



**FINANCIAL RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF FOREX BUREAUS IN NAIROBI COUNTY, KENYA**

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**ABSTRACT**

*Forex bureaus function in an environment filled with various financial risks that influence their financial performance. These financial institutions, especially in the 21st century, have been faced with multiple occurrences that have culminated to financial risks. The essence of organizations formulating financial risk management approaches was caused by the collapse of reputable businesses such as WorldCom and Enron, and this has helped businesses to cushion themselves and their stakeholders from different financial risks. Financial performance remains one of prominent measures of growth, and organizations have used this measure to attain their objectives. Financial performance in forex bureaus is a numerical indicator for the spread to which financial goals are achieved. The study objectives included; to determine the influence of operational risk management on financial performance of Forex Bureaus in Nairobi County; to establish the influence of credit risk management on the financial performance of Forex Bureau in Nairobi County; to assess the influence of liquidity risk management on the financial performance of Forex Bureau in Nairobi County and to evaluate the influence of market risk management on the financial performance of Forex Bureau in Nairobi County. The target population was 74 Forex Bureau which consisted of CEOs, Managing Directors and Middle Management Staff. Yamane Formula was adopted to arrive at a sample size of 210. The study adopted both primary and secondary data collection method. The study found that there was a relationship between financial risk management and financial performance of forex bureau in Nairobi County. It was clear that there was a positive correlation between financial performance and credit risk management ( $\beta=0.321$ ;  $p<0.05$ ); there was also a positive correlation between financial performance and liquidity risk management with ( $\beta = 0.526$ ;  $p < 0.05$ ); there was a positive correlation between financial performance and operational risk management ( $\beta = 0.122$ ;  $p < 0.05$ ) and finally, there was a positive correlation between financial performance and market risk management ( $\beta= 0.362$ ;  $p < 0.05$ ). The study recommended the management must designed foreign exchange risk exposed parameters to track and regulate adversative effect brought by unpredictability in the foreign exchange market.*

**Key Words:** *Operational Risk Management, Credit Risk Management, Liquidity Risk Management, Market Risk Management, Financial Performance*

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## BACKGROUND OF THE STUDY

Institutions in the in the current era are operating in an environment full of a myriad of risks. Specifically, Zhilkina et al., (2022) pointed that the 21st Century has seen multiple occurrences that culminated to financial risks striking organizations, nations, regions, and to a larger extent the entire global economy. Ali and Hana (2021) indicated that the consideration given to financial risks was prompted by the Asian economic crisis of late 1990s and the 2000's financial crisis that shook U.S. A's economy. Between years 2001 and 2002, Argentina experienced a financial crisis that led its government to miss access to capital markets. Mukaddam and Athenia (2020) also pointed that the fall of reputable businesses like WorldCom and Enron stunned the business world prompting many organizations to formulate financial risk management approaches to cushion themselves and their stakeholders.

According to World Bank (2019), the global GDP reduced from 1.85% in 2008 to -1.67% in 2009 due to the aforementioned financial crises. Teodoru and Klakow (2022) reported that bank distress and its fiscal and economic fallout have been recurring features of many countries in Asia since the 2014/15 oil price shock. Coronavirus disease saw the African continent suffer the greatest financial risks over 2 the recent past. The International Monetary Fund - IMF (2021) reported that African countries' tax bases dwindled as local industries lost income, for instance, the African airlines losing USD 4.4 billion in income every three months.

In January 2021, the Central Bank of Kenya (CBK) in a Gazette Notice No. 101 revoked the license of Legacy Forex Bureau under section 33D (1) of the CBK Act following more than six months of non-operations. Other effects of financial risks have been the drop-in volumes of foreign currency exchange and consequently profitability. Financial risks management is deemed as the best approach to solving such occurrences (CBK, 2021).

The terms risks is applied in this study to imply the chance that the real earnings from investment will be different from the projected return or outcome. Ali and Hana (2021), define financial risks as hazards or losses caused by occurrences that affect the capital structure of a company; political/regulatory risks as the hazards caused by the impact of changes in regulation and political decisions; and interest rate risks are derived from the impact of changing interest rates.

Environmental risks are dangerous occurrences caused by uncertainties related to the effect of changes in the environment or environmental liabilities (Zhilkina, et al., 2022). Operational risks result from the uncertainty about a business's operations, including its supply chain and the distribution of products or services; and management risks are caused by the decisions of a management team on a company (Jaber, 2020).

