INTERNATIONAL JOURNAL OF BUSINESS, SOCIAL SCIENCES & EDUCATION

# ASSESSMENT OF THE CAUSES OF UNCLAIMED ASSETS IN FINANCIAL INSTITUTIONS LISTED IN NAIROBI SECURITIES EXCHANGE.A CASE OF KENYA COMMERCIAL BANK

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**Research Proposal Submitted in Partial Fulfillment of the Requirements of Master's in Business Administration of the Presbyterian University of East Africa**

**November, 2015**

**CITATION:** *Sarite S. K. (Jan, 2015*), Assessment of the causes of unclaimed assets in financial institutions listed in Nairobi securities exchange. a case of Kenya commercial bank. *International Journal of Economics & Finance (IJEF), volume 2 (1), 1 – 70. ISSN 2105 6008.*

## DECLARATION

I declare that this proposal is my original work and has not been submitted to any other University for examination or award of a degree

Signed …………………………………………… Date…………………………..

Salad Kikuyu Sarite

N50/34375/2014

This research proposal was submitted for examination with my authority as the University supervisor

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# DEDICATION

Special dedication to my wife and daughter for their support while preparing this proposal.

## ACKNOWLEDGEMENT

I am thankful to my supervisor Dr. Nemwel N. Bosire for his support and time during the proposal writing. I owe all my work to prior and continuous support from all my lecturers at Presbyterian University of East Africa who provided me with a solid foundation. I am thankful to all those who gave their time and knowledge towards meeting the objectives of this study.

## TABLE OF CONTENTS

## LIST OF TABLES

## LIST OF FIGURES

## LIST OF ABBREVIATIONS

| | |
|---|---|
| **ASIC** | : Australian Securities and Investment Commission |
| **ASISA** | : Association for Savings and Investment South Africa |
| **GDP** | : Gross Domestic Product |
| **GOK** | : Government of Kenya |
| **NSE** | : Nairobi Securities Exchange |
| **NTMA** | : National Treasury Management Agency |
| **UK** | : United Kingdom |
| **UFAA** | :Un claimed Financial Assets Authority |

## ABSTRACT

The Unclaimed Financial Assets Act of 2011 is the main regulation that outlines the way companies are supposed to handle unclaimed assets in their custody over a specified period of time. The Act provides for the legislative framework for dealing with unclaimed financial assets. The submission of unclaimed assets to governments is one of the strategies that governments use to earn extra revenue to finance their operations in the provisions of public services. Some countries are very strict on these regulations in order to ensure companies comply with the regulations. Kenya recently through the Unclaimed Financial Assets Act of 2011 joined the list of countries that require companies to account and submit proceeds of unclaimed assets to the government. This regulation is likely to affect the performance of a number of companies more especially those in the banking industry. The Unclaimed Assets Act was assented by the President into law on 2nd December 2011,the law says in section 4 of the act, subsection one; Any sum payable in Kenya on a travelers cheque that is outstanding for more than two years after its` issuance, is presumed abandoned, section 6 subsection states, any demand, savings or matured time deposit with a bank or financial institution including a deposit that is automatically renewable and any funds paid toward the purchase of a share, a mutual investment certificate or any other interest in a bank or financial institution is presumed abandoned. Since 2012 the unclaimed assets have grown from shs 7B in 2012 to shs 12B in 2013 and moved up to shs 16.9B in 2014. The purpose of this study is to establish the causes of unclaimed assets in banking industry in Kenya. The study adopted a survey research design that includes all the banks listed in the NSE and they are eleven. The researcher opts for a census since they are view. The study used secondary data that collected from published accounts of banks in Kenya. The data was analyzed using simple linear regression with unclaimed assets as the dependent variable. The findings revealed that these factors have a statistical significant relationship of 0.895, -0.867, 0.576, -0.977 respectively. From the secondary data analyzed it showed that so far the Commercial banks have not complied with the Act, hence these banks are still enjoying holding these assets. The duration since the unclaimed assets bill was passed in 2011 and 2013 may not be long enough to get a trend that can give conclusive information. It will be important for this study to be replicated after five years in order to observe the trend by then.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Financial systems are crucial to the allocation of resources in a modern economy. They channel household savings to the corporate sector and allocate investment funds among firms; they allow inter-temporal smoothing of consumption by households and expenditures by firms; and they enable households and firms to share risks. These functions are common to the financial systems of most developed economies. Yet the form of these financial systems varies widely. Ministry of Finance has pointed a number of billions are held by financial institutions as unclaimed and is circulating in the financial system to earn interest. Financial system is the system that allows the transfer of money between savers (and investors) and borrowers.

