



RELATIONSHIP BETWEEN INTEREST RATE CAPPING AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KAKAMEGA COUNTY, KENYA

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ABSTRACT

Before interest rate capping, commercial banks fixed their basic rates and offered their clients the highest muscle. Such higher payments undermined customers but allowed banks to continue to benefit from huge profit margins. In contrast, the introduction of interest rate capping and how banks have been dissolved has resulted to the drop of profitability. A case of Kenya Commercial Bank Limited in Kakamega County was utilized to evaluate the relationship between interest rate capping and the performance of commercial banks in Kenya. The study's objectives were to; identify the relationship between credit uptake, financial exposure and lending practices and the financial performance of Kenyan commercial banks. A descriptive survey research design was utilized. The study's target population was all staffs in the two KCB branches in Kakamega County; including branch managers, supervisors, and other staffs. To sample 103 prime employees, stratified random sampling was used. Questionnaires were used to gather primary data while secondary data was collected using secondary data schedule. The results revealed that there is significant positive relationship between credit uptake and financial performance of commercial banks in Kenya ($r=0.606$, $P=0.000$). Further, there is significant negative relationship between financial exposure and financial performance of commercial banks in Kenya ($r=-0.282$, $P=0.011$). Lastly, there was significant positive relationship between loaning practices and financial performance of commercial banks in Kenya ($r=0.661$, $P=0.000$). The study concluded that there is significant relationship between interest rate capping and performance of commercial banks in Kenya. The study recommended that management at KCB should balance fees chargeable on each loan product as processing fee to a percentage of the loan to make loans affordable to customers. Furthermore, financial exposure that banks face from risky customers can be reduced by improving on credit management and closer scrutiny to weed out those likely to default. Lastly, customer's needs should be considered when setting loaning practices such as the levels of interest rates so as to enhance its financial intermediation role. The government, academics, general public, and other stakeholders in the banking business are expected to benefit from the knowledge this research has to offer.

Key Words; Interest Rate Capping, Financial Performance, Credit Uptake, Financial Exposure, Lending Practices, Commercial Banks

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INTRODUCTION

Capping interest rate refers to the placing of limits which restrict the fluctuating interest rates on commercial banks' loans (Miller, 2013). The key justification for interest rate capping by governments is to stabilize lending by financial institutions as they have been seen to be making supernormal profits through exorbitant interest rates. This explains why commercial banks will opt to settle for short term secured loans and to lend to low risk clients such as established large corporate and governments when interest caps are, implemented to minimize their credit risk which influences the soundness of financial institutions. Whilst this strategy could enable commercial banks remain sturdy, it discriminates the high-risk borrowers. Caps such as lending, financial exposure and interest-rate lending procedures therefore offer some kind of financial sector controls that prohibit banks from levying extremely high and unjustified interest rates (Makhanu, 2019).

Several nations across the globe employ the control strategy of interest capping. The developed nations with restrictions in interest rates are China, Japan, France, Germany and the United States. Capping the US interest rate reduced banks' performance and thus affected their stock market values. This has pushed banks to search for other investing methods (Irresberger, Muhl nickel & Weis 2015), thereby filling a need. Belgium and France use interest rates to protect consumers from high lending costs and excessive interest rates charged by financial institutions. The Netherlands depends on interest caps to regulate the attitude of large banking organizations (Helms & Reille, 2004). The aim being to ensure the economy is stable at all times. The United Kingdom reduced interest rate to 0.5% to encourage borrowing while using quantitative easing worth \$75bn to allow commercial banks to invest in other areas of the economy (Friedman & Schwartz, 2016). The move played a key role in dragging the economy out of recession. It is, mentioned that the efficacy of the ceiling is limited, because it cannot be utilized for a long time (Friedman & Schwartz, 2016).

Some African countries have introduced interest rate caps to safeguard borrowers from high rates charged by commercial banks. This is implemented with intension that interest rate caps will result in affordable interest rates for the loan seekers (African Development Bank, 2019). Despite these good approaches, banks may find it hard to recover costs and it is likely to reduce service delivery of the bank. In certain African nations, interest rate limits are set as a solution for lower economic growth (Mbengue, 2013). There are 24 nations with interest rate limits in Sub-Saharan Africa.

