



**THE INFLUENCE OF UNCLAIMED FINANCIAL ASSETS ON THE PERFORMANCE
OF COMMERCIAL BANKS IN KENYA: A CASE STUDY OF EQUITY BANK, KISII
BRANCH**

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Abstract

This research sought to find to what extent the unclaimed financial assets add to the profitability of the financial institutions. In Kenya the Unclaimed Financial Assets Act (2011), came into place to try and rectify the challenges that were prevalent formerly. The act states that holding institutions should declare these unclaimed assets and surrender them to the Authority by 1st November every year. The objectives of the study was to establish the impact of retained financial assets on the overall performance of these financial institutions, identify the major causes of the incidences of unclaimed financial assets, establish whether the surrender of such assets affected the cash reserves and finally find out the relationship between unclaimed financial assets and the financial performance of the Equity Bank, Kisii branch. The study was guided by two theories; Loan Pricing Theory and Cybernetic Theory. The researcher targeted all employees of the Equity Bank Kisii who are 36. The researcher employed the questionnaire and oral interviews as research instruments. Computer statistical software was used to capture the data from the field to enhance accuracy. Data was then analyzed and processed and the information presented using frequency tables, charts and bar graphs. The research after applying the instruments obtained findings that show that earnings impact on the current operation of the bank.

Keywords: unclaimed financial assets, performance and commercial banks

Background to the study

The issue of unclaimed assets has caught the attention of many governments in the world today with a number of them enacting laws geared towards the management of these assets. According to Ayele, (2012) performance measurement entails the focus is on the internal process of quantifying the effectiveness and the efficiency of action with a set of metrics. The measures and indicators act as surrogates or proxies for organizational phenomena. Performance measurement represents management and control systems that produce information to be shared with internal and external users. It also encompasses all aspects of the business management cycle which constitutes a process for developing and deploying performance direction. Ayele, (2012) further argues that there are performance measurement models that evolved from a cybernetic view whereby performance which were based mainly on financial measures. They considered a component of the planning and control cycle to a holistic view based on multiple nonfinancial measures where performance measurement acts as an independent process integrated in a broader set of activities. Traditionally, performance measurement is viewed as an element of the planning and control cycle that captures performance data, enables control feedback, influences work behavior and monitors strategy implementation (Simons, 2000). Barney, (2002) observes that organizational performance is based upon the idea that an organization is the voluntary association of productive assets, including human, physical, and capital resources, for the purpose of achieving a shared purpose. Barney, (2002) Further argues that providing the assets will only commit them to the organization so long as they are satisfied with the value they receive in exchange, relative to alternative uses of the assets. As a consequence, the essence of performance is the creation of value. So long as the value created by the use of the contributed assets is equal to or greater than the value expected by those contributing the assets, the assets will continue to be made available to the organization and the organization will continue to exist. Therefore, value creation, as defined by the resource provider, is the essential overall performance criteria for any organization.

Carton, (2004) conducted a study on the assessment of value creation for organizations; value creation is situational since different types of organizations have different concepts of what outcomes are valuable. It is also clear that organizations perform on multiple dimensions, such as growth, profitability, and legitimacy, often trading positive outcomes in one dimension for worse outcomes in another. Third, performance is in part perceptually based upon what the observer finds valuable. Finally, timing plays a role in value creation as opportunities created in the present, which was realized in the future, are valued in the present based upon individual assumptions about future actions and conditions. These assumptions about future outcomes vary based upon the perceptions of the observer.

Kirkendall, (2010) the system of organizational performance measures can be a powerful means for prioritizing organizational goals and achieving them. Performance measures are intended to be used in the Strategic Planning Process. Therefore Measures should inform planners as to problems that require attention, and should allow planners to monitor progress toward goals. Poister, (2003) study on organizational performance also indicates that performance measurement is intended to produce objective, relevant information on program or organizational performance that can be used to strengthen management and inform decision making, achieve results and improve overall performance, and increase accountability. According to the