Accordingly, risk management is the procedure of discovering, evaluating and controlling dangers to an organization. According to Jaber (2020), risk management refers to the process of putting in place measures to cushion firms from hazards. 3 Financial risk management refers to the various approaches adopted to counter events that can impact the monetary soundness of an organization, as well as it's set business goals and objectives (Ramazan & Gulden, 2019). Teodoru and Klakow (2022), reiterate that the risk management process is made up of various steps, that include creating the context, identifying, analyzing, treating, assessing, evaluating and stating risks, that permit constant enhancement of decision making.

According to Fatihudin, Jusni and Mochklas (2018), financial risks can create obstacles during the achievement of certain financial objectives of a corporate organization. Ramazan and Gulden (2019) point that financial institutions all over the world are faced with various risks ranging from credit, foreign investment, currency, liquidity, stock market and interest

rate risks. Warrada and Khaddam (2020), posit that financial risks emanating from the Asian, the United States of America and the COVID-19 crises resulted in financial shocks to financial institutions in most countries. Fadun and Oye (2020) indicate that operational, credit, currency and market risks management have been adopted to cushion financial institutions from the financial risks.

To address the procedures utilized to address the financial jeopardies, as per Mutunga & Ondara (2021), it involves the utilization of technological innovations to bring down organization expenses, regulation of perils and unfriendly determination, intensive investigation of financial risks cases, improvement of financial risk estimation models and consistent checking of the vulnerabilities. According to the profitability of Forex bureaus has largely been affected by financial risks in foreign exchange operations hence the need to adopt and implement financial risk 4 management to counter the uncertainties and risks (Cheruiyot, Cheruiyot and Yegon, 2018).

### **Statement of The Problem**

Financial disasters in organizations in the recent past point out the need for risk management. Most failures in organizations including forex bureaus have happened due to unidentified or unmitigated risks within these institutions. Greater dependence, increased volatility and new risks have made the structure of risk exposure of forex bureaus more complex. Forex Bureaus participate in active assumption of financial risks to attain their tactical goals thus providing positive and justifiable earnings to their shareholders. This is specifically attained when these firms have rising path in financial performance. According to Oyetayo and Eboigbe (2018), the foreign exchange business industry is intrinsically filled with financial dangers. It means that the Forex Bureaus are expected to actively address these dangers to endure and provide better earnings to the stakeholders. Kimathi et al. (2018), indicates that the worldwide financial and economic disaster of

2008 influenced a majority of financial establishments threatening the existence and solidity of the financial industry. Gulleid (2020), analyzed the financial productivity of Kenyan forex bureaus and found there is a decline on ROA. In his study, the test statistics had a p value of less than 0.05 which then summarized there was a statistically substantial influence of foreign exchange rate fluctuations on the financial performance of bureaus. The primary reason of this disaster was accredited to unsuitable financial risks management by the financial institutions (Mohamed & Onyiego, 2018). The study is necessitated by the need to comprehensively understand the impacts of exchange rate oscillations on financial performance of foreign exchange bureaus in Nairobi city County.

Gulleid (2020) studied the impacts of exchange rate variations on financial performance of Forex bureaus in Nairobi and found that that there was statistically noteworthy impact of foreign exchange rate variations on financial performance of forex bureaus in Nairobi. Bundi, Ngali, and Maina (2021) carried out research on financial risk management tasks and financial productivity of Kenyan microfinance banks and revealed that liquidity risk management tasks, credit risk management initiatives, market risk management practices and operational risk management practices all majorly impact on the financial performance of Kenyan microfinance banks. Wanjohi (2021), investigated the impact of financial risk management on performance of Nairobi county's real estate companies and found that there was positive and substantial association among management of liquidity risk, management of operational risk, currency risk management, and market risk management with productivity of real estate companies.

Studies done locally in Kenya have not comprehensively studied the influences of exchange rate fluctuations on financial performance of Nairobi County forex bureaus. Also, since past studies have dwelled majorly on

financial risk management strategies and financial performance of microfinance institutions, these studies have not correlated these foreign exchange risk practices to Kenyan microfinance institutions' performances. The changes in exchange rates poses serious foreign exchange risk with amplified transactions using foreign currency. Therefore, the researcher closed the knowledge gap on the effects of foreign exchange risk management practices and establish the impact of financial risk management on the financial performance of Kenyan forex bureaus, specifically in Nairobi County

### Objectives of The Study

The general objective of this study was to establish the impact of financial risk management on the financial performance of Forex Bureaus in Nairobi County, Kenya. The study was guided by the following specific objectives;