The Kenyan interest-rate limit took effect in September 2016 because of excessive credit costs and ruinous bank loans (Safavian & Zia, 2018). The rate limitations were intended to promote financial inclusion. Its purpose was to prevent banks from charging interest on loans over the Central Bank rate by more than four per cent (CBK, 2018). (Olukoye and Juma 2018) showed that limiting the interest rate has a beneficial effect on banks ROE performance and credit growth in Kenya. On the other side (Siriba 2019) and (Kavwele 2018) showed that interest rate capping has adversely affected bank performance and credit growth in Kenya. The banking industry in Kenya is administered by the companies Act, the banking Act, the commercial bank of Kenya Act, and the different prudential rules issued by the Central Bank of Kenya (CBK). The keeping money segment was changed in 1995 and trade control lifted. The business bank of Kenya which falls under the Ministry of Finance is in charge of planning and actualizing fiscal approaches and encouraging the liquidity, dissolvability and legitimate working of the budgetary framework. CBK distributes data on Kenya's business banks and non-managing an account money related organizations, loan fees and different productions and rules (Basel Committee on Banking Supervision, 2020).

Commercial banks in Kenya are experiencing huge change endeavors to adapt to the always showing signs of change business condition. Expanding local and worldwide rivalry, monetary downturn, quickly changing business sector patterns, and

unpredictable budgetary markets have all additional to the weight on associations to think of successful reactions to survive and succeed. The part of banks in an economy is principal since they execute fiscal strategies and give intends to encouraging installments for products and enterprises in the domestic and international trade (Dzombo, Kilika & Maingi, 2017).

Statement of the Problem

Before interest rate capping, commercial banks fixed their basic rates and offered their clients the highest muscle. Such higher payments undermined debtors but allowed banks to continue to benefit from huge profit margins. In contrast, the entire impact of capping of the interest rate and how banks have been dissolved can be plainly seen from the trade results of the third quarter 2017 published by the banks. For example, net profit of the Kenya Commercial Bank fell by 3%. On the other side, several banks had negative territory. Jamii Bora Bank's losses increased to € 337 million, whereas \$ 274 million, down 2.25%, was, reported at the Sidian Bank (KBA, 2018).

Banks that dropped in profitability or reported loss were, left out since interest rates could not be, upgraded to record extra revenues. Additional banks were compelled to take other extreme steps, such as employee laying off and early pension schemes like the National Bank and Family Bank, to save operating costs. A consumer study commissioned by KBA (2017) suggested that the legislation be, repealed owing to lack of credential growth combined with a stagnant 4% increase in private sector lending, which adversely influences the economy (Musyimi & Kising'u, 2018). The low interest rates in the long term, according to Onaya and Maniagi (2020), may adversely influence profitability and solvency of financial firms promising minimal nominal returns over the long term.

Extensive empirical research has shown a mixed and ambiguous connection between controlling interest rates and commercial bank financial performance. The interest rate limitation was, shown to be unfavorable and statistically related to Kavwele,

Ariemba and Evusa (2018). However, Sheli (2018) shows that although reductions in the interest rates are bad for commercial banks' financial performance in Kenya, they have no substantial impacts. In contrast, Ochanda (2018) showed that establishing interest rate limits coupled with the payment rate levels ensured a beneficial impact on payments of Kenyan commercial banks. Musyimi and Kising'u (2019) have also confirmed that Kenya has a favorable connection between interest and financial success in corporations. However, effects of interest rate capping on financial performances is not significant. Thus, this study filled the existing research gap by assessing the relationship between interests rate capping and financial performances of Kenya Commercial Bank Limited in Kakamega County, Kenya.

Research Objectives

- To determine the relationship between credit uptake and financial performance of Commercial Banks in Kenya.
- To establish the relationship between financial exposure and financial performance of Commercial Banks in Kenya.
- To assess the relationship between loaning practices and financial performance of Commercial Banks in Kenya.

The study was guided by the following research hypotheses

- **H₀₁:** There is no significant relationship between credit uptake and financial performance of Commercial Banks in Kenya.
- **H₀₂:** There is no significant relationship between financial exposure and financial performance of Commercial Banks in Kenya.
- **H₀₃:** There is no significant relationship between loaning practices and financial performance of Commercial Banks in Kenya.