Legislative Digest (2012), unclaimed assets laws in Kenya are inevitable since they exist in very many other countries around the world. The enactment of such laws is only meant to promote transparency in the way unclaimed assets are handled. The report further suggests that Kenya has a lot to learn from the trends in other countries concerning this concept. Barney, (2002) also indicates that unclaimed assets regulation is important since it allows for disclosure of information between the government and the assurance companies. He further asserts that to achieve these objectives, there must be close cooperation and partnership between the regulator and the market players. According to Kanyi (2013) the management of unclaimed financial assets has received a lot of attention in the banking sector for the last three years. The predominant view is the transfer of these financial assets to the Government entity for reunification to the owners or legitimate beneficiaries. The goal of this study is to examine whether there is any relationship in the volumes of unclaimed financial assets held by a bank and its financial performance. The commercial banks use these financial assets to lender to borrowers and earn interest in returns.

Problem Statement

The Unclaimed Financial Assets Act (2011) requires all institutions in Kenya holding unclaimed assets to hand them over to the Unclaimed Financial Assets Authority a body that was created to oversee the recovery of unclaimed financial assets in Kenya. The Unclaimed Financial Assets Act states that all the holding institutions should declare these assets and surrender to the Authority on 1st November every year. Although this directive has not been followed to the latter and so far the banks have not complied. Kanyi (2013) conducted a study on the Unclaimed Financial Assets on financial performance of commercial banks in Kenya, the study findings indicated that there was a problem in the banks declaring the unclaimed financial assets. According to Hartlage (2011) conducted a research on the banks capitulation and the study found out that most banks use customer deposits as the raw materials for lending. Low- or non-interest bearing deposits, such as demand deposits and savings deposits, are important to lenders due to their low cost. The more low- or non-interest bearing deposits held by a bank, the higher the bank's flexibility to either lend to higher-risk customers or reduce customer lending rates. Kanyi (2013) stated that previously before the Act was passed, any unclaimed assets were treated as part of the income. With these funds expected to be transferred to the authority/Government of Kenya, it means it will have a negative financial implication to the holding institutions, especially financial institutions that are definitely in the financial system of lending and borrowing hence earning interest hence the study to establish the influence of unclaimed financial assets on the financial performance of commercial banks in Kenya; a case of Equity Bank, Kisii Branch.

Conceptual Framework

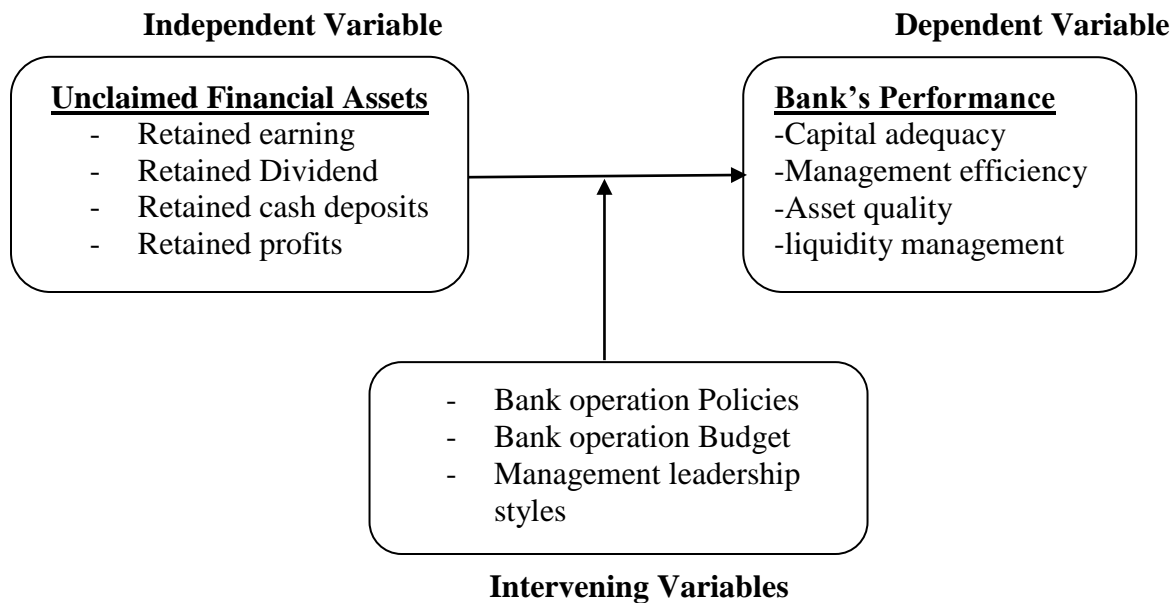


Figure1: Conceptual Framework

Regression model that was used: $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