According to Ministry of Finance (2008) quite a number of billions are held by financial institutions as unclaimed is circulating in the financial system to earn interest. Financial system is the system that allows the transfer of money between savers (and investors) and borrowers. A financial system can operate on a global, regional or firm specific level. Financial systems are crucial to the allocation of resources in a modern economy. They channel household savings to the corporate sector and allocate investment funds among firms; they allow inter-temporal smoothing of consumption by households and expenditures by firms; and they enable households and firms to share risks. These functions are common to the financial systems of most developed economies. Yet the form of these financial systems varies widely.

As per the Unclaimed Financial Assets Act (2011), unclaimed assets are tangible or intangible property that has gone unclaimed by its rightful owner or assets where there has been no owner-generated activity for a defined period. They include bank account balances, shares, insurance policies and dividends. The Act states that some of the reasons for Unclaimed assets are as a result of Passage of time, emigration, change of name, address or the change in the national postal address system, death, missing records and no tracking mechanism, no requirement for holding institutions to declare assets as unclaimed, Collapse or change in corporate structures, such as with mergers and acquisitions.

Many developed countries have explicit policy frameworks for the management of unclaimed financial assets. International best practice includes the management of information and data related to such assets. This typically entails the identification of unclaimed financial assets according to prescribed definitions as well as the segregation, reporting and remittance of such assets into a central reclaim fund and the establishment of an unclaimed assets agency to regulate and manage these assets.

It is important to note that no one measure of financial performance should be taken on its own. Rather, a thorough assessment of a company's performance should take into account many different measures. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining. In this particular case, the researcher considered link between the performance of a commercial banks vis-a vi the amount held in the dormant accounts. 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. In this particular case, the study seeks to establish the causes of high level unclaimed assets held by the banks.

In Kenya, the Unclaimed Assets Bill was passed in the year 2011 by parliament. The bill gives detailed information on the determination of unclaimed assets; the duties and responsibilities of the company holding the unclaimed assets and the setting of unclaimed assets trust fund and authority. (Unclaimed Assets Bill, 2011). 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 the core causes of unclaimed assets in the financial sector more so the listed financial institutions. The financial institutions use these financial assets to lend to borrowers and earn interest in returns.

The Unclaimed Assets Act was assented by the President into law on 2nd December 2011,the law says in section 4 of the act, subsection one; Any sum payable in Kenya on a travelers cheque that is outstanding for more than two years after its` issuance, is presumed abandoned, section 6 subsection states, any demand, savings or matured time deposit with a bank or financial institution including a deposit that is automatically renewable and any funds paid toward the purchase of a share, a mutual investment certificate or any other interest in a bank or financial institution is presumed abandoned. Section 39 of the Act establishes the unclaimed Financial assets Authority, as a body corporate with perpetual succession and a common and shall in its` corporate name be capable of suing and being sued, taking, purchasing, or otherwise acquiring holding, charging or disposing of movable and immovable property.

**1.2 Research Problem**

Between £400 million and £500 million is currently held in dormant bank and building society accounts in the UK where, for whatever reason, a financial institution has lost contact with an account holder. A large proportion of this money will never be reclaimed by its rightful owner. The Government, working with the banking industry, has therefore proposed the establishment of an unclaimed assets scheme to put these dormant accounts to productive use whilst continuing to recognize the ongoing rights of customers to reclaim their accounts at any stage.

Kenya recently through the Unclaimed Financial Assets Act of 2011 joined the list of countries that require companies to account and submit proceeds of unclaimed assets to the government. This regulation is likely to affect the performance of a number of companies more especially those in the banking industry. Nine months after the Unclaimed Financial Assets Act (2011) became law, the Unclaimed Financial Assets Authority was appointed, opening doors to its implementation would oversee the beneficiaries and owners reclaim their assets. Besides establishment of the Authority's board, the Unclaimed Assets law also provides for formation of an Unclaimed Financial Assets Trust Fund, into which monies such as those held by third parties will be paid. Creation of the Unclaimed Financial Assets Authority (UFAA) is aimed at tracking down owners of huge amounts of unclaimed assets that remain in the hands of institutions like banks, insurance companies, social security funds, and utility service providers. Kanyi (2013) stated that previously before the Act was passed, any unclaimed assets were treated as part of the income of the holding institutions. Since 2012 the unclaimed assets have grown from shs 7B in 2012 to shs 12B in 2013 and moved up to shs 16.9B in 2014.

Kenya has embarked on a journey to formulate legislation on unclaimed asset. The publication of the Unclaimed Financial Assets Bill 2011, as expected has stirred up a hornet's nest. Interest groups consisting of mainly financial institutions and some Kenyans based in the diaspora are concerned that the Bill gives government bureaucracies unfettered access to what is considered public's hard earned cash. Controversy surrounds a proposal in the Bill to declare financial assets unclaimed after a period of only three years. There are also worries that a body proposed to manage the unclaimed assets, the Unclaimed Financial Assets Authority, will have heavy government influence fuelling fears that this will pave way for pilferage and misuse of the funds. This study will be to assess the causes of unclaimed assets in financial institutions listed in NSE.

