risk borrowers or lend at a lower rate. The UFAA reported a low rate of reporting and surrender of unclaimed financial assets, the Authorities mandated is to receive, safeguard and reunite unclaimed financial asset. In earlier studies researchers observed that there were limited research in this area locally. Ngoley (2014) noted that at the time of her study most banks were yet to comply with the unclaimed financial assets law and therefore recommended future study on this area, she also noted that the Unclaimed Financial Assets Act affected many other institutions including private companies and therefore need for study in other industries and sectors. Kanyi (2013) noted that his research was done in 2013 after the law was passed in 2011 and therefore could not get trend that could give conclusive information, he recommended a replica study after 5 year and a study in other affected industries for comparison purposes. Wanyama (2009) indicated that the development of cooperatives in the era of liberalization is not adequately researched and understood noting that the most studies available tend to focus on disparate economic sectors of the cooperative movement rather than providing a complete account that inform the present status of the operations of cooperatives. This leaves a gap that needs to be filled through research. This study sought to establish the

impact of the unclaimed financial assets regulation on the DT-Sacco performance. The research question is; what is the effect of the unclaimed financial assets to the financial performance of DT-Saccos in Kenya?

1.3 Research Objective

To establish the effect unclaimed financial assets have on the financial performance of DT-Saccos in Kenya.

1.4 Value of the Study

This study intends to develop findings that will enable Sacco industry understand the effect that unclaimed assets have on their performance and help in financial planning while ensuring compliance to avoid penalties.

The study will assist the Kenyan government in ensuring compliance with the laws on unclaimed assets while addressing challenges faced by both the holders and the Authority, such as gaps in law, management and declaration of unclaimed assets in financial statements, customer information capturing, reuniting asset to owner or legal beneficiary etc.

This research will also provide learning material to academicians and add to the body of knowledge to a relatively new and less researched area of study in the local content and in a sub-sector that has become a key player in a rapidly growing financial sector and the economy at large.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter seeks to perform a review of the theories and empirical studies done on the unclaimed property escheatment and the performance of DT-Saccos in Kenya. The key areas covered by this chapter are theoretical reviews of the unclaimed financial assets, determinants DT-Sacco performance, empirical studies, conceptual framework and a brief summary of the chapter.

2.2 Theoretical Review

Theoretical review is a key aspects in the research process, it emphasizes on theory driven thinking and conduct throughout the study. In the absence of a theoretical framework, the structure and vision of the study lacks clarity, just as ones need for a blueprint in order to construct a house; theoretical review gives the study a good structured flow (Grant & Osanloo, 2014).

The theories reviewed in this study are; theory of escheatment, theory of Bona vacantia and the loan pricing theories. The theories reviewed inform the sources and interactions of the study variables, the dependent being Sacco performance while the independent variables is unclaimed assets.

2.2.1 Theory of Unclaimed property

The theory of Escheatment and Bon Vacantia originated in the common law. In the theory escheatment, unclaimed assets belonged to the king upon being declared

abandoned, in order to benefits the state rather than an individual holder while it remains unclaimed (Ruszat 2002). The theory of Escheatment dates back to the twelfth century where if upon the death of a fee land owner there was no heir capable of performing the services of tenure, the land reverts to the Manse Lord and in his absence, or if the land was held directly from the Crown, reverts back to the crown as an ultimate owner. The reversion of land upon the disruption of tenure was referred to as escheat, The theory of escheatment applied mostly to real properties (Jo,1980). In the US, the meaning of escheatment has been broadened to include other kinds and descriptions of property.

The theory of Bona Vacantia held that the claim of the crown was superior to that of a stranger and therefore had effect of eliminating conflict among private claimants, therefore where the owner and beneficiary of personal property items could not be traced, the crown took ownership of items but not as an ultimate owner. Bona vacantia was however not applicable to all items of unclaimed personal property; to many such items a finder's claim was good against all except the true owner (Jo, 1980).

Jo (1980) further indicated that Modern statutes typically combine the theories of Escheatment and Bona Vacantia, therefore applicable to both real and personal property. Modern escheat legislation falls into two basic patterns. The first type of provision closely resembles true escheat; title of the property vest in the state after a definite period of time and once vested barred the owners claim. Under the second type of provision, the owner's claim is never barred; the Acts simply give the state the property right for use and possession as long as it remains unclaimed.