- To determine the influence of operational risk management on the financial performance of Forex Bureaus in Nairobi County, Kenya.
- To establish the influence of credit risk management on the financial performance of Forex Bureaus in Nairobi County, Kenya by analyzing relevant financial indicators such as profitability, liquidity ratios, and credit default rates.
- To assess the influence of liquidity risk management on the financial performance of Forex Bureaus in Nairobi County, Kenya through the examination of liquidity ratios, cash flow analysis, and loan repayment patterns.
- To evaluate the influence of market risk management on the financial performance of Forex Bureaus in Nairobi County, Kenya by analyzing the impact of market fluctuations, interest rate changes, and exchange rate movements on the profitability and stability of the bureaus.
- To conduct the study within a specified time frame, collect data, analyze it, and draw

meaningful conclusions regarding the influence of risk management practices on the financial performance of forex bureaus in Nairobi County, Kenya.

### LITERATURE REVIEW

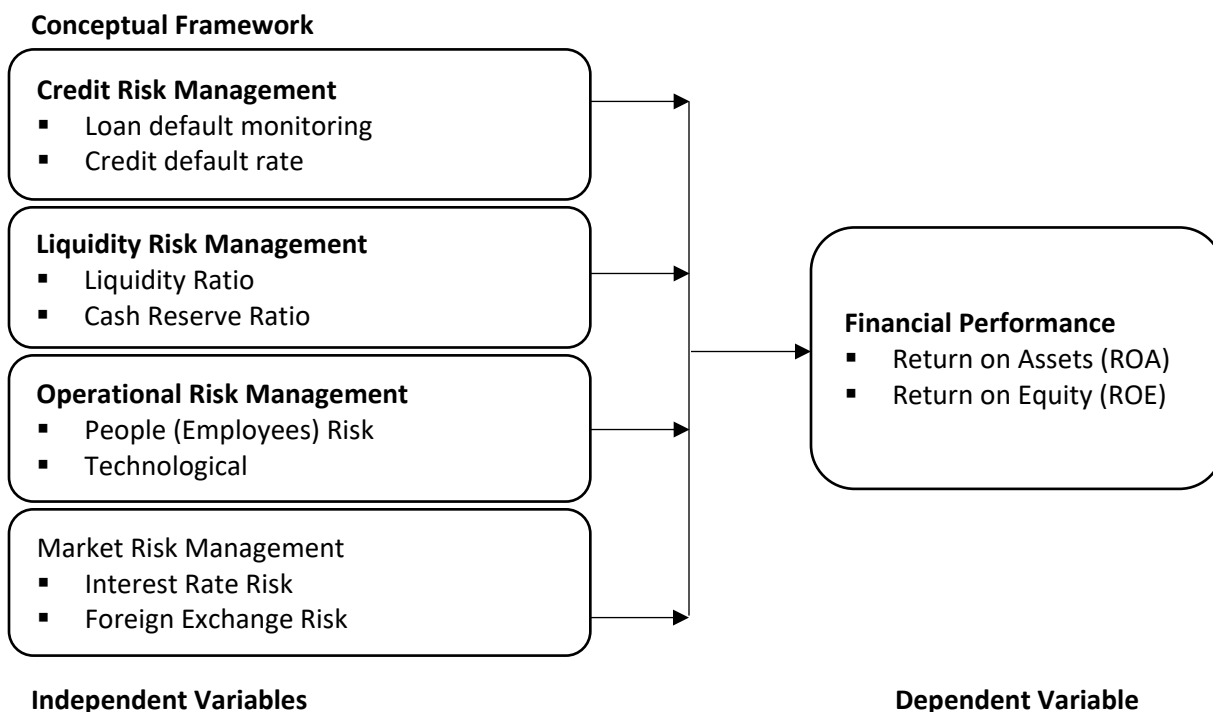
This study based its theoretical framework on four theories specifically, extreme value theory, credit theory, theory of liquidity preference, and the capital market theory. For credit risk theory (1974), it states that a company is said to be in default when its asset worth is less compared to outstanding debt. This model adopts that market fluctuations are not anticipated (efficient markets), that there are zero bankruptcy charges (liquidation value = firm value), and that equity and debt are frictionless movable assets. Resultantly, credit risk, based on this hypothesis, has an undesirable impact on a business's profitability. The Merton Model is relevant and legitimate in modern research. The primary advantage of utilizing this theory in management of credit risk, it offers direction on the theoretic impacts of credit risk and delivers crucial framework for getting credit and credit risk data from industry.