**1.3Research Objectives**

The main objective of the study is to assess the causes of unclaimed assets in financial institutions listed in NSE and the specific objectives include;

i. To assess whether Legal framework is the cause of unclaimed assets in financial institutions in Kenya.
ii. To determine if management support is the cause of unclaimed assets in financial institutions in Kenya unclaimed assets.
iii. To establish the whether succession planning is the cause of unclaimed assets in financial institutions in Kenya.

**1.4Research questions**

i. How does Legal framework cause increase of unclaimed assets in financial institutions in Kenya?
ii. Does management support cause increase of unclaimed assets in financial institutions in Kenya?
iii. To what extent does succession planning cause increase of unclaimed assets in financial institutions in Kenya?

### 1.5 Limitations and delimitations of the study

The study will be only being carried out at Kenya Commercial Bank. Secondly, the respondents may be adamant in disclosing matters which touch on finances. However, the Kenya Commercial Bank is thought to have strong capital base thus high level of the unclaimed assets. The assumption will minimize the issue on inadequate representation in the banking sector. Also, the participants will be informed of the purpose of the research and will have a stake in its application. The interviewees will be explained how their responses will be treated with a lot care since the research is purely academic.

### 1.6Purpose of the Study

The study will help the financial institutions understand the implication of handing over of unclaimed financial assets to the Government of Kenya. Unclaimed Financial Assets Act is new in Kenya thus this study provides learning materials to academicians. The study also shed lights on the unclaimed financial assets the Government of Kenya expects from commercial banks and the returns expected from investing the same. The purpose of this study will help policy makers to understand the factors which enhance the unclaimed assets.

### 1.7 Operational Definitions

**Unclaimed assets**- are tangible or intangible property that has gone unclaimed by its rightful owner or assets where there has been no owner-generated activity for a defined period.

**Financial institutions**- this is an institution which collects funds from the public and places them in financial assets, such deposits, loans and bonds rather than tangible property

**Commercial banks**- an institution that accepts deposits and makes business loans and offers related services. They also allow a variety of deposit accounts, such as checking, saving and time deposits.

**Legal Framework**- a set of ideas, rules or beliefs from which something is developed or which decisions are based.

**Succession planning**- Process for identifying and developing internal people with the potential to fill in key leadership position and inheritance of key resources **Abandoned Account:** An account with no positive owner contact for three years. **Inactive or Dormant:** A status given an account by the financial institution when there is no customer contact or account activity for a period of time set by the financial institution. An account with this status usually has additional levels of security controls over deposits or withdrawals and may be subject to additional fees.

# CHAPTER TWO: LITERATURE REVIEW

## 2.0 Introduction

This chapter reviews the literature that relates to unclaimed financial assets and their causes with regard to the banking industry in Kenya. It discusses the key theories underlying unclaimed financial assets, develops a conceptual framework and expounds on the research gaps on these assets and the causes there to.

## 2.1 Theoretical Framework

A theory is a reasoned statement or group of statements, which are supported by evidence meant to explain some phenomena. A theory is a systematic explanation of the relationship among phenomena. Theories provide a generalized explanation to an occurrence. Therefore a researcher should be conversant with those theories applicable to his area of research Onen D. and Oso W.Y (2005). They further notes that a theoretical framework guides research, determining what variables to measure, and what statistical relationships to look for in the context of the problems under study. Thus, the theoretical literature helps the researcher see clearly the variables of the study; provides a general framework for data analysis; and helps in the selection of applicable research design. The theories reviewed inform the source of the variables of the study and the interactions between the dependent and independent variables.

The foundations of the goal theory and cybernetic view are grounded in a similar logic where the outcomes are compared with the target in order to determine organizational effectiveness. Several assumptions implicit in the goal model are encompassed in the cybernetic approach: the organization must have ultimate goals that are defined well enough to be understood, these goals must be few enough to be manageable, a general consensus or agreement must be reached on these goals, and progress toward these goals must be measurable. The cybernetic view is characterized by performance measures that are mostly short-term oriented Management accounting and organizational studies differ in their emphasis of the various limits of the cybernetic theory. The management accounting literature stresses several factors that limit the application of the cybernetic theory (Hage, 1980).