LITERATURE REVIEW

Loanable Funds Theory of Interest Rates

This was a theory advanced by the Swedish economist Knut Wicksell (1993) that seeks to differ in part with the classical theory of interest rates and

thus offered improvements on the classical theory of interest rates. This theory states that the relationship between quantities of loanable funds demanded and the interest rates is inverse in nature. The rate that brings about equality between the supply as well as the demand of loanable funds can be defined as the equilibrium interest rate. This theory sought to improve the earlier classical theory of interest rates by arguing and recognizing how important hoarding as a factor affects interest rates. The theory also tried to link together investments, savings, and quantity of money and liquidity preference. The theory also took into consideration the role that bank credit will have as an important source of loanable funds. This theory sheds light and takes into account both aspects of the problem, be they monetary or non-monetary.

The spread of, interest rates, is regulated, concurring with, an idea by, marketing demands and loanable money supplies. The interest rates are, based on the demand for loanable money and the supply. The Jakab and Kumhof (2015) research shows that interest rate distribution is governed by the notion of credit funds, since credit funds are insufficient when individuals are not saving with banks and banks cannot provide or lend to borrowers. Therefore, the demand for credit is greater than the availability of loanable money. This strong demand contributes to high interest rates for banks. This results in the wider dispersion of the interest rate. The idea of credit funds implies that there is complete competition on the market so that neither a borrower nor a creditor can set securities prices. It also implies that free movement of money exists on the market (Jakab & Kumhof, 2018)

The creation of capping interest rates would disturb the market balance of supply and demand, since the capping legislation will strangle money supply and banks will not be able to provide cash for all the companies that need it. Credit rationing will eventually arise, since banks will regard the general interest rates as low as current demand. They will, deliberately provide loans to, those individuals not, considered, hazardous and they will keep a strategic

distance from risky loans since earnings will not cover undeforming loans (Fiebiger & Lavoie, 2020).

This hypothesis plays a significant part in the research since it shows the link between loanable funds demand and interest rates. In principle, the demand for loans is increasing in situations when interest rates drop. Loans made to Kenyan commercial banks boost demand, indicating that institutions are, overburdened by demand. It is thus reasonable to suggest that such demand might have interconnection with commercial banks' financial performance.

Empirical Studies

Onaya and Maniagi (2020) did a research on the effect of credit absorption on the financial performance of Kenyan commercial banks. Longitudinal research design was used in the study. The study targeted commercial banks in Kenya. Purposive sampling was used to sample commercial banks based on published financial data within study period as well as those which are not under receivership or statutory management. The secondary data was collected from audited financial records of commercial banks in Kenya. Pearson correlation indicated that there significant relationship between credit uptake and financial performance of commercial bank during interest rate control regime. The results revealed that increase in credit uptake during interest rate control would results to reduction in financial performance of commercial banks in Kenya. The study recommends that the central bank of Kenya should opt for long term solutions to resolve the issue of money supply as the use of interest rate control is detrimental to credit uptake by customers from the commercial banks evidenced by the continued decline in the loan growth and an increase in the non-performing loans.

Okwany (2017) did examine impacts of Kenya rate limiting on the commercial banks' operational performance metrics: Kenya Commercial Bank Limited case study. Exploratory research was directed by three specific objectives namely: the effect of capping of interest rate on credit uptake

performance of the bank, the effect of interest rate risk exposure on bank profitability of KCB-K and the effect on performance of the portfolio of non-performing loans in KCB-K. The scope of the study was limited to a case study of KCB Bank Kenya. Descriptive research design was applied in the study. The targeted population in the study was the employees of KCB-K at selected branches and Head Office functions. Questionnaires were used for data collection and were self-administered. The research showed that limiting interest rates reduced credit uptake, reduced the number of authorized loan facilities, raised new credit selection criteria and influenced increasing non-performing loans.

