

**EFFECT OF MOBILE BANKING ON FINANCIAL PERFORMANCE OF
COMMERCIAL BANKS LISTED AT THE NAIROBI SECURITIES
EXCHANGE**

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**A Thesis Submitted to the Graduate School in Partial Fulfillment of the
Requirements for the Award of the Degree of Master of Business Administration
of Chuka University**

CHUKA UNIVERSITY

OCTOBER 2024

DECLARATION AND RECOMMENDATION

Declaration

This thesis is my original work and has not been presented for an award of a diploma or conferment of a degree in any other University or institution.

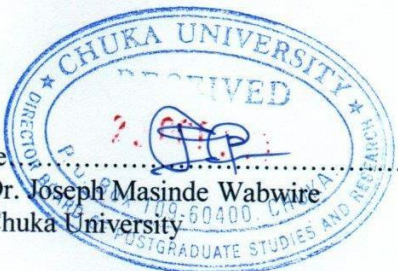
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Recommendation

This thesis has been examined, passed and submitted with our approval as University supervisors.

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DEDICATION

I dedicate this thesis to my loving mother Gladys Simiyu and my siblings for the encouragement they accorded me during the difficult journey of conducting my research and writing the thesis report.

ACKNOWLEDGEMENT

I acknowledge the Almighty God for the gift of life and protection throughout the entire period of my postgraduate studies. My profound gratitude goes to my supervisors Prof. Isaac Micheni Nkari and Dr. Joseph Masinde Wabwire for their valuable guidance throughout the entire research process.

I am also grateful to all my lecturers and my class mates for the moral support they gave me in my postgraduate studies. Further, I thank Chuka University for according me the opportunity to study my Master of Business Administration degree. Finally, I acknowledge my parents and my siblings for their financial and moral support in my studies.

ABSTRACT

A rapid change in information technology has greatly influenced firms' operations, including those in the banking sector. Banks are moving away from the manual banking system to more advanced information technology-based ways of banking. Mobile phone banking is the most recent innovation in the banking industry, with majority of banks embracing this technology. The purpose of this study was to determine the effect of mobile banking on financial performance of commercial banks listed at the Nairobi Securities Exchange. The specific objectives are to determine the effect of mobile banking transactions volume, mobile banking transactions' cost and mobile banking loans portfolio size on financial performance of commercial banks listed at the Nairobi Securities Exchange. The study also determined the moderating effect of bank size on the relationship between mobile banking and financial performance of commercial banks listed at the Nairobi Securities Exchange. The study employed descriptive research design. Secondary data was collected using a checklist, from the audited financial statements of 11 Kenyan commercial banks listed at the Nairobi Securities Exchange over a period of five years ranging from 2017/2021 and whose data was available for the study. The data analysis was carried out using STATA version 16. Simple and multiple linear regression with Driscoll-Kraay standard errors were used to address cross-sectional dependence. The hypotheses of the study variables were tested using t-statistic while the overall significance of the models was tested using F-statistic at 5% level of significance. The results were presented in tables. The study found that mobile banking transactions volume positively and significantly impact the financial performance of commercial banks. This is attributed to the convenience and efficiency that mobile banking provides, leading to increased customer satisfaction and retention, which in turn boosts profitability. The study did not find any significant effect of mobile transaction costs on ROE. A negative significant relationship between mobile banking loans portfolio size and ROE was found, possibly due to credit risk from higher default rates and the costs associated with managing a larger portfolio of smaller loans. Bank size was found to positively and significantly moderate the relationship between mobile banking and financial performance. Larger banks are more likely to benefit from economies of scale. They can invest more in technology, thus reaping greater benefits from mobile banking products such as Fund Transfers, E-funds transfers, and bill payments. Finally, mobile banking and bank size had a positive significant combined effect on ROE of Commercial banks. The study recommends that commercial banks should enhance transaction volumes via mobile platforms, bolster risk management for mobile loans, engage in strategic partnerships for smaller banks, and regularly evaluate their mobile loan portfolios for effective credit risk management to optimize profitability. The findings of the study would be useful to the management of commercial banks in enabling them to analyze the extent to which mobile banking has influenced banks' financial performance hence leverage of this financial innovation to boost banks' performance. The findings of the study also contribute to the body of existing knowledge in relation to the effect of mobile banking on financial performance of commercial banks.