2.2.2 Loan Pricing Theories

Loan pricing models allow banks and credit unions with a methodical approach to ensure that the best loans and terms are matched to the borrower so that the financial institution makes the sale and keeps the customer (Biery, 2016). According to Adams (2015) the cost plus loan pricing model requires that while coming up with the interest rate, one should take into consideration all costs and fees related to credit such as the operational costs, funds required rate of return, risk premium and a profit margin, making appropriate adjustments to remain competitive and receive a good return. Banargee, Besley and Guinnane (1994) theories on credit cooperatives design indicated that there was high likelihood that cooperatives in developing countries were functioning better than commercial banks as they rely on peer monitoring to minimize undesired behavior among borrowers. Their theory proposed that this could be attained by having other members partly or fully liable in case of default, finance part of the loan and determine the terms desired for the loan. These theories suggest that cooperative societies may lack the incentive to optimally price the loan and tend to lend to high risk borrowers in the absence of claim of the available funds by the asset owner. Unclaimed assets offer financial institutions low cost funds that can be used to maximize holder's profits.

2.2.3 Agency Theory

An agency relationship arises where a principal engages another person to act on their behalf. The agency theory according to Matnick (2006) originated from two scholars Stephen Ross and Barry Mitnick responsible for the economic and institutional aspects of the theory working independently and concurrently in the year 1973. An agency conflict

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also exists between the management (agent) of a cooperative society and the members who are the owners (Principal). Different scholars have reviewed this relationship and suggest that an agency conflict exist where most cooperative societies management have failed to put in place structure to allow for trading of shares among members leaving or joining the society, as they seek to raise further capital from new members, the old members exiting the society suffer as they are forced to abandon their portion of the reserves accumulated over the year, while the new members gain access to assets and equity built by long term members. On the other hand it can also interpreted that that while the management seeks capitalize on the use of unclaimed and abandoned member fund, giving low interest to new members while giving little returns to investors and building high reserves, non-compliance with unclaimed property statutes may see the cooperative societies suffer penalties and interest imposed for non-compliance eventually brought out by audits and inspections sanctioned by state agencies.

2.3 Empirical Studies

Teagan (2011) study on justifying 'revenue-raising' modern escheat took note that the increasing fiscal challenges led the states to increase effort to collect of unclaimed property through ways that seem to be less focused in protecting the interest of owners such as enacting new laws causing holders to raise challenge on the due process. The study conducted in US concluded that the American express court judgment to uphold revenue raising unclaimed property law was proper but remained vague and in conflict with the general meaning and practice of modern escheat in protection of owners' interest. The scholar recognized existence of a conflict in the revenue raising laws and those that seek to trace and return abandoned property to the owners. Houghton, Coalson

and Cornett (2019) while discussing the virtual unclaimed property held in the cryptocurrency industry observed that there was little enforcement by most state agencies while other states were revising their statutes to specifically target the industry.

Jo (1980) did a research on unclaimed asset with the purpose encouraging the adoption of the Uniform Act by the state of Missouri, the act was initially developed in 1954 with three objectives. This objectives where protecting unclaimed property owners by making all possible efforts to locate and restore the property to them, preventing unjust enrichment of holders of unclaimed property while relieving them of further annoyance, expense and liability, and finally to allow the state the benefit of revenues generated by such property while it remains unclaimed. The study concluded that the existing legislation was inadequate; leaving much unclaimed property in private hands. The research noted that property that could be claimed by the State of Missouri may be subject to escheat by other states due to the lack of applicable escheat statute in Missouri. The research cast doubt on whether the Uniform Act of 1954 fulfilled the desire of the legislature and recommended the use of the uniform Act in drafting escheat legislation for Missouri State before more revenue is lost.

Kimosop (2010) did a study comparing the management of unclaimed financial assets in Kenya and other developing countries, performing analysis of both primary and secondary data. He noted that at the time of his study, there were no legal requirements for the holders of unclaimed assets to declare them, they had been left to accumulate, which goes against international best practice and denies the rightful owners and dependents access to such resources. The study proposed establishment of a legal

framework to maintain market confidence, ensure consumer protection and fight malpractices. It was also seen as an opportunity for the government to increase non tax-revenue base. The study concluded that the existence of unclaimed financial assets within the financial system illustrated failures within the system that needed to be addressed either administratively or by legislation.

Kanyi (2013) researched on unclaimed financial assets in the life insurance companies in Kenya. The scholar made use of both primary and secondary data and adopted a survey research design that included all (13) the life assurance companies in Kenya as at June 2013, data analysis was done using simple linear regression. The study's conclusions were that the profitability of insurance firms seemed to reduce significantly with the removal of unclaimed assets; He however noted that this may be short lived since the companies are keen on pursuing other alternatives of maintaining profit.