Organizational literature on the other hand raises the issue of cybernetic theory's adaptability. Hage (1980) lists several factors that influence the cybernetic process and responsiveness to change: lack of resources to procure information related to quantity and quality; institutionalization of past success that inhibits the perception of necessity for transformation; degree of centralization and concentration of specialists; elite values and; hierarchy of responses in terms of time to find the correct answer. Hage reinforces the traditional criticism of the implicit assumptions that leaders monitor performance and invariably make corrections when necessary. However, some concerns are common to both fields. Both have questioned the assumption that goals have to be unambiguous and outputs measurable, which is not always thecase. Considering three difficulties related to defining organizational goals, namely multiplicity, specificity and the temporal dimension, it is argued that goals cannot be produced by objective and apolitical processes. The problem of measurement is also associated with a context where it is difficult or expensive to gather information (Hofstede, 1981)

The theory of escheatment provides that until the rightful owner is locate, all citizens of the state, rather than an individual holder, derive benefits from the unclaimed property. Unclaimed property law finds its genesis in early English common law where unclaimed property would escheat, or revert, to the king upon abandonment. In modern times, a custodial theory has replaced confiscation. In the United States, the laws of the individual states govern abandoned property and escheatment. The meaning of escheatment has broadened to include property of every kind and description that remits to the state for want of individual ownership, Upal L. (2009). Accordingly, the definition of unclaimed property involves hundreds of categories of property. As a rule of thumb, if a person or entity has a legal or equitable right to the property, then a state's unclaimed property law governs it.

In an effort to avoid turning over property to the state, some businesses include contractual provisions that cause the loss of the owner's property rights prior to the time the property would escheat. For example, a business may include a statement on a written instrument declaring that the owner's failure to negotiate an instrument within a certain period of time constitutes private escheat that is, the property reverts back to the holder. A majority of courts conclude that this practice circumvents public policy and constitutes an attempt to avoid compliance with unclaimed property laws, Richard E (2011). In addition, some businesses argue that credit balances and credit memos resulting from business to business transactions should not be subject to escheatment for the following reasons. First, business transactions are not similar to consumer transactions since businesses have the capability to audit accounts and an incentive to collect outstanding balances. Second, unclaimed property arising from business transactions is usually the result of administrative errors or a credit issued against future purchases to preserve goodwill. Third, compliance results in an administrative burden that exceeds any benefits to society. Although certain countries have excluded this property from reporting requirements, the majority of states require reporting business to business transactions.

According to Loan Pricing Theory, banks cannot always set high interest rates, e.g. trying to earn maximum interest income. Banks should consider the problems of adverse selection and moral hazard since it is very difficult to forecast the borrower type at the start of the banking relationship (Stiglitz and Weiss, 1981). If banks set interest rates too high, they may induce adverse selection problems because high-risk borrowers are willing to accept these high rates. Once these borrowers receive the loans, they may develop moral hazard behavior or so called borrower moral hazard since they are likely to take on highly risky projects or investments (Chodecai, 2004). From the theory, banks can only offer loans if they have cash at their disposal, unclaimed financial assets form apart of available cash.

### 2.2 Empirical Literature

Through the use of a systematic approach to previous scholarship, literature review allows a researcher to place his or her research into an intellectual and historical context. In other words, literature review helps the author declare why their research matters, Bofondi M. (2003). Kanyi (2013) did a study on effect of unclaimed assets on the financial performance of life assurance companies in Kenya. The study revealed that unclaimed assets formed a significant percentage of the profits that were declared by life assurance companies in Kenya before the year 2011. However, after the enactment of the bill on unclaimed assets in 2011, all the life assurance companies were required to submit their unclaimed assets to the government and this significantly affected their total profits.

Boselie et al (2002), on the unclaimed property audits and their reality on insurance companies established that these audits are quite involving and insurance companies need to ensure they conduct proper reporting of these assets. The study by Anubav A.M (2010) revealed that the purpose of unclaimed property laws was to re unite the owner and the property though this never takes place most of the time. The study recommended that gift cards should be exempt from the laws. Pairot (2008) carried out a study on the unclaimed assets in banking industry. The study observes that the escheatment of unclaimed assets belonging to customers is a regulation that is most likely to kill the relationship between banks and their customers.

Kanyi (2013) did a study on effect of unclaimed assets on the financial performance of life assurance companies in Kenya. The purpose of this study was to establish the effect of unclaimed assets on the profitability of life assurance companies in Kenya. The study adopted a survey research design that included all the life assurance companies in Kenya. The number of life assurance companies was 9 by June 2013. The researcher opted for a census this was a small number. The study made use of secondary data that was collected from published accounts of the life assurance companies in Kenya. The data was analyzed using simple linear regression with unclaimed assets as the independent variable and profitability as the dependent variable. The study revealed that unclaimed assets formed a significant percentage of the profits that were declared by life assurance companies in Kenya before the year 2011. However, after the enactment of the bill on unclaimed assets in 2011, all the financial institutions were required to submit their unclaimed assets to the government and this significantly affected their total profits. Their profits seemed to significantly drop for the years 2011 and 2012 when the unclaimed assets were removed from the profit and loss. The study concluded that unclaimed assets formed a significant percentage of the profits that were declared by financial institutions in Kenya before the year 2011.