The Liquidity preference theory, developed by Keynes (1936), suggests that interest is the fee paid for rented funds and postulates that money is widely acceptable liquid asset and additional liquid investments are simply cashed in for their comprehensive value (Keynes, 1936). Based on this theory, financial organisations require functional capital to guarantee they undertake regular activities and make sure there is adequate cash flow to content both maturing upcoming operational expenses and short-term debt. The financial performance of substantially more liquid financial institutions outperforms that of less liquid financial organizations (Area, 2021). The Theory is crucial to this study since it highlights why banks keep their assets. The requirement for liquidity is determined by three aspects: speculative, precautionary, transaction.

The Extreme Value Theory (EVT), theorized by Embrechts (1999), is a group of

measures that checks into the extreme deviations from the median of likelihood disseminations. EVT highlights the likelihood of activities that are stranger than those already seen, depending on a specific appeal test of an arbitrary variable. The financial industry, which encompasses banking and insurance, is experiencing significant changes. This theory examines operational risk management knowledge as it links to the understanding of recognized risks and the substitute risk transfer techniques already available to maintain a seamless procedure. Whenever operational risk is internal, EVT adopts that the financial institution's exposure to market risk (i.e., investment in hazardous securities) is less unstable, and only more volatile when operational risk is external (Nolde & Zhou, 2021). Drastic measures are needed in risky market situations, and research established that no one measure can execute better for the tails and center of an exchange rate dispersal.

The Capital market theory, hypothesized by Markowitz (1952) emphasized on the rewards and risks of specific assets when developing and establishing their portfolios. From the 1980s, industries have utilized this theory to take care of market risk, permitting them to utilize value at risk models to address risks such as interest rate risk and market risk exposures. This tactic includes evaluating credit risk exposures, executing a credit risk rating, and defining the outcomes to approximate the foreseen losses of a portfolio, irrespective of the varied tactics used by organizations. The theory is based on the foundation that all stakeholders have the similar objective or time constraints. Companies can acquire a better understanding of credit risk by employing the asset-asset approach, according to Mason and Roger (1998). The theory stresses the perception of the tradeoff in between risk and return that is crucial for decision-making in investment. As Nofsinger (2017), highlights, in case a client is ready and prepared to experience more risk, the projections for future returns are equally expected to be high.



**Figure 1: Conceptual Framework**

**METHODOLOGY**

Research is a systematic way to search for information on a specific topic. According to

Dawadi, Shrestha and Giri (2021), research design refers to an approach accepted in realizing the study aims using empirical

evidence. It is described as a systematic way to solve research problems. This study adopts descriptive design since it seeks to answer the why, how and when. Preference for this research design is that it can be used to gather data about forex bureaus' staff opinions, attitudes, habits or other social issues. The target population, also known as hypothetical universe, normally has far-reaching features. In this study, the target population will be Nairobi county's 74 forex bureaus duly approved by the Kenya Forex & Remittance Association. Units of observation will comprise of top-level management (the CEOs, managing directors) of the 74 forex bureaus. In addition, the study will include the 46 middle management staff (including finance managers, forex bureau directors and principal officers) operating in the high offices of the forex Bureaus in Nairobi, Kenya. In this study, each forex bureau consists of two (2) of the top management staffs targeted and four (4) of the middle management staff targeted. Therefore, for every bureau, the staff who will be engaged are six (6). Accordingly, the possible number of top managements will be 148 while the total middle level managers will be 296. The arrangement translates to a number of possible responses totaling 444.

Data collection is the procedure of getting together, measuring and evaluating correct insights for study while utilizing standard validated methods. Both primary data collected using research questionnaire and secondary data as the primary data collection research methods will be applied. Reason for choosing a questionnaire is its short time taken to administer. The proposed survey was chiefly quantitative, meaning it was comprised of structured and semi-structured questions, to enhance flexibility to answering questions. The questionnaires also have questions that was shared to respondents who are looking for more information. Preference of questionnaires due to making it possible to form relations with interviewees. Also, the questionnaire offers the interpretations required by interviewees instantly by gathering the questionnaire. Panel

data on financial performance and documented aspects of financial risks management was sourced from CBK published articles, reports, peer-reviewed journals and other appropriate internet sources and the library. Secondary data sources are authentic, therefore suitable, 50 reliable, and valid. Secondary data from different resources was mined and input into the secondary data assortment sheet manually to generate a comprehensive set of data that was utilized in finalizing the study.