Ngoley (2014) studied the effects of unclaimed financial assets on the financial performance of banks in Kenya. Ten (10) years consolidated data for 43 commercial banks was analyzed using linear regression. The study conclusions were similar to the previous study indicating that the unclaimed assets positively influenced the financial performance, noting that once these assets were surrender to the authority, the banks will cease to earn any benefits/interest from the assets.

Nyanga'u (2016) did a study on the extent that unclaimed financial asset add to profitability of financial institution, case study of Equity Bank Kisii targeting all the employees of equity bank Kisii branch who were thirty six in number. The researcher used questionnaires, oral interviews, using computer statistical software to capture and

analyze data collected. The study indicated a positive relationship exists between financial performance and unclaimed financial assets. The scholar noted that unclaimed dividends and unclaimed cash deposits are used in declaring dividends contributing to performance of the bank.

2.4 Determinants of financial performance

According to Trivedi (2010) financial performance is a monetary measure of the result and general financial health of a firm's operations. It refers to the degree of accomplishment of a firm's financial objective. It involves use of standard measures for comparison of firm's performance over several years, performance of firms within an industry, comparison of industries or sectors as a whole over a given period etc. Factors affecting a firm's performance can be divided into Micro (internal environment) and Macro (external environment), this effect of these factors could either be positive or negative depending on the firm's structure and the changes in the macro environment (Demirhan and Anwar, 2014). SASRA (2017) reported capital, asset base, membership, loans and deposits as the key indicators of the growth and general performance of DT-Saccos. These factors are further discussed below.

2.4.1 Capital Adequacy

The Sacco Society regulator in Kenya requires Saccos to maintain adequate levels of capital in order to promote public confidence while protecting members and creditors funds against losses and risks. It is therefore a measure of the soundness and safety of the institution. The core capital of a Sacco constitutes the fully paid up shares, retained earnings, general reserve, statutory reserves, other reserves, grants and donations. The

required minimum capital as per the SASRA (2010) Regulations is Ksh.10 million, a core capital to asset ratio of 10%, Core capital to deposit liability ratio of 8% and Institutional capital to total assets ratio of 8%.

Saidi (2016) study concluded that Saccos performance is significantly affected by core capital as it helps manage the credit risk, enhance public confidence, protects members' deposit, provides working capital, lending capacity, permits growth and kept bankruptcy on check. Barus (2019) findings concurred with those of Saidi, concluding that capital adequacy positively influenced Sacco performance.

2.4.2 Liquidity

Liquidity refers to the firm's ability to finance its short-term maturing obligations such as settlement of current liabilities from its current assets or cash inflows as they fall due. Omino (2014) indicated that the mitigation measures undertaken by various Saccos in Kisumu County towards Liquidity risks significantly affected their performance. Saccos must therefore adopt a more cautious position on their current liabilities by sensitizing Saccos' Management on payable and receivable periods in order to self-optimize on the cash conversion cycle. Githaka (2017) concluded that liquidity management significantly affected lending and alternative investment. Njeru (2016) study further concluded that there was need for in-depth analysis of both internal and external variables that were posing greater risk to cash management operations in order to establish mitigation factors for the institution. SASRA (2015) guidelines on risk management defined liquidity as the ability to respond to loans demand and unexpected savings withdrawals with minimal

cost, liquidity risk refers to the likelihood of an adverse effect on the Sacco's earning or funds arising from unmet short term maturing liabilities.

2.4.3 Assets Quality

Atsango (2018) study concluded that firm size, asset quality and operational efficiency had statistically significant effect on profitability. Ngoley (2014) observed that by loan delinquency and non-performance ratios were the best measures of asset quality for financial institutions like banks, saccos and micro finances institutions, as losses arising from such loans constitute the highest risk experienced by this institutions. The gross non-performing assets to gross loan advances ratio was the most robust and important factor influencing financial performance, most financial institution use this ratio to determine the portfolio at risk (PAR). The study showed that asset quality has a fairly significant statistical effect on financial performance confirming the relationship to be negative. Keitany (2013) observed moderate correlation between loan default and assets and potential of interference with liquidity, the study however concluded that loan default had a strong negative impact on Sacco's performance.