DATA ANALYSIS AND DISCUSSION

Table 1: Awareness of Unclaimed financial Assets

Response	Frequency	Percentage
Yes	31	86%
No	5	14%
Total	36	100%

Table 1 indicates that majority 86% of the respondents were aware of the unclaimed financial assets while 14% of them indicated that they were not aware of unclaimed financial assets. This implies that majority of employees aware that there were unclaimed financial assets at Equity bank. This was also an indication that the respondents were able to give the study the required information this concurs with Kanyi (2013) the management of unclaimed financial assets has received a lot of attention in the banking sector for the last three years. The predominant view is the transfer of these financial assets to the Government entity for reunification to the owners or legitimate beneficiaries.

Unclaimed Assets have been contributing to the Performance of the Bank

The study further sought to find out whether unclaimed assets have been contributing to the performance of the bank and the responses are presented below in table 2

Table 2: Unclaimed Assets contributing to the Performance of the Bank

	Frequency	Percentage
Yes	22	61%
No	14	39%
Total	36	100%

The study found out that there unclaimed assets have been contributing to the performance of the bank as indicated by 61% of the respondents whereas 39 % of them indicated that unclaimed assets does not contribute to the performance of equity bank. Simpson (2008) explained that the largest source by far of funds for banks is deposits; money that accounts holders entrusts to the bank for safekeeping and use in future transactions, as well as modest amounts of interest. Generally referred to as "core deposits," these are typically the checking and savings accounts that so many people currently have.

Awareness of the UFAA (Unclaimed Financial Assets Authority)

The study sought to establish if the respondents were aware of the UFAA (Unclaimed Financial Assets Authority and Table 3 shows the results.

Table 3: Awareness of the UFAA (Unclaimed Financial Assets Authority)

Response	Frequency	Percentage
Yes	23	64%
No	13	36%
Total	36	100%

Table 3 shows that majority 64% of the respondents were aware of the UFAA (Unclaimed Financial Assets Authority whereas 36% of the respondents indicated that they were not aware of the UFAA (Unclaimed Financial Assets Authority) Simpson, (2008) points out that empirical generally will points to the existence of a relationship between unclaimed financial assets and performance of commercial banks in Kenya hence the passing of an ACT to regulate and recover the unclaimed financial assets.

The new requirement affect the banks' performance

The study further sought to establish the response on whether the new requirements to deposit money with UFAA affect the banks' performance. The responses were as in Table 4

Table 4: Effect of New Requirement on UFAA

	Frequency	Percentage
Yes	24	66%
No	12	34%

Total	36	100%
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The respondents were requested to indicate the response on the requiring banks to deposit their unclaimed financial assets with UFAA on the banks' performance hospital and from Table 4, 66% of the respondents indicated that the requirement has an effect on bank's financial performance and 34 % of the respondents indicated that the requirement will not affect the financial performance of the bank.

The need to Sublet and manage these Assets through another Body

The study sought to establish whether the respondents think there is need to have a sublet to and manage these assets through a recognized body other than UFAA as presented in the Table 8.

Table 5: The need to sublet and manage these assets through another body

Response	Frequency	Percentage
Yes	24	66%
No	12	34%
Total	36	100%

The respondents were asked to indicate whether there is need to sublet and manage these assets through another body and 66 % of the respondents indicated that there is need to have another body to deal with the unclaimed assets directly from the bank while 34 % indicated that the there is no need to duplicate the service of UFAA by having another body.

Unclaimed Assets could be managed better by a different Authority other than UFAA

The study sought to know the respondent's opinion on the management of unclaimed assets whether they will be managed better by a different authority other than UFAA. Table 6 shows the response obtained.