For commercial banks in Kenya, Siriba (2019) has carried out interest rate recovery and financial performance evaluation. The mean ROE was 0.13 during the pre-cap period and the ROE was 0.07. Before interest rates ($M=0.13$, $Sd=0.087$), interest rates capping procedures were statistically substantially different ($M=0.07$, $SD=0.136$); $t(30)=3.174$, $p=0.003$. Research has similarly found that capping credits ($M=15.56$, $SD=9.14$) as well as post-rate growing credits ($M=0.77$, $SD=11.33$) were significantly different before interest rates ($t(30)=6.22$, $p=0.000$) were restricting their growth. Capping interest rates has a detrimental effect on banks' ROE and loan growth. The government should thus review the approach to regulate interest rates to enhance the nation's economic growth. Also, Thiong'o (2018) examined the impact of the expansion of loan portfolios on commercial banks' fiscal performances in Kenya. Samples were, selected of 31 commercial banks. The research lasts 5 years between 2011 and 2014. The increase in loans had an adverse impact on commercial banks' return in the following years.

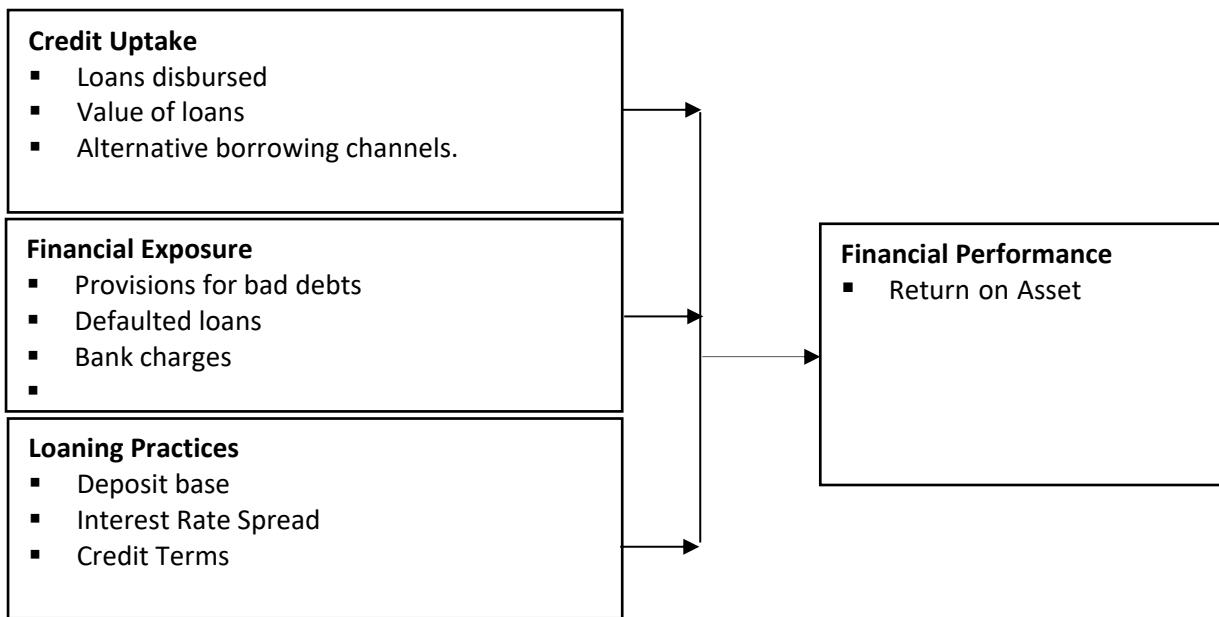
Otieno and Onaya (2020) reviewed the economic performance impact of financial exposure in Kenya under the Kenya rate regulation. The research demonstrated that exposure of financial risk to interest rates limitations has a momentous effects on financial performances of Kenyan commercial banks. Longitudinal research design was used in the

study. The study targeted commercial banks in Kenya. Purposive sampling was used to sample commercial banks based on published financial data within study period as well as those which are not under receivership or statutory management. The secondary data was collected from audited financial records of commercial banks in Kenya. The study recommended that financial exposure that banks face from risky customers can be reduced by improving on the loaning practices of the bank and closer scrutiny to weed out those likely to default during interest rate control regime. Further, the study recommended commercial banks to educate their clients on borrowing terms and conditions as this helps clients make accurate decisions easing reliance on collateral. The study also recommends strict system related credit performance monitoring as it ensures better loan performance.