Kimosop (2010) in his comparative study on the management of unclaimed financial assets, Kenya has not had a policy on the management of unclaimed assets to date. The development of policy framework would therefore have far reaching effects for the country's financial sector. This would also help in achieving financial stability and renewed confidence in the financial sector. With an effective regulatory infrastructure in place, the financial markets will also grow and develop to support other government programmes that heavily rely on the financial sector. Stability in the financial sector is closely associated with efficiency; but this on its own does not guarantee that the all will be well, stronger systems and structures which are supported by good laws and policies are essential. This explains why it is imperative for a country to devise appropriate laws and policies to guide operations in the financial system. An effective framework is useful in ensuring that there is an enabling environment for all players to conduct business. The absence of a legal framework has led to institutions developing their own internal policies to address the management of unclaimed assets. There are those that disclose them and those that don't and this is not healthy for the progress of the sectors in the financial system at a time when the global community is moving to adopting best practices in different issues. It is imperative that Kenya moves ahead with the work that it has started in addressing the subject of unclaimed assets, particularly now that it has taken the preliminary steps by appointing a Taskforce to undertake a baseline survey on the issue of unclaimed assets.

A study by Smith, Bergstrom & Yopp (2010) on the unclaimed property audits and their reality on insurance companies established that these audits are quite involving and insurance companies need to ensure they conduct proper reporting of these assets. For instance Diamond (2011) carried out a study on unclaimed property laws and gift cards. The study revealed that the purpose of unclaimed property laws was to re unite the owner and the property though this never takes place most of the time. The study recommended that gift cards should be exempt from the laws. Ryan (2012) carried out a study on the unclaimed assets in banking industry. The study observes that the escheatment of unclaimed assets belonging to customers is a regulation that is most likely to kill the relationship between banks and their customers.

In South Africa, the Association for Savings and Investment South Africa (ASISA)(2012) indicated that it reserves the right to holding and growing unclaimed policy benefits until the rightful owner is found, no matter how long it takes. This was as a reaction to a new law that would deny them the chance to continue holding the unclaimed benefits after some time. The association also indicates that irrespective of the source of the unclaimed assets, the life company must make sure that the money is invested in such a way that the policyholder or beneficiary, once traced, receives an amount in line with the expectation created by the risk policy or investment policy contract.

Andreassen T. W (2000) examined the factors affecting the financial performance of Jordanian insurance companies listed at Amman stock exchange. The study established that Leverage, liquidity, Size, Management competence index have a positive statistical effect on the financial performance of Jordanian Insurance Companies. The study recommended that a high consideration of increasing the company assets will lead to a good financial performance and there is a significant need to have highly qualified employees in the top managerial staff. In another study carried out by Shojaei, Jahanifar & Tehrani (2012) on the factors affecting the development of life insurance industry, a number of observations were made. The aim of the study was to establish the reasons of failures in the development of financial institutions in Iran and a deep survey of the effective factors and required infrastructures in such a development.

On insurance regulation, Acharya et al (2009) discussed the key issues facing the financial regulation of financial companies in the post-crisis era in Britain. The study established that while the moral hazard created in the financial sector by provision of financial guarantee insurance is difficult to overstate. The study focused on the issues concerning insurers' excessive provision of insurance, under-capitalization, and related systemic risks. The study also established that some insurance companies had serious losses in their life assurance section during the crisis of 2008.

Carton (2004) however argues that there are several issues associated with the assessment of value creation for organizations. First, 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 will be 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.

According to Kirkendall (2010) a well-defined 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) 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 a study carried out by Acharya et al (2009), the banking industry around the globe plays a very significant role in enhance the GDP of various economies. This makes it mandatory for the regulation of the industry. It is commonly agreed in economics that there is an important role for public sector involvement and regulation even in a competitive insurance industry. Insurance markets are exposed to the two fundamental problems of asymmetric information. They further indicate that regulations such as those governing unclaimed assets are one way of ensuring transparency and accountability in the insurance industry. Acharya et al (2009) further confirm that each state in the United States of America has in place rules and regulations that govern the insurance industry either on unclaimed assets or other important areas such as licensing.

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. Makove 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.

**2.3Conceptual Framework**

In a broad sense a conceptual framework can be seen as an attempt to define the nature and purpose of research, Henning-Thurau T and Thurau (2003). A conceptual framework must consider the theoretical and conceptual issues surrounding the area under investigation and forma coherent and consistent foundation that will underpin the development ofthe research. According to (KNBS, 2014) it is estimated that unclaimed financial assets in the form of forgotten cash accounts, unpaid dividends, pensions, life assurances and investments, fixed deposits and certificates of deposit currently exceed Sh10 billion, with financial institutions mainly enjoying undisclosed wealth. The law relating to financial assets is considered dormant, unclaimed and abandoned when contact with the owner or his heirs and personal representatives is lost over an extended period.