Data analysis includes the procedures and processes of transforming research data to usable forms (Simpson, 2015). The processes involve different stages including establishing of data set, preparing data for processing, applying models and then presenting findings based on the hypotheses and study objectives. The raw primary data gathered was coded before being input into SPSS software. After coding, the data will be cleaned to ensure correctness and extensiveness of the data gathered. The information gathered was both qualitative and quantitative and it was evaluated inferentially and descriptively. The descriptive statistical tools such as Statistical Package for Social Sciences (SPSS) and MS Excel helped the researcher to define the data. Averages, frequencies and percentages accurately serve this task. Qualitative data was evaluated by evaluation of the common notions and would be offered in form of a discussion. Quantitative data analysis was implemented using descriptive statistics which is 53 mean scores and correlation analysis. Inferential analysis for the study was undertaken to enable presentation of findings and drawing of conclusions. This involved use of Karl Pearson Correlation analysis and multiple linear regression analysis. Each objective was analyzed descriptively and inferentially.

## **FINDINGS**

### **Credit Risk Management Practices and Financial Performance**

One of the research's objectives was to establish the influence of credit risk management on the financial performance of

Forex Bureaus in Nairobi County, Kenya. Consequently, the interviewees were obligated to state the level to which they agreed with several assertions about the impact of credit risk management on financial performance of forex bureaus in Nairobi City County, Kenya. A measure of scale of 1- 63 5 was used where 1 implied strong disagreement, 2 implied disagreement, 3 implied neutrality/impartiality, 4 implied agreement with 5 implying a strong agreement with the statements. As per the results shown in Table 1 there was a general agreement that the forex bureaus in Nairobi City County use a well-defined credit acquisition mechanism hence reducing unhealthy loan portfolio. This was in accordance with the mean score of 3.595 corresponding with the responses and a standard deviation of 0.667.

According to majority of the respondents, its agreeable that the forex bureaus in Nairobi City County have a stringent credit inspection mechanism to cushion itself as shown by a mean of 3.574 and a standard deviation of 0.921. According to most of the responses gathered, advanced control policies affect the profitability of forex bureaus in Nairobi City County as evidenced by a mean score of 3.561 and a standard deviation of 0.932. The respondents however indicated neutrality on that elaborate credit policies guide the forex bureaus in Nairobi City County in seeking credit facilities thereby increasing the book value shown by a mean of 3.351 and a standard deviation of 1.032. The composite mean of this variable was 3.5203 which implies that majority of the respondents agreed with the statements provided regarding credit risk management.

**Table 1: Agreements on Credit Risk Management and Financial Performance**

<b>Statements on Credit Risk Management</b>	<b>Mean</b>	<b>Std. Dev</b>
The forex bureaus in Nairobi City County use a well-defined credit acquisition mechanism hence reducing unhealthy loan portfolio	3.595	0.
The forex bureaus in Nairobi City County have a stringent credit inspection mechanism to cushion itself	3.574	0.921
Advanced control policies affect the profitability of forex bureaus in Nairobi City County	3.561	0.932
Elaborate credit policies guide the forex bureaus in Nairobi City County in seeking credit facilities thereby increasing the book value	3.351	1.032
<b>Composite</b>	<b>3.5203</b>	<b>0.888</b>

### **Liquidity Risk Management Practices and Financial Performance**

The study was also interested in assessing the influence of liquidity risk management on the financial performance of Forex Bureaus in Nairobi County, Kenya. Therefore, the respondents were asked to rate their extent of approval with different assertions about the impact of liquidity risk management on financial performance of forex bureaus in Nairobi City County, Kenya. The findings showcased in Table 2 reveal that most of the respondents agreed that proper liquidity management policies help the forex bureaus to monitor the liquidity risk as shown by a mean score of 3.534 and a standard deviation of 0.621. The respondents further agreed that the

mandatory liquidity ratio helps in mitigating the forex bureaus' liquidity risk exposure as shown by a mean score of 3.527 and a standard deviation of 0.586. The respondents further agreed that having in place a liquidity contingency plan helps the forex bureaus in funding liquidity crisis thereby reducing liquidity risk as shown by a mean score of 3.527 and a standard deviation of 0.587. On the other hand, there was neutrality on that the Cash Reserve Ratio (CRR) requirements helps to reduce the forex bureaus' liquidity risk exposure as shown by a mean score of 3.486 and a standard deviation of 0.965.