Mbua (2017) examined the consequences for banks listed on the central bank interest rate restriction Nairobi Securities Exchange. The study utilized observational surveys and data gathered via checklists. The relationships between different variables were, examined using inferential statistics. Research indicates that in the third and fourth quarters of 2015, the connection between loans and equity prices was negative, and in the third to fourth quarters of 2016, there was a positive correspondence amongst prices as well as stocks charges. Research indicates that, as opposed to 2016, the lending rate did not substantially influence shares volume in almost every bank, while Pearson's correspondence charges were negative in the third as well as fourth quarters. Research has shown that, 30 days before the announcement of the introduction of the interest-rate restriction, stock prices and the number of shares for listing banks typically shifted.

Conceptual Framework

In this study, the independent variable was interest rate capping and the dependent variable was financial performance. The connection between factors in this study was described as in the figure below.



Independent Variable

Dependent Variable

Figure 1: Conceptual Framework

METHODOLOGY

The study considered a descriptive survey design to inform the methods used with the aim of achieving the objective of the study. The study was conducted in Kenya Commercial Bank Limited in Kakamega County: one in Mumias town with a total population of 60 employees and another one in Kakamega town with a population of 78 employees. The respondents included managers, supervisors and other staff such as tellers, clerical officers, credit/loan officers, debt collection officers, and sales representatives (Kenya Commercial Bank, 2022). This gave a total target population of 138 persons distributed as follows; Branch managers 2, Supervisors 20, other staffs 116. A sample size of 103 respondents was determined using Taro Yamane formula. The respondents were then selected using simple random sampling technique from each stratum to form study sample. The study utilized questionnaires to collect primary data on independent variables and secondary study specifically on financial performance variable which included return on asset. Secondary data was collected from audited financial statements of Kenya Commercial Bank. The published reports were

obtained from the individual KCB website as well as from CBK website. The data was secondary and was based on published annual reports covering the period 2018 to 2022. Pilot study was done to ascertain the validity and reliability of the research instruments. Analysis of both qualitative and quantitative data was done and the results were described and presented using tables.

FINDINGS AND DISCUSSION

Descriptive Statistics

The presentation of descriptive statistics is based on the frequencies, percentage, mean and standard deviation of study variables. These variables were credit uptake, financial exposure and loaning practices which were independent variables while financial performance was dependent variable. The respondents were asked to indicate their level of agreement with the statements. The findings were as follows in which percentage are presented outside brackets while frequency inside the brackets.

Table 1: Credit Uptake

Statements	5	4	3	2	1	Mean	S.D
The introduction of interest rates caps has increased the demand loans and thus better financial performance.	11.1 (9)	33.3 (27)	7.4 (6)	25.9 (21)	22.2 (18)	2.85	1.39
There is consideration of loan values by this Kenya Commercial Bank branch.	37 (30)	29.6 (24)	22.2 (18)	7.4 (6)	3.7 (3)	3.89	1.11
This Kenya Commercial Bank branch recommends alternative borrowing channels.	18.5 (15)	18.5 (15)	25.9 (21)	18.5 (15)	18.5 (15)	3.00	1.37
Interest rate capping has led to development of new products or services	22.2 (18)	55.6 (45)	3.7 (3)	14.8 (12)	3.7 (3)	3.78	1.07
Introduction of interest rates caps has led the bank disbursing more loans increased the financial performance	22.2 (18)	33.3 (27)	7.4 (6)	29.6 (24)	7.4 (6)	3.33	1.31

N=81; KEY: 1= Strongly Disagree; 2= Disagree; 3=Undecided; 4= Agree; 5=Strongly Agree; SD= Standard Deviation.

Source (Field Data, 2023)

According to the results in the table 1, 11.1% and 33.3% of the respondents strongly agreed and agreed that the introduction of interest rates caps has increased the demand loans and thus better financial performance. With a mean of 2.85 and a significant standard deviation of 1.39, the respondents agreed that the introduction of interest rates caps has increased the demand loans and thus better financial performance. However, 37% and 29.6% of the respondents strongly agreed and agreed that there is consideration of loan values by this Kenya Commercial Bank branch. With a mean of 3.89 and a significant standard deviation 1.11, there is consideration of loan values by this Kenya Commercial Bank branch. In regard to this, Kenya Commercial Bank branch recommends alternative borrowing channels, 18.5% and 18.5% of the participants strongly agreed and agreed. With a