2.4.4 Management Efficiency

Raphael (2019) study concluded that financial management decisions on capital structure, working capital and investments were significant predictor of financial performance while gross domestic product affected both financial management decisions and financial performance. Muriuki (2010) did similar study that concluded that strengthening of decision making capability of the management committee, cultivates trust, solidarity and high degree of adaptability. Mwangi and Wambua (2016) case study of Unitas Sacco

concluded that an organizations structure, leadership capacity, reward policies and subculture influence the performance of Saccos.

2.4.5 External Factors

Ngoley (2014) indicated that Micro economic factors such as political stability, Gross Domestic Product (GDP), inflation and Interest rate affect performance of financial institutions. Muriuki (2010) study indicated that while governance had an enormous effect of the performance of saccos, other externalities such as inflation if not addressed could affect Sacco performance. SASRA (2017) report indicated that the country's prevailing macro-economic conditions continued to greatly influence the individually and aggregate performance of Sacco societies, Saccos with memberships are mostly drawn from one or closely associated sector or subsector such as the agricultural sector, manufacturing or retail business, were significantly affected by macro-economic shocks in those sectors.

2.5 Conceptual Framework

Figure 1 below shows the conceptual framework indicating the relationships that exist between the dependent and determinant variables under investigation. The dependent variable is performance of DT-Saccos whose main indicator is the return on assets. The independent variable being investigated to establish its level of influence on the dependent variable is: unclaimed financial assets.

Independent Variable   **Dependent Variable**

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┌─────────────────────┐                    ┌─────────────────────┐
│                     │                    │  Performance of Saccos │
│ Unclaimed Financial │ ───────────▶       │                     │
│      Assets         │                    │  Return on Assets    │
│                     │                    │                     │
└─────────────────────┘                    └─────────────────────┘
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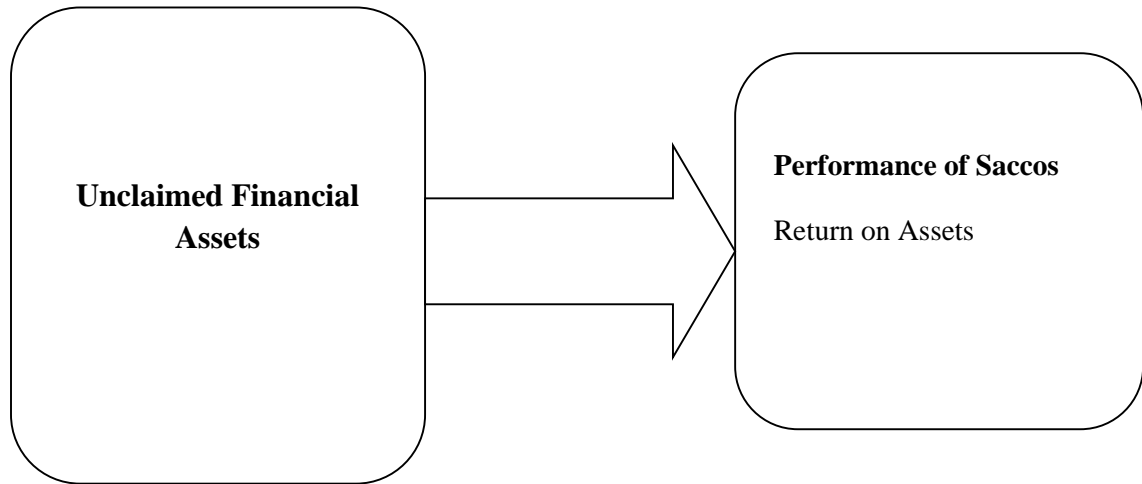
Figure 2.1: The Conceptual Model

2.6 Summary of Literature Review

This chapter shows that governments around the world are constantly seeking for means to increase declaration and surrender of unclaimed assets while making lesser efforts to reunite assets with the true owners or beneficiaries, on the other hand holders have challenged some regulations though court cases and are also seeking ways to retain the assets through private escheatment where a financial instrument is becomes holder property if unclaimed for a certain period. The tussle between the states or governments and holders is an indicator of the financial benefit that each party is seeking to enjoy. Locally compliance with the unclaimed financial Act and regulations is still very low and while this area continues to be researched on globally, there are only a few researches on this area locally. The study will fill the knowledge gap existing in this area of study.

CHAPTER THREE: METHODOLOGY

3.1 Introduction

This chapter outlines the procedure that was used by the researcher in data collection and analysis with the view of accomplishing set research objective. The focus here is on research design, target population, sampling procedure, data collection methods, data collection instrument and data analysis.