The composite mean score of this variable was 3.5185 which indicates that most of



the respondents agreed with the statements regarding liquidity risk management. From the study, the level of profitability of forex bureaus is significantly influenced by how liquidity risk management was applied. These results are in agreement with Perera and Perera (2020) who

also posited that liquidity is a very critical phenomenon for seamless operationalization of banks and financial industry activities. Otieno, Nyagol and Onditi (2016) specified that Kenyan forex bureaus are bedeviled with a decreasing tendency in capital adequacy and profitability.

**Table 2: Agreements on Liquidity Risk Management Practice and Performance**

Statements on Liquidity Risk Management	Mean	Std.Dev.
The Mandatory liquidity ratio helps in mitigating the forex bureaus' liquidity risk exposure	3.527	0.587
The Cash Reserve Ratio (CRR) requirements help to reduce the forex bureaus' liquidity risk exposure	3.486	0.965
Proper liquidity management policies help the forex bureaus to monitor the liquidity risk	3.534	0.621
Having in place a liquidity contingency plan help the forex bureau in funding liquidity crisis thereby reducing liquidity risk	3.527	0.586
<b>Composite</b>	<b>3.5185</b>	<b>0.690</b>

#### Operational Risk Management Practices and Financial Performance

To determine the effect of operational risk management on the financial performance of Forex Bureaus in Nairobi County, Kenya. In this regard, the respondents were required to show the level to which they agreed that operational risk management methods have an impact on forex bureaus' financial performance in Kenya, based on various issues. According to the results in Table 3, majority of the respondents affirmed that lack of laid down processes can lead to fraud and hence financial

loss in forex bureaus in Nairobi City County as shown by a mean score of 3.730 and a standard deviation of 0.592. The respondents also agreed that well defined internal business processes enhance efficiency thereby improving financial performance of forex bureaus in Nairobi City County as shown by a mean score of 3.628 and a standard deviation of 0.637. The respondents also agreed that having weak ICT infrastructure in the forex bureaus in Nairobi City County can facilitate loss of data and cyber frauds thereby causing huge financial loss as shown by a mean score of 3.615 and a standard deviation of 0.607.

**Table 3: Operational Risk Management and Financial Performance**

Statements on Operational Risk Management	Mean	Std. Dev.
Well defined internal business processes enhance efficiency thereby forex bureaus in Nairobi City County	3.628	0.637
Lack of laid down processes can lead to fraud and hence financial loss in forex bureaus in Nairobi City County.	3.730	0.592
Lack of adequate, skilled, experienced, and well-trained human resources can lead to operational errors thereby occasioning financial loss in forex bureaus in Nairobi City County	3.432	0.807
Having weak ICT infrastructure in the forex bureau in Nairobi City County can facilitate loss of data and cyber frauds thereby causing huge financial loss.	3.615	0.607
<b>Composite</b>	<b>3.601</b>	<b>0.661</b>

#### Market Risk Management Practices and Financial Performance

The fourth aim of the study sought to evaluate the influence of market risk management on the financial performance of

Forex Bureaus in Nairobi County, Kenya. Accordingly, the respondents were required to rate the impact of market risk management procedures on the financial performance of forex bureaus in Nairobi City County based on the various statements provided. Based on Table 4, most of the respondents agreed that proper monitoring of interest rate risk reduces net interest margin as shown by a mean score of 3.615 and a standard deviation of 0.738. The respondents further agreed that use of foreign exchange risk management strategies like hedging cautions the forex bureau against the risk associated with dealing in international transactions as shown by a mean score of 3.534 and a standard deviation of 0.607. The respondents indicated impartiality on that to reduce interest rate risk exposure, the forex bureaus in Nairobi City County develop policies and exposure limits, have in place good information systems to review, and monitor the

interest rate risk as shown by a mean score of 3.493 and a standard deviation of 0.869.

The respondents showed impartiality on that to reduce financial loss caused by movement in foreign currencies, forex bureaus in Nairobi City County do not hold high stocks of foreign currencies in its reserves as shown by a mean score of 3.486 and a standard deviation of 0.912. The composite mean score of this variable was 3.582 and a standard deviation of 0.7815. These findings express that forex bureaus in Nairobi have adopted the market risk management to counter challenges and losses emanating from foreign and interest rate risks. These results are consistent with Oyetayo and Eboigbe (2018) findings that those financial institutions that implement market risk management lessen their vulnerability to the dangers and expand their incomes and general financial performance.