Table 6: Unclaimed Assets managed by a different Authority other than UFAA

Occasions	Frequency	Percentage
Strongly agree	24	67%
Moderately agree	6	16.5%
Agree	4	11%
Strongly Disagree	2	5.5%
Total	36	100%

Table 6, indicates that 16.5 % of respondents indicated that they moderate agree, Agree and strongly disagree that Unclaimed assets could be managed better by a different authority other than UFAA while 67 % indicated that Unclaimed assets could be managed better by a different authority other than UFAA.

The Proportion of Unclaimed Financial Assets at your Bank

The study sought to know the proportion of unclaimed financial assets at Equity bank. The responses are as in table 7

Table 7: The Proportion of Unclaimed Financial Assets at the Bank

Item	Frequency	Percentage
Below 5%	13	36%
6-10 %	14	38%
11% and above	9	26%
Total	36	100%

From Table 7, 36 % of the respondents indicated that the proportion of unclaimed financial assets at the bank was less than five percent, 38 % indicated that the proportion of unclaimed financial assets at the bank was between 6 to 10 % and 26% of the respondents indicated that the proportion of unclaimed financial assets at the bank hospital was over 11%. This indicates that most of the respondents indicated that 74% of the respondents that the bank has up to 10% of unclaimed financial assets.

Retained Earnings Impact on Current Operation of Equity Bank, Kisii Branch

The study sought to establish whether retained earnings have an impact on the current operation of Equity Bank, Kisii Branch as presented in the Table 8.

Table 8: Respondents' on the Impact of Retained Earnings on Current Operation of Equity Bank, Kisii Branch

Response	Frequency	Percentage
Yes	24	67%
No	12	33%
Total	36	100%

The respondents were asked to indicate whether retained earnings have an impact on the current operation of Equity Bank, Kisii Branch of which 67% of the respondents indicated that retained

earnings impact on the current operation of the bank while, 33% of the respondents indicated that retained earnings does not have an impact on the current operation of Equity Bank, Kisii Branch.

The Contribution of Retained Dividends on the Performance in Equity Bank, Kisii Branch

The study sought to know the contribution of retained dividends on the performance in Equity Bank, Kisii Branch. The responses are as in Table 9.

Table 9: The Contribution of Retained Dividends on the Performance in Equity Bank, Kisii Branch

Contribution	Frequency	Percentage
Positive contribution	14	38%
Negative contribution	10	28%
No contribution	7	20 %
Not aware of any contribution	5	14%
Total	36	100%

Table 9 indicate that contribution of retained dividends on the performance in Equity Bank, Kisii Branch is positive as indicated by 38% of the respondents and 28% respondents reported that the contribution of retained dividends on the performance in Equity Bank, Kisii Branch is negative while 20% of respondents indicated that the contribution of retained dividends on the performance in Equity Bank, Kisii Branch had no contribution and 14 % of the respondents indicated that they were not aware of any contribution of retained dividends on the performance in Equity Bank, Kisii Branch.

Retained Cash Deposits are used in declaring Dividends in Equity Bank, Kisii Branch

The study sought to know whether retained cash deposits are used in declaring dividends in equity Bank, Kisii Branch. The responses are as in Table 10.

Table 10: Retained Cash Deposits are used in declaring Dividends in Equity Bank, Kisii Branch

Response	Frequency	Percentage
Yes	34	95%
No	2	5%
Total	36	100%

From the table 10 most respondents (95%) indicated that retained cash deposits are used in declaring dividends in equity Bank, Kisii Branch, while 5% of the respondents indicated that retained cash deposits is not used in declaring dividends in equity Bank, Kisii Branch. The bank's asset is another bank specific variable that affects the profitability of a bank. The bank asset includes among others current asset, credit portfolio, fixed asset, and other investments.

Unclaimed Financial Assets and Financial Performance in Equity Bank, Kisii Branch

The study sought to identify the main unclaimed financial assets and financial performance in Equity Bank, Kisii Branch. To achieve this objective, various questions concerning unclaimed assets were posed to the respondents and their responses are as presented in Table 11.