mean of 3.00 and a significant standard deviation of 1.37, the respondents agreed on the statement. Moreover, the results revealed that 22.2% of the participants strongly agreed that introduction of interest rates caps has led the bank disbursing more loans increased the financial performance while 33.3% of the respondents agreed. With a mean of 3.33 and a significant standard deviation of 1.31, the participants agreed that introduction of interest rates caps has led the bank disbursing more loans increased the financial performance. Lastly, 22.2 % of the respondents strongly agreed and another 55.6% agreed that interest rate capping has led to development of new products or services. With a mean of 3.78 and a significant standard deviation of 1.07, the respondents agreed that interest rate capping has led to development of new products or services.

Table 2: Financial Exposure

Statements	5	4	3	2	1	Mean	S.D
There is consideration of provision for bad debts by this branch of Kenya Commercial Bank	14.8 (12)	37 (30)	25.9 (21)	11.1 (9)	11.1 (9)	3.33	1.10
There is consideration of liquidity by this branch of Kenya Commercial Bank	18.5 (15)	40.7 (33)	18.5 (15)	14.8 (12)	7.4 (6)	3.48	1.20
There is consideration of defaulted loans by this branch of Kenya Commercial Bank.	14.8 (12)	44.4 (36)	22.2 (18)	3.7 (3)	14.8 (12)	3.41	1.31
There is consideration of banking charges by this branch of Kenya Commercial Bank.	29.6 (24)	40.7 (33)	3.7 (3)	14.8 (12)	11.1 (9)	3.63	1.21

N=81; KEY: 1= Strongly Disagree; 2= Disagree; 3=Undecided; 4= Agree; 5=Strongly Agree; SD= Standard Deviation.

Source (Field Data, 2023)

According to the results in the table 2, 14.8% (12) and 37% (30) of the respondents strongly agreed and agreed that there is consideration of provision for bad debts by this branch of Kenya Commercial Bank. With a mean of 3.33 and a significant standard deviation 1.10, there is consideration of provision for bad debts by this branch of Kenya Commercial Bank. However, 18.5% (15) and 40.7% (33) of the respondents strongly agreed and agreed respectively that there is consideration of liquidity by this branch of Kenya Commercial Bank. With a mean of 3.48 and a significant standard deviation of 1.20, the respondents agreed that there is consideration of liquidity by this branch of Kenya Commercial Bank.

In regard to this there is consideration of defaulted loans by these branches of Kenya Commercial Bank, 14.8% (12) and 44.4% (36) of the participants strongly agreed and agreed respectively. With a mean of 3.41 and a significant standard deviation of 1.31, the respondents agreed on the statement. Moreover, the results revealed that 29.6% (24) and 40.7% (33) of the participants strongly agreed and agreed respectively that there is consideration of banking charges by this branch of Kenya Commercial Bank. With a mean of 3.63 and a significant standard deviation of 1.21, the participants agreed that there is consideration of banking charges by this branch of Kenya Commercial Bank.

Table 3: Loaning Practices

Statements	5	4	3	2	1	Mean	S.D
The bank is in a better position to carry out financial intermediation role as more customers save money while creating credit for the borrowers hence improved economy.	48.1 (39)	19.8 (16)	11.1 (9)	14.8 (12)	6.2 (5)	3.89	1.32
Interest rates caps have reduced loan defaults and thus lower expenses.	18.5 (15)	33.3 (27)	25.9 (21)	18.5 (15)	3.7 (3)	3.44	1.11
The Bank is very eager to lend more as more customers can afford term loans.	29.6 (24)	22.2 (18)	25.9 (21)	12.3 (10)	9.9 (8)	3.49	1.31
Interest rate spreads are continuously reviewed in line with prevailing economic conditions.	25.9 (21)	25.9 (21)	25.9 (21)	11.1 (9)	11.1 (9)	3.44	1.29

N=81; KEY: 1= Strongly Disagree; 2= Disagree; 3=Undecided; 4= Agree; 5=Strongly Agree; SD= Standard Deviation

Source (Field Data, 2023)