**Table 4: Market Risk Management Practices and Financial Performance**

<b>Statements on Market Risk Management Practices</b>	<b>Mean</b>	<b>Std. Dev.</b>
Proper monitoring of interest rate risk reduces not interest margin	3.615	0.738
To reduce interest rate risk exposure, the forex bureaus in Nairobi City County develop policies and exposure limits, have in place good information systems to review, and monitor the interest rate risk	3.493	0.869
Use of foreign exchange risk management strategies like hedging cautious the forex bureaus against the risk associated with dealing in international transactions	3.534	0.607
To reduce financial loss caused by movement in foreign currencies, forex bureaus in Nairobi City	3.486	0.912
<b>Composite</b>	<b>3.532</b>	<b>0.7815</b>

#### **Financial Performance of Forex Bureaus**

The main purpose of the research was to understand the impact of financial risk management on the financial performance of Forex Bureaus in Nairobi County, Kenya. This section is therefore focused on analyzing the financial performance of Forex Bureaus in Nairobi County. From the study, the mean turnover was 10.96% with the minimum being 6.7% reported in 2020 and the maximum was 13.6% corresponding to year 2022. The mean annual net income reported by the Forex Bureaus was KSHs. 106,163Billions; the maximum net income was KSHs. 136869Billions

reported in 2022 while the minimum was KSHs. 64,006Billion observed in year 2020.

The mean of ROA in the five years period was 6.84%. The maximum ROA was 8.0% corresponding to year 2022 while the minimum ROA was 4.5% reported in year 2020. These results imply that despite the harsh economic conditions, the forex bureaus posted healthy financial performance as shown by ROA values above 5%. The central bank of Kenya maintained a relatively lower CBR. The least CBR was 7.0% reported in year 2021 and the highest was 10.0% recorded in year 2017. The highest variance between CBR and lending rates was 3.52 in 2019

and the largest variance was 5.08 corresponding to year 2021. CBR and lending rates showed a general downward trend in the five years' period. The minimum current ratio was 0.61 which coincides with year 2020, the maximum was 1.9 reported in 2019 and the average for the

five years period was 1.61. There was a general upward trend in current assets, current liabilities and current ratio between years 2017 and 2019 before a drastic drop in 2020 followed by further increment from 2020 to 2021.

**Table 5: Financial Performance of Forex Bureaus**

Financial Performance Measures	2018	2019	2020	2021	2022	Mean	Min	Max	Std. Dev.
Turnover (%)	11.4	12.8	6.7	10.3	13.6	10.96	6.7	13.6	2.699
Net Profit (Bn)	92108	113464	64006	124368	136869	106163	64006	136869	28732.998
Return on Assets (ROA) (%)	6.3	7.6	4.5	7.8	8.0	6.84	4.5	8	1.467
People (Employees) risk (%)	12.1	14.19	13.22	14.36	14.17	13.608	12.1	14.36	0.955
Technological risk (%)	28.9	27.2	27	28.5	15.4	25.4	15.4	28.9	5.649
Interest rate risk (%)	10.0	9.3	8.9	7.2	7.0	8.496	7	10	1.322
Foreign exchange risk (%)	5.29	4.41	1.69	3.86	3.47	3.744	1.69	5.29	1.336
Liquidity ratio	1.78	1.86	1.9	0.61	1.87	1.604	0.61	1.9	0.557
Cash reserve ratio	0.86	0.97	0.41	0.99	1.02	0.85	0.41	1.02	0.253

## DISCUSSIONS

In Nairobi County, forex bureaus have strict debt collection tactic to guarantee low nonperforming loans (NPLs) in line with the industrial average rate. The forex bureaus in Nairobi County use well-defined credit acquisition mechanism hence reducing the credit risks. The adversative selection and lack of sufficient customers' data can prompt high loan default leading to a general agreement and that elaborate credit policies guide the Forex bureaus in Nairobi County in the evaluation and endorsement of all credit facilities hence maximizing the loan book quality accounting for an overall agreement.

Majority of the respondents showed agreement that the mandatory liquidity ratio of 20% as set by Central Bank of Kenya (CBK) AIDS in mitigating the Forex bureaus in Nairobi County liquidity risk exposure; adequate liquidity management policies help the Forex bureaus in Nairobi County to monitor the liquidity risk; the Cash Reserve Ratio (CRR) measures assists to

minimize the Forex bureaus in Nairobi County liquidity risk exposure and that instituting a liquidity contingency plan can assist the Forex bureaus in Nairobi County in funding liquidity crisis thus reducing liquidity risks.