Table 11: Effect of Unclaimed Financial Assets and Financial Performance

Unclaimed Financial Asset	Frequency	Percentage
Retained Dividends	13	36%
Retained Earnings	10	28%
Retained Profits	8	22%
Retained cash deposits	5	14%
Total	36	100%

Table 11 shows that (36%) of the Respondents indicated that Retained dividends contributes to banks financial performance, (28%) of the respondents indicated that retained earning contributes to banks performance whereas (22%) of the respondents indicated that Retained profits contribute to banks financial performance while (14%) of the respondents indicated that retained cash deposits contribute to banks financial performance.

Summary

The findings of study to assess the influence of unclaimed financial assets on the performance of commercial banks in Equity Bank, Kisii Branch revealed that unclaimed assets affect the performance of commercial banks.

The study findings by 67% of the respondents indicated that earnings impact on the current operation of the bank. This conforms to Dang (2011) adequate level of liquidity is positively related with bank profitability. The most common financial ratios that reflect the liquidity position of a bank according to the above author are customer deposit to total asset and total loan to customer deposits. Other scholars use different financial ratio to measure liquidity. For instance Ilhomovich, (2009) used cash to deposit ratio to measure the liquidity level of banks in Malaysia. However, the study conducted in China and Malaysia found that liquidity level of banks has no relationship with the performances of banks (Said and Tumin, 2011) retained earnings from the financial assets have any impact on current operation of equity bank, Kisii Branch.

The study found out that retained dividends contributed to the performance of Equity Bank, Kisii Branch is positive as indicated by 38 % of the respondents and this concurred with Alvarado

(2011) who explained that financial performance is important element which shows whether a firm is profitable or making losses. Financial ratios tools can be used to help business owners measure the financial performance of their business. When calculated accurately and timely, financial ratios can provide critical information to business owners that allow them to make better decisions the macroeconomic policy stability, Gross Domestic Product, Inflation, Interest Rate and Political instability are also other macroeconomic variables that affect the performances of banks. For instance, Banks capital creates liquidity for the bank due to the fact that deposits are most fragile and prone to bank runs. Moreover, greater bank capital reduces the chance of distress (Diamond, 2000) retained dividends contributed to the performance of Equity Bank, Kisii Branch.

The study found out that 95 % of the respondents indicated that retained cash deposits are used in declaring dividends in equity Bank, Kisii Branch confirming Simpson, (2008) assertion that the bank's asset is another bank specific variable that affects the profitability of a bank. The bank asset includes among others current asset, credit portfolio, fixed asset, and other investments. Often a growing asset (size) related to the age of the bank (Athanasoglou *et al.*, 2005). More often than not the loan of a bank is the major asset that generates the major share of the banks income. Loan is the major asset of commercial banks from which they generate income.

The study further found out that the relationship between unclaimed financial assets and financial performance in Equity Bank, Kisii Branch. According to the regression equation established, taking the four factors (Retained earnings, Retained Dividend, Retained cash deposits and Retained profits) constant at zero, the bank performance as a result of these independent factors will be 3.458. Findings also show that taking all other independent variables at zero, a unit increase in Retained earnings will lead to a 0.381 increase affect Bank performance. A unit increase in retained dividends will lead to a 0.176 increase affect bank performance; a unit increase in retained cash deposits will lead to a 0.173 increase in bank performance, and lastly a unit increase in retained profits will lead to a 0.343 increase in banks performance.

Conclusion

In conclusion, the findings of this study reveal that earnings impact on the current operation of the bank. It is therefore evident that the management efficiency, liquidity, capital adequacy and asset quality are affected by the unclaimed financial assets which are essential to success on performance especially with the current experience of ever changing economic environment. In addition, from this study data analysis and interpretation indicates that there was a positive relationship between unclaimed financial assets and financial performance in the bank. Due to this, the researcher confirms the study findings that retained dividends and retained cash deposits are used in declaring dividends contributed to the performance of equity bank.

Recommendations

The study recommends that the employees should be trained how to handle unclaimed financial assets and when the assets become unclaimed and the requirement of UFAA and the management should not use the unclaimed assets in declaring its dividends, giving loans and in overall performance calculation.

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