An effective framework is useful in ensuring that there is an enabling environment for all players to conduct business. The absence of a legal framework has led to institutions developing their own internal polices to address the management of unclaimed assets. It is evident that different governments have different uses for the unclaimed assets that they get from financial institutions. Whereas some governments treat unclaimed assets as a source of additional revenue to assist in meeting their expenses, some governments have an elaborate plan on how to use the money. There are those that disclose them and those that don’t and this is not healthy for the progress of the sectors in the financial system at a time when the global community is moving to adopting best practices in different issues. It is imperative that Kenya moves ahead with the work that it has started in addressing the subject of unclaimed assets, particularly now that it has taken the preliminary steps by appointing a Taskforce to undertake a baseline survey on the issue of unclaimed assets.

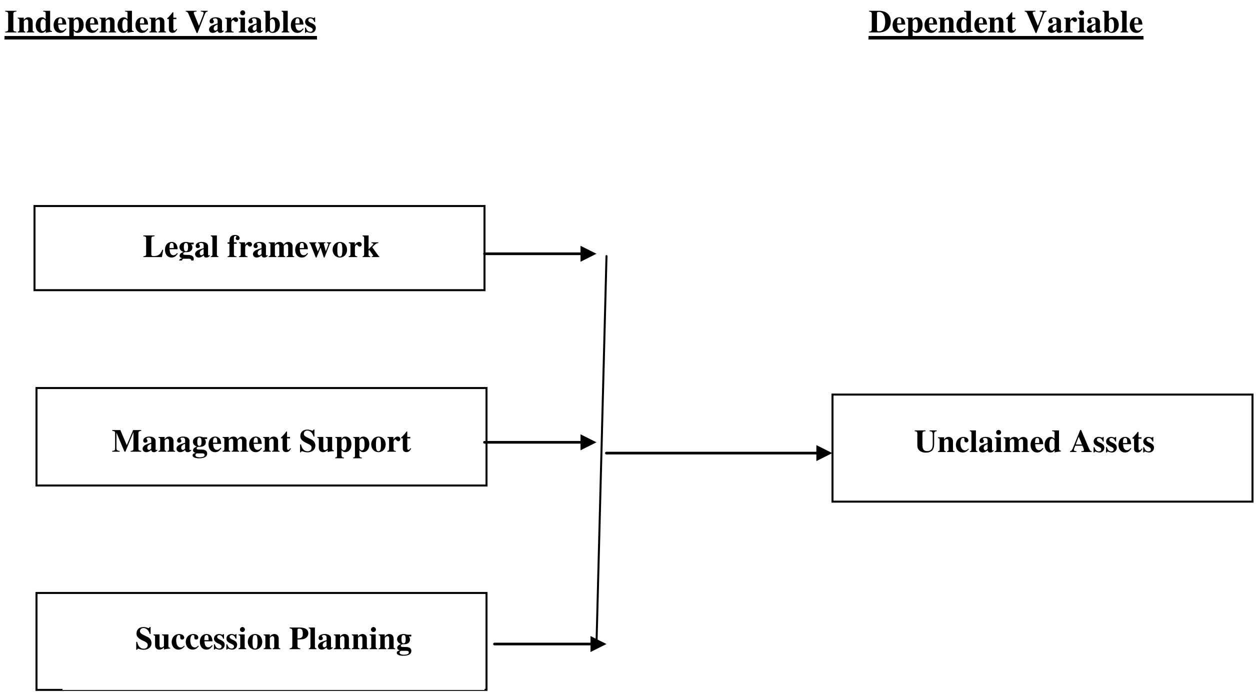


Figure 1: Conceptual Framework

According to (KNBS, 2014) it is estimated that unclaimed financial assets in the form of forgotten cash accounts, unpaid dividends, pensions, life assurances and investments, fixed deposits and certificates of deposit currently exceed Sh10 billion, with financial institutions mainly enjoying undisclosed wealth. Untimely death is the most common reason for the assets not being claimed. Long illnesses of the owner, name changes after marriage, divorce, unreported changes of address, incomplete or illegal records and fast pace of emigration, all contribute to the assets being forgotten. One individual using multiple names to hide his wealth from the tax authorities is yet another reason. When rightful owners fail to claim these forgotten assets over a specified number of years known as 'dormancy period' these abandoned funds held by banks, stock-brokers, utilities, employers, life insurance companies and the Government normally transfer these assets into "suspense accounts" or trust accounts in a legal process known as ‘escheat’. In most cases of forgotten assets, thousands of owners or family members are or remain ignorant or unaware of their entitlement to collect or make a claim on behalf of a deceased relative. It is estimated that one third of insurance policies are not paid because family members were not aware of the policy or the insurance company was not notified and no effort is made to find the reason for dormancy of the financial asset.