According to the research, well-defined internal business operations boost efficiency hence enhancing financial performance of Forex bureaus in Nairobi County, having weak ICT infrastructure in the Forex bureaus in Nairobi County can facilitate data loss and cyber scams, and in so doing, triggering massive financial loss and that lack of institutionalized procedures might necessitate fraud(s), and thus financial loss in Forex bureaus in Nairobi County. It is due to these reasons that Forex bureaus in Nairobi County put in place clear strategies towards minimizing inadequacies in procedures or processes that exposes the financial institutions to operational risks thereby impacting the institutions' productivity and profitability.

Majority of the respondents agreed that utilization of foreign exchange risk management

tactics such as hedging cautions the banks against the risk connected to handling global transactions, to reduce financial loss brought by movement in foreign currencies, Forex bureaus in Nairobi County ought not to hold high stocks of foreign currencies in their reserves, appropriate tracking of interest rate risk increases net interest margin hence reducing interest rate risk exposure, the Forex bureaus in Nairobi County must design guidelines and exposure boundaries, institute sound information systems to review, and follow-up or monitor interest rate risk.

The Forex bureaus in Nairobi County have been recording negative Return on Assets which could be attributed to risks faced by these institutions in their operations. The Forex bureaus in Nairobi County have recorded significantly low Return on Equity which could be an indicator of poor performance financially. The Forex bureaus in Nairobi County have experienced deteriorating levels of profitability. This is an indication that the Forex bureaus in Nairobi County have experienced increased risks that have minimized the revenue component and maximized the costs connected with their operations. The R-Square, the coefficient of determination, showcases that the four independent variables in the model describe 62.7% of financial performance of the Forex bureaus in Nairobi County in Kenya.

## CONCLUSIONS

Following the study findings, several conclusions were made. These conclusions are provided in this segment as per the research objectives.

Forex bureaus in Nairobi County utilize elaborate credit scoring structure to understand credit worthiness of their customers, thereby, decreasing the loan default rate(s); adversative choice and lack of adequate customers' information might lead to high loan default; the Forex bureaus in Nairobi County have a strict credit management structure to warrant low nonperforming loans in line with the industrial average rate; high nonperforming loans

influences the productivity and profitability of Forex bureaus in Nairobi County and clear credit guidelines direct the Forex bureaus in Nairobi County in the evaluation and endorsement of all credit facilities thus growing the loan book quality. Consequently, excellent quality loan book leads to high interest income hence good financial performance for the banks and so showcasing a positive relationship.

Liquidity RM practices aid in mitigating the Forex bureaus in Nairobi County's liquidity risk exposure; the Cash Reserve Ratio (CRR) measures assists to minimize the Forex bureaus in Nairobi County' liquidity risk exposure; sufficient liquidity management guidelines assist the Forex bureaus in Nairobi County to track the liquidity risk and establishing a liquidity contingency plan can support the Forex bureaus in Nairobi County in funding liquidity crisis, so minimizing liquidity risk. Therefore, liquidity risk management is an important thing for the seamless functioning of banking institutions.

Based on the outcomes, the lack of laid down procedures can lead to scams and hence financial loss in Forex bureaus in Nairobi County, lack of suitable, accomplished, and skilled human resources might lead to operational faults hence causing financial loss in Forex bureaus in Nairobi County and having weak ICT infrastructure in the Forex bureaus in Nairobi County can facilitate data loss and cyber scams and so prompting vast financial loss. Thus, forex bureaus in Nairobi County guarantee their sustainability and guard themselves from unexpected losses by instituting sound internal operational risk management plans.

The study finally concludes that Forex bureaus in Nairobi County embrace market risk management to minimize their interaction with risks and equip them with sufficient options to stabilize and advance their profitability and general financial performance. Clearly, proper tracking of interest rate risk increases stakes for net interest margin, to cut interest rate risk exposure, the Forex bureaus in Nairobi County need to design guidelines and exposure levels,

establish robust information systems to evaluate, and follow-up the interest rate risk, utilization of foreign exchange risk management tactics such as hedging deters the bank from the risk connected with participating in international businesses and to minimize financial loss necessitated by movement in foreign currencies, Forex bureaus in Nairobi County must not take in high stocks of foreign currencies in their reserves. Overall, there is significant correlation among

variables financial performance of Forex bureaus in Nairobi County, liquidity risk management, credit risk management, market risk management and operational risk management. Financial risk management extensively impacts the successes or failures of forex bureaus in Nairobi County. This is so, since the failure of deposit banks is determined to a greater level by credit decisions' quality and the quality of the risky assets.

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