3.2 Research Design

Research design refers to the general approach chosen by a scholar bring together the distinct parts of the study to effectively address the research problem in a consistent and coherent manner, it is often determined by the research problem and involves collecting, measuring and analyzing data (De, 2006). Descriptive research design of all DT-Saccos in Kenya was adopted for this study. Descriptive study collects information without manipulating the environment, by describing the situation, subject, behavior, or phenomenon, often used to answer the particular questions with regards to the research problem.

According to Hulley et al (2001) Descriptive studies seeks to estimating the rates, proportions and population mean by using surveys to evaluate incidences, conduct needs assessment, review graphs etc. and may also do correlational analysis to examine how the rates relate to demographic variables. Descriptive research design was preferred since it allows the scholar come up with findings that can generalize.

3.3 Population

The target population for this study is all licensed Deposit Taking Sacco societies operating in Kenya in the year 2017-2018. The number of this Saccos being 174 whose data was available through the regulators supervisory report of 2018.

3.4 Sampling Design

Ali (2012) indicated that a sample refers to the number of respondents chosen in a given study as a fair representation the larger population, sampling is recommended when circumstances cannot allow the researcher to include the entire population. Hulley et al (2001) indicated that while deciding on the sample size the scholar must take into consideration the various limitations on the subjects needed and the cost involved. Just as one responsible buyer needs a shopping list before going shopping in order to check spending, the size of the sample should be decided after determining the fundamental costs involved.

This study sampled the 15 out of the 42 DT-Sacco with their head office in Nairobi as reported by the regulators supervisory report of 2018.

3.5 Data collection

This study used secondary data collected by government agencies i.e SASRA Annual Supervisory Reports and reports by the Unclaimed Financial Assets Authority in their baseline survey conducted in October 2018. The data analyzed was for the duration of 5 years (2014-2018).

According to Ben (2018) secondary data refers to the analysis of data gathered by another party for own purpose, in an effort to find answers for fresh research questions, or to examine a different view on a prior study's initial questions. The study leveraged on the secondary data, one advantage being that the data is already cleaned and stored in an electronic format, thus less time consuming allowing the researcher more time to analyze data instead of having to collect and prepare his own data. The study made use of data on surplus declared and interest earned by Kenya's Deposit Taking Saccos from the unclaimed assets.

3.6 Diagnostic Tests

The normality test was tested using skewness and kurtosis. Multicollinearity test was done using the variance inflation factors (VIF) while autocorrelation test done using Durbin Watson test.

3.7 Data Analysis

Shamoo and Resnik (2003) describe data analysis as the scientific process of applying statistical and/or logical procedures to describe, illustrate, condense, recapture and evaluate information. These data analytical instruments and processes assist the scholar develop inductive inferences from the data that distinguish the signals (phenomenon of interest) from the noise (statistical variations). According to Shepard (2002) the key component of maintaining data integrity during data analysis is the precise evaluation of the study outcomes, inappropriate statistical analysis distorts the results, misleads causal readers and can adversely affect the perception of the study in the eye of the public.

Data for this research was coded, entered and managed by applying descriptive and inferential statistics using the statistical package for social studies version IBM (SPSS) Statistics version 24. The results were presented through the use of graphs such as frequency tables, as well as in narrative form, as similar method was used by Keitany (2013) and Ngoley (2014) in a study on performance of Saccos and commercial banks respectively.

3.7.1 Analytical Model

The performance of the DT-Saccos was measured using a linear regression model to estimate the impact of various factors that affect the performance of DT-Saccos. The researcher employed an empirical model through multiple linear regression analysis that lead to discovery of the relationship and significance of each variable to financial performance of DT-Saccos as shown below:

$ROA_{it} = D + \alpha_1 CAP_t + \alpha_2 ASQ_t + \alpha_3 LIQ_t + \alpha_5 UFA_t$

Where:

ROA_t = Sacco Surplus before Tax at time t to Total Assets

CAP_t = Capital adequacy of Sacco at time t

ASQ_t = Asset Quality of Sacco at time t

LIQ_t = Liquidity of Sacco at time t

UFA_t = Unclaimed Financial Assets at time t

Where t = 2014….2018, D_i = constant for DT-Sacco (fixed effects), α= Sacco specific factors coefficients.