The Act establishes the Unclaimed Financial Assets Authority and its objects and functions are to enforce and generally to administer the provisions of the law and act as trustee to the Unclaimed Assets Trust Fund, created for the control of unclaimed assets. Travellers cheques and money orders unclaimed for two years after issuance are presumed abandoned as are cheques, drafts or similar instruments on which a bank or financial institute is directly liable. The same time limit is applicable to life or endowment policies.

Controversies around the process of formulating legislation on unclaimed assets are not new, and neither is it unique to Kenya. The world over, attempts to introduce regulation around unclaimed assets have been met with strong resistance from the usual suspects; financial institutions, who honestly profiteer unjustly on assets that do not belong to them. It is a well known fact that some financial institutions use unclaimed assets to bolster their financial performances. A recent attempt in Britain resulted in a watered down, Dormant Bank and Building Society Accounts Act 2008. British financial institutions put up a spirited fight that saw a Bill, first proposed by Gordon Brown when he was the Chancellor, reduced into a shell. In the US, the Uniform Unclaimed Property Act 1995, despite being enacted close to two decades ago is yet to be fully adopted by all States.

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. The House of Commons Finance Committee (2007) indicates that in between £400 million and £500 million was held in dormant bank and building society accounts where, for whatever reason, a financial institution has lost contact with an account holder. The Committee further argues that a large proportion of this money will never be reclaimed by its rightful owner. This realization forced the government, working with the banking industry, to propose the establishment of an unclaimed assets scheme to put these dormant accounts to productive use whilst continuing to recognize the ongoing rights of customers to reclaim their accounts at any stage.

Most countries enacted the laws over the last one decade but some countries have had the legislation for over a decade. The content of the laws differs from one country to another. Countries also share features of the legislation on unclaimed assets. For instance the Republic of Ireland has had an unclaimed assets scheme since 2001. Its law and that of the UK shares many features but differs in some (The House of Commons Finance Committee, 2007). Whereas the Irish scheme is mandatory and obliges banks, building societies and the Irish post office to transfer the balance of any account that has not had a customer-initiated transaction for 15 years to the National Treasury Management Agency (NTMA), the United Kingdom scheme customers have the right to reclaim their account in perpetuity, and do so through their account-holding bank rather than through the government appointed authority. The Irish government also requires that disbursement of dormant account funds is controlled by the Government, and monitored by an appointed board. In 2003, unclaimed life assurance policies were added to the Irish dormant accounts scheme (The House of Commons Finance Committee, 2007).

The government of Australia also established that Australian Securities and Investment Commission (ASIC) whose work is to manage unclaimed assets that are remitted or surrendered from financial institutions. ASIC (2012) indicates that the commonwealth laws governing the management of unclaimed assets were amended to include the Banking Act, Life Insurance Act and the First Home Saver Accounts Act. The essence of the amendments was to cast the net wider so that the government could bring on board other institutions that were initially not required to remit unclaimed assets.

It is evident that different governments have different uses for the unclaimed assets that they get from financial institutions. Whereas some governments treat unclaimed assets as a source of additional revenue to assist in meeting their expenses, some governments have an elaborate plan on how to use the money. For instance in the UK, the Commission on Unclaimed Assets addresses three main issues: reuniting customers with their money and consumer protection; the transfer of unclaimed assets to a new entity; and the best use of unclaimed assets, which is the major focus of the commission. The Commission published an interim report setting out proposals to create a social investment bank, which would redistribute unclaimed assets to communities most in need. The commission proposes to support a range of activities, including: funding for third sector organizations, supporting communities to acquire land or buildings and promoting enterprise in disadvantaged communities (NCVO, 2013).

According to Henri (2013), 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. Henri 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).

The concept of 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). Those 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) however argues that there are several issues associated with the assessment of value creation for organizations. First, 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 will be 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. According to Kirkendall (2010) a well defined 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) 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.

### 2.4 Summary

All financial institutions are crucial to the allocation of resources in a modern economy. They channel household savings to the corporate sector and allocate investment funds among firms; they allow inter-temporal smoothing of consumption by households and expenditures by firms; and they enable households and firms to share risks.

According to Ministry of Finance (2008) quite a number of billions are held by financial institutions as unclaimed is circulating in the financial system to earn interest. Financial system is the system that allows the transfer of money between savers (and investors) and borrowers. A financial system can operate on a global, regional or firm specific level. Financial systems are crucial to the allocation of resources in a modern economy. They channel household savings to the corporate sector and allocate investment funds among firms; they allow inter-temporal smoothing of consumption by households and expenditures by firms; and they enable households and firms to share risks. These functions are common to the financial systems of most developed economies. Yet the form of these financial systems varies widely. The main objective of the study will be to assess the causes of unclaimed assets in financial institutions listed in NSE

# CHAPTER THREE: RESEARCH METHODOLGY

## 3.1 Introduction

This chapter focused on methodology that the researcher used to accomplish the established research objective. This mainly refers to data collection, processing and analysis methods. Data collection instruments and procedures were discussed as well as the target population and study sample.  The study has one objective that it seeks to assess the causes of unclaimed assets of the financial institutions in the NSE. Data was gathered from a variety of sources and by using several different methods e.g. observations & interviews.

