Abstract

The search for explanation on the relationship between financial innovation adoption and financial performance continues to dominate finance literature. Empirical studies exploring the nature of the relationship between financial innovation and financial performance present inconsistent findings. The purpose of this study was to establish the effect of financial innovation adoption on financial performance of commercial banks in Kenya. The specific objectives were: to determine the effect of agency banking, online banking, mobile banking and credit card banking on financial performance (ROA) of commercial banks. In addition, the study sought to establish the moderating effect of bank size on the relationship between financial innovation and financial performance of commercial banks. The study employed census survey on the population of the 42 commercial banks as at December 2016. Secondary data on financial innovation indicators was collected using a checklist for the period 2011 to 2017. Data was analyzed using a multiple linear regression analysis model with aid of Statistical Packages for Social Sciences (SPSS) Version 23.0. T-test and F-test were used to test the significance of the regression coefficients and overall model respectively, at 5% level of significance. The assumptions of ordinary least squares method were tested and established not to have been violated. The findings of the study revealed statistically significant positive effect of mobile banking (β =1.923, p-value 0.001<0.05, online banking (β =1.818, p-value 0.006<0.05) and agency banking (β=1.137, p-value 0.006<0.05) on financial performance (ROA). However, credit card banking had no statistically significant effect on ROA (β = 0.374, P-value 0.113>0.05). Bank size had no significant statistical influence on the relationship between financial innovations and ROA (β =0.071, p-value 0.509>0.05). The study recommended enhanced investment and usage of mobile, online and agency banking by commercial banks as they enhanced efficiency in service delivery and provided additional streams of non-funded incomes which improved the return on assets.