The study used both a t-statistic and F-test at 5% significance level. The variables were measured as follows;

Variable	Measurement
Return on Assets (ROA)	Ratio of Surplus before tax to total assets
Capital Adequacy	Ratio of core capital to total assets
Asset Quality	Ratio of non-performing loans to gross loan. Higher ratio (PAR) indicates the poor asset quality
Liquidity	Ratio of liquid assets to total savings deposit liability
Unclaimed Financial Assets	Ratio of interest earned on unclaimed assets (on dormant accounts) to gross loans

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the results and finding of the study. The objective of this study was to establish the effect of unclaimed financial assets on the performance of Deposit Taking Saccos in Kenya. The study used secondary data in published financial statements for the period 2014-2018. Statistical Package for Social Science (SPSS) was used for the analysis. The analysis was based on the reports of 15 Deposit Taking Saccos operating in Nairobi County; the results are presented in form of tables and figures. The chapter covers the descriptive statistics, the regression analysis, analysis of variation and a summary of the chapter.

4.2 Description of the variables

Table 4.1 shows the descriptive statistics outlining the minimum, maximum, mean and standard deviation for each variable.

Table 4.1 Descriptive Statistics of Independent Variable

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets	75	.0003	.100	.02430	.018155
Unclaimed Assets	75	.0000693	.0012778	.000162893	.0001779483
Capital Adequacy	75	.0362	.3900	.162046	.0745881
Liquidity	75	.010	1.595	.36730	.370617
Asset Quality	75	.001	.220	.04351	.032829
Valid N (listwise)	75				

Source: Research findings

The Capital adequacy ratio was at 16.2% and liquidity ratio at 36.7%, the required minimum ratios are 10% and 15% respectively. Asset quality for the sample was at 4.33% while SASRA recommends that Saccos maintain the PAR ratio below 5% (SASRA, 2018).

Table 4.2 Skewness and Kurtosis

	Skewness		Kurtosis	
	Statistic	Std. Error	Statistic	Std. Error
ROA	1.553	.277	4.037	.548
Unclaimed Assets	4.439	.277	22.622	.548
CAR	1.852	.277	3.247	.548
LIQUIDITY	1.644	.277	1.889	.548
ASSET QUALITY	2.388	.277	10.493	.548

The findings in Table 4.2 also show the skewness and kurtosis of each variable. Data analysis proceeds if the kurtosis and skewness is in a range of +2 and -2 as this will be a sign which indicates that the data has a regular distribution (Kothari, 2004). From the above findings, values of Skewness and Kurtosis are between +2 and -2 and therefore the researcher proceeds with the analysis.

4.3 Inferential Statistics

This section assesses the relationship between each independent variable and the dependent variable before carrying out multi linear regression. These independent variables were Capital Adequacy, Liquidity, Asset Quality and Unclaimed Assets; the dependent variable was Financial Performance of Deposit Taking Saccos as measured by Return on Assets (ROA).

4.3.1 The relationship between Financial Performance and Capital Adequacy

The results of the analysis on how capital adequacy ratio is related to financial performance indicated that capital adequacy had a correlation coefficient of 0.385 which shows a strong positive relationship (r= 0.385, p=0.001). This supports the general view that adequate levels of capital leads to better returns to Saccos. While it was observed that the Saccos held an average capital higher than the minimum required level, the sacco needed to optimize on the use of alternative sources of funds such as leverage.

4.3.2 The relationship between Financial Performance and Liquidity

Analysis on liquidity of saccos against performance showed a correlation of 0.259, this result shows that the two variables were positively correlated. This is interpreted to mean that liquidity had a positive related (r= 0.259, p=0.025) to return on assets, it was however noted that excessive levels of liquidity could negatively impact on performance since liquid cash should essentially me invested to provide better returns. Saccos needed to adopt liquidity management systems able to optimize liquidity (Omino, 2014)

4.3.3 The relationship between Financial Performance and Asset Quality

Asset quality presented a positive but weak correlation to financial performance with an r value of 0.098. This can be interpreted to imply that Saccos were not fully compliant with the provisioning requirement that require a loss expense in the income statement for all non-performing loans but instead capitalized on giving risky loans to increase returns in the short-term. Bosek, 2016 noted that Saccos sought to manage credit risk by recovering from guarantors, took legal action on defaulters and also allowed longer repayment

period, the Saccos were however less strict in compliance with credit policy and regulators requirements.