According to the results in the table 3, 48.1% (39) and 19.8% (16) of the respondents strongly agreed and agreed respectively that the Bank is in a better position to carry out financial intermediation role as more customers save money while creating credit for the borrowers hence improved economy. With a mean of 3.89 and a significant standard deviation 1.32, the Bank is in a better position to carry out financial intermediation role as more customers save money while creating credit for the borrowers hence improved economy. However, 18.5% (15) of the strongly agreed and another 33.3% (27) agreed that interest rates caps have reduced loan defaults and thus lower expenses. With a mean of 3.44 and a significant standard deviation of 1.11, the respondents agreed that interest rates caps have

reduced loan defaults and thus lower expenses. In regard to this the Bank is very eager to lend more as more customers can afford term loans, 29.6% (24) of the participants strongly agreed and another 22.2% (18) agreed on the same. With a mean of 3.49 and a significant standard deviation of 1.31, the respondents agreed on the statement. Moreover, the results revealed that 25.9% (21) of the participants strongly agreed that interest rate spreads are continuously reviewed in line with prevailing economic conditions while 25.9% (21) of the respondents agreed. With a mean of 3.44 and a significant standard deviation of 1.29, the participants agreed that interest rate spreads are continuously reviewed in line with prevailing economic conditions.

Table 4: Financial Performance

N	Minimum	Maximum	Mean	Std. Error	Std. Deviation
5	0.0198	0.0336	0.0288	0.4304	0.0055

Source (Field Data, 2023)

As indicated in table 5, between 2018 and 2022, return on asset which was used to measure financial performance ranged from 1.98% to 3.36% with a mean of 2.88% with a standard error of 0.43 and a standard deviation of 0.005%. As shown in Figure 1, return on asset decreased from 3.36% in 2018 to

2.80% in 2019 and further 1.98% in 2020 indicating an increase in profit respectively. In 2021, it increased to 3.00% before increasing to 3.25% in 2022 showing a decrease in net profit of the KCB Ltd during the years.

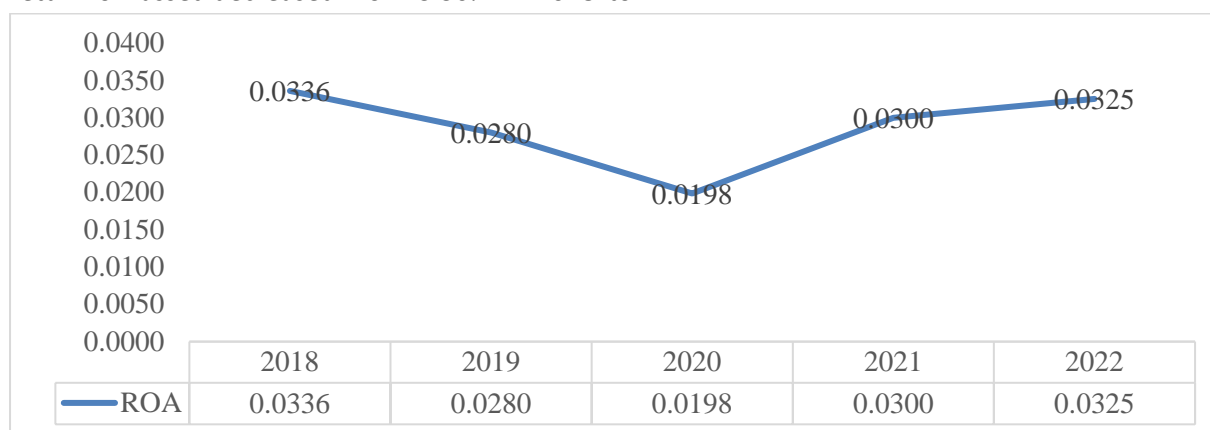


Figure 1: Line Graph showing Financial Performance between 2018 and 2022

Source (Field Data, 2023)

Correlation Analysis

Correlation analysis provides a value that shows whether changes in the dependent variable are caused by changes in the independent variable. The correlation coefficient then measures the linear association between two variables (Crossman 2013).

Correlation coefficients are numerical values indicating the direction of and strength of a relationship between two variables. If equal to 1, there is a strong and positive relationship; if 0, there is no relationship; and if -1, there is a strong, negative relationship.