4.3.4 The relationship between Financial Performance and Unclaimed Assets

The correlation coefficient for unclaimed financial asset to financial performance was found to be strong and positive (r= 0.286, P=0.013). This means that an increase in the unclaimed assets lead to a positive movement in the return on asset.

4.4 The Effect of Unclaimed Financial Assets on Financial Performance of Deposit Taking Saccos

This section explored the relationship between the variables by bring out further details about the relationship existent through the use of a regression model and correlation among variables.

4.4.1 Summary Statistics of Regression Model

Table 4.3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.514a	.264	.222	.016017	1.252

a. Predictors: (Constant), Asset Quality, Liquidity, Unclaimed Assets, Capital Adequacy

b. Dependent Variable: Return on Assets

Source: Research findings

Statistics of the regression model derived an R2 value of 0.264, R of 0.514 as shown in table 4.3. The adjusted R2 value of 0.222 reveals that the independent study variables only explain 22.2 % of the variations, the remaining 77.8% is explained by other variables not covered in the study. A durbin Watson value of 1.252 indicates that the variables are serially correlated since the value is less than 1.5

4.4.2 Regression Results for the Relationship between Financial Performance of DT-Saccos and its Determinants

Table 4.4 Correlation among the Variables

		Return on Assets	Unclaimed Assets	Capital Adequacy	Liquidity	Asset Quality
Return on Assets	Pearson Correlation	1	.286*	.385**	.259*	.098
	Sig. (2-tailed)		.013	.001	.025	.402
	N	75	75	75	75	75
Unclaimed Assets	Pearson Correlation	.286*	1	.335**	-.187	.377**
	Sig. (2-tailed)	.013		.003	.108	.001
	N	75	75	75	75	75
Capital Adequacy	Pearson Correlation	.385**	.335**	1	.029	.402**
	Sig. (2-tailed)	.001	.003		.808	.000
	N	75	75	75	75	75
Liquidity	Pearson Correlation	.259*	-.187	.029	1	-.189
	Sig. (2-tailed)	.025	.108	.808		.104
	N	75	75	75	75	75
Asset Quality	Pearson Correlation	.098	.377**	.402**	-.189	1
	Sig. (2-tailed)	.402	.001	.000	.104	
	N	75	75	75	75	75

Source: Research findings

Table 4.4 shows the relationship (magnitude and direction) between the independent variable identified in this study and Saccos financial performance as measured by ROA.

4.5 Analysis of Variance (ANOVA)

Analysis of Variance (ANOVA) test seeks to find out whether the results of a survey or test were significant. Table 4.5 below indicates the results.

Table 4.5 ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.006	4	.002	6.269	.000[b]
	Residual	.018	70	.000		
	Total	.024	74			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), Asset Quality, Liquidity, Unclaimed Assets, Capital Adequacy

Source: Research findings

The F ratio for the regression was found to be 6.269 with a significance probability of 0.00. Since the P value is less than 0.05 then unclaimed asset effect on SACCOs financial performance is statistically significant, hence the model was fit for the study.

4.6 Coefficient Regression Analysis

Table 4.6 presents the results of regression equation. The values of regression coefficients and the constant are given in Column B, this are the expected value of the dependent variable when the values of the independent variables equal zero.

Table 4.6 Coefficients Regression

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.004	.005		.816	.417
	Unclaimed Assets	26.591	11.716	.261	2.270	.026
	Capital Adequacy	.078	.028	.319	2.751	.008
	Liquidity	.014	.005	.284	2.671	.009
	Asset Quality	-.041	.066	-.075	-.630	.531

a. Dependent Variable: Return on Assets

Source: Research findings

Table 4.6 indicates that the regression model had a constant of 0.004. Unclaimed assets had a coefficient of 26.591 with a significance value of 0.026. This means that unclaimed assets and financial performance had a positive and significant relationship. Capital adequacy has a positive and significant relationship with financial performance as revealed by the coefficient value of 0.078 and significance value of 0.08. Liquidity has a positive and significant relationship with the dependent variable as shown by the coefficient value of 0.014 and significance value of 0.009. Asset quality has a negative but insignificant relationship with financial performance as shown by the coefficient value of -0.041 and significance value of 0.531. The research equation was $ROA_{it} = D + \alpha 1 CAP_t + \alpha 2 ASQ_t + \alpha 3 LIQ_t + \alpha 5 UFA_t$ resulting to a regression equation as shown below:

ROAit = 0.004+ 0.078CAP -0.041 ASQ + 0.014LIQ + 26.591UFA

4.7 Interpretation of Findings

This study's objective was to establish the effect of unclaimed assets on the performance of DT-Saccos in Kenya. The study adopted multilinear regression to find out magnitude and direction of the relationship between the independent variables and financial performance as measured by Return on Assets (ROA) being the dependent variable. The study used five years secondary data of 15 DT-Saccos regulated by SASRA. The descriptive and correlational analysis both show that unclaimed financial assets had a significant effect on the performance of DT-Saccos which were yet to comply to the unclaimed financial assets Act.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the findings in chapter four in summary, highlights the conclusions drawn and the recommendations thereof. The chapter has 5 sections namely 5.2 Summary, 5.3 Conclusions, 5.4 Recommendations for policy and study 5.5 Limitations of the study and 5.5 Suggestions for further studies.

5.2 Summary

This study sought to establish the effect of unclaimed financial assets on the financial performance of Deposit taking Saccos in Kenya. The study utilized secondary data collected from SASRA annual supervisory Report and published financial statement of Deposit taking Saccos for the period 2014-2018. The data of 15 deposit taking saccos was analyzed using multilinear regression. Data for this research was be coded, entered and managed by applying descriptive and inferential statistics using SPSS version 24.

The findings of the study show that a relationship either positive or negative existed between each independent variable and the dependent variable, showing a correlation coefficient to ROA of 0.385, 0.259, 0.098 and 0.286 for Capital adequacy, Liquidity, asset quality and unclaimed financial assets respectively.

The study further revealed that DT-Saccos were yet to comply with the UFAA and therefore continued to utilize unclaimed assets held to generate income leading to a significant positive relationship of Unclaimed Financial Assets with the ROA. Similar to

the study of Kanyi (2013) the study found out that some of the unclaimed assets in DT-Saccos such as unpresented checked and unidentified deposits formed part of their income after remaining unclaimed over some period of time. This was also as a result of the low focus of the unclaimed assets authority of other holders of unclaimed assets other than mainstream banks and the nature of the savings and credits business where Saccos felt that they had sufficient details to trace all their depositors due to the common bond yet continued to do very little effort toward this.

5.3 Conclusions

The study results show that Unclaimed Financial Assets had a positive correlation with Return on Assets as a measure of financial performance. This could be interpreted to mean that if the Saccos were to submit this the unclaimed assets held the authority the ROA would drastically reduce. This is the most expected outcome as the regulator gets up for increased collection by putting in place a policy framework initially lacking. The Saccos will also be faced with stiffer penalties on failure to declared and remit unclaimed assets as required by the acts as required to be done every 1st of November for every 12 months period ending 30th June, this penalties may as well wipe out any gains made by the Saccos during the period of non-compliance.

The study therefore concludes that unclaimed financial assets positively influenced the financial performance of DT-Saccos in a significant manner while the sacco continue to transact with such funds. Upon submission of unclaimed assets to UFAA, Saccos performance will be significantly affected.

5.4 Recommendations for policy and Study

There was need for a multiagency approach on unclaimed assets as an agency like SASRA paid little or no attention at all to the unclaimed financial assets held by Saccos despite that the Sacco regulations provided for this. The Saccos regulator could also enhance reporting of Sacco performance by including key performance variables for individual Saccos in their report similar to the disclosure practice exercised by Central Bank of Kenya. The Unclaimed Financial Assets Authority should conduct Audit of key organizations holding unclaimed assets to enhance compliance, this is the practice adopted in other jurisdiction and has had much success.

5.5 Limitations of Study

The availability of unclaimed assets data was still a major challenge to the researcher as most data was highly consolidated and summarized with no separate classification of unclaimed data other than the number of members listed as dormant aggregated from the sacco reports. The researcher adopted the estimation done by the unclaimed assets authority baseline survey of 2018. This is similar to the limitation observed by Ngoley (2014) where the researcher indicated that there was no clear policy on how to disclose unclaimed assets.

5.6 Suggestions for Further Studies

The unclaimed financial assets base line survey (2018) reported that many organizations such as the pension schemes, manufacturing and utility companies holding high levels of unclaimed assets. Similar study for deposit taking Saccos should be conducted after another 5 year when proper declaration frameworks are in place and the Saccos have

begun to comply. Study in commercial banks and insurance industry as recommended by Ngoley (2014) and Kanyi (2013) are necessary to increase the number of research in this area. A comparative study on a global spectrum similar to Kimosop (2010) study will be necessary to analyze best practice on unclaimed assets.

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