Table 2: Pearson Correlation Analysis

		CU	FE	LP	FP
CU-Credit Uptake	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	81			
FE-Financial Exposure	Pearson Correlation	-.601**	1		
	Sig. (2-tailed)	.000			
	N	81	81		
LP-Loaning Practices	Pearson Correlation	.767**	-.397**	1	
	Sig. (2-tailed)	.000	.000		
	N	81	81	81	
FP-Financial Performance	Pearson Correlation	.606**	-.282*	.661**	1
	Sig. (2-tailed)	.000	.011	.000	
	N	81	81	81	81

** . Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source (Field Data, 2023)

The results indicate that credit uptake has a moderate positive Pearson correlation ($r=0.606$, $p=0.000$) with financial performance of commercial banks in Kenya. This indicates that credit uptake plays a major role in financial performance. The results are in agreement with Thiong'o (2018) examined the impact of the expansion of loan portfolios on commercial banks' financial performance in Kenya. The use of loans and interest-rate limits are closely related to business banks' financial performance. However, Okwany (2017) showed that limiting interest rates reduced lending, reduced the number of authorized loan facilities, raised new credit selection criteria and influenced increasing non-performing loans.

However, the results indicate that there is weak negative relationship between financial exposure and financial performance of commercial banks in Kenya (Pearson correlation coefficient= -0.282 , $P=0.011$). Therefore, increase in financial exposure would result to significant decrease in financial performance. The results are supported by Konya, Jagongo and Kosimbei (2019) sought to establish the effect of financial risk exposure on financial performance of commercial banks in Kenya. Financial exposure has been considered to have negative impact on the financial performance of commercial banks in Kenya. However, Kimita (2016) investigated the impact of commercial interest rate risk banks in Kenya on their financial performance. Results demonstrated an insignificant positive link between interest rates exposure and commercial banks' financial performance.

The analysis in table 2 show that loaning practices has a moderate positive Pearson correlation coefficient ($r= 0.661$, $P=0.000$) with financial performance. This indicates that Loaning practices factors cannot be ignored whenever considering the financial performance. The results are supported by Olokoyo (2017) investigated Nigeria's lending practices for commercial banks by analyzing the factors affecting Nigerian lending behaviour. The study findings show that loan practices have the biggest effect on their credit performance.

CONCLUSION AND RECOMMENDATIONS

The study concluded that there is significant relationship between interest rate capping and performance of commercial banks in Kenya. The findings indicated that there is significant positive relationship between credit uptake and financial performance of commercial banks in Kenya. Therefore, increase in credit uptake would result to increase in financial performance of commercial banks in Kenya. The introduction of interest rates caps has increased the demand loans; hence the bank is in position to disburse more loans. The study established that there is significant negative relationship between financial exposure and financial performance of commercial banks in Kenya. Increase in financial exposure results to decrease in financial performance of commercial banks in Kenya. Financial exposure has forced KCB to consider of provision for bad debts and liquidity level which may have negative effect on financial performance. Lastly, the study concluded that there is significant positive relationship between Loaning practices and financial performance of commercial banks in Kenya. Thus, increase loaning practices results to significant increase in financial performance of commercial banks in Kenya. The bank is in a better position to carry out financial intermediation role as more customers save money while creating credit for the borrowers hence improved economy.

The study recommended that management at KCB should balance fees chargeable on each loan product as processing fee to a percentage of the loan to make loans affordable to customers. Furthermore, financial exposure that banks face from risky customers can be reduced by improving on credit management and closer scrutiny to weed out those likely to default. Lastly, customer's needs should be considered when setting loaning practices such as the levels of interest rates so as to enhance its financial intermediation role. The government, academics, general public, and other stakeholders in the banking business are expected to benefit from the knowledge this research has to offer.

Areas of Further Studies

The study focused on credit uptake, financial exposure and loaning practices on financial performance. However, other factors such as firm size may have direct or indirect influence on the relationship between interest rate control and financial performance. Therefore, further studies should consider using firm size as moderating variable. The study limited itself to Kenya Commercial Bank Limited; further studies should be

conducted in other commercial banks in Kenya so as to enhance generalizability and applicability of the findings. The study was conducted in Kenya Commercial Bank branches in Kakamega County, further study should be conducted in other branches of Kenya Commercial Bank. The study utilized primary data for independent variables and secondary data for dependent variable, further studies should use both primary and secondary data for all the variables to enhance triangulation.

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