## 3.2 Research Design

The research design constitutes the blue print for the collection, measurement and analysis of data, (Kothari, 2005). A descriptive research design was used in this study. Descriptive survey is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals (Orodho, 2003). It can also be used when collecting information about people's attitudes, opinions habits or any other social issues (Orodho & Kombo, 2003). The choice of this design is appropriate for this study since it utilizes a questionnaire as a tool of data. This is supported by (Sekaran, 2003) who assert that this type of design enables one to obtain information with sufficient precision so that hypothesis can be tested properly. It is also a framework that guides the collection and analysis of data. (Gerson &Horowitz, 2002) observes that a descriptive research design is used when data is collected to describe persons, organizational settings or phenomenon. A descriptive study was appropriate for this study because it allows the researcher to examine the causes of unclaimed assets at Kenya Commercial Bank.

### 3.3 Population of the study

Population refers to an entire group of persons or elements that have at least one thing in common. Population also refers to the larger group from which a sample is taken (Orodho & Kombo, 2003). A population can also be defined as including all people or items with the characteristic one wish to understand. The target population was all employees of Kenya Commercial Bank. A case of Kenya Commercial Bank allows for in depth study and will be replicated in banks with same status. Like KCB, NSE (2014) reported that there are other ten (10) banks listed in the NSE. These banks are Barclays bank of Kenya, CFC Stanbic Holdings Ltd, I & M Holdings Ltd, Diamond Trust bank Ltd, Housing Finance Company Ltd, National Bank of Kenya, NIC Bank Ltd, Standard Chartered Bank, Equity Bank and Co-operative Bank Ltd.

### 3.4 Sample Size and Sampling Techniques

According to Ali (2012) a sample is a number of respondents that are selected to represent the entire population of a given study. Ali further indicates that although deriving a sample is one of the most daunting tasks in any research activity, it is a very significant stage in the research process. Sampling is recommended when circumstances cannot allow the researcher to include all the respondents in the target population in the study. The sample size for this study was 30% of employees working at different departments at KCB headquarters. According to Mugenda 2003 a 30% sample of the population is considered sufficient for social sciences.

Table 3. 1 Sample size

| **Department** | **Total No** | **No. of Respondents (30%)** |
|---|---|---|
| Finance | 50 | 15 |
| Human Resource | 35 | 11 |
| Operations | 80 | 24 |
| IT | 28 | 8 |
| **Total** | **193** | **58** |

Source: HR department KCB.

### 3.5 Data Collection

The study used the secondary data of published financial reports of banks and reported unclaimed financial assets and primary data collected using the questionnaire. Kothari (2004) defines secondary data as data that is already available, referring to the data which have already been collected and analyzed by someone else. Polit and Beck (2003) explain that secondary research involves the use of data gathered in a previous study to test new hypotheses or explore new relationships. The data for this study relates to a duration of three years from 2012-2014. A Questionnaire will also be another instrument of data collection, since it is easier to administer, economical in terms of time and money and also permit a greater depth of response (Mugenda and Mugenda, 1999). A questionnaire with closed-ended and open- ended questions consistent to the objectives of the study was administered to the selected sample. The researcher personally collected data from the population and in cases where the respondents are unable to answer the questionnaire, the researcher interpreted for them. Date and time for administration of the instruments was done in consultation with the management of the banks under study. Areas of confidentiality and anonymity, intentions of the study and how the information would be used, was explained to the respondents.

### 3.6 Validity and Reliability of Research Instruments

In order to ensure validity and reliability, the questionnaires were composed of carefully constructed questions to avoid ambiguity and to facilitate answers to all the research questions. The questionnaires were then pre-tested in a pilot study of Family Bank, Nairobi to avoid respondent contamination (Kothari, 2003), after which corrections and adjustments was done and this ensured reliability.

### 3.7 Pre-Testing of the Instruments

The questionnaires were then pre-tested in a pilot study of Family Bank, Credit Bank and Consolidated Bank Ltd, Nairobi to avoid respondent contamination (Kothari, 2003), after which corrections and adjustments was done. According to (Roscoe, 2005) in Uma and Bourgie's book (2009) which he notes that a 30% sample is representative of the entire population.

### 3.8 Data Processing and Analysis

Completed questionnaires were corded and analyzed to ensure accuracy of information, and then the data collected were summarized and classified both qualitatively and quantitatively. This included an analysis of data to summarize the essential features and relationships of data in order to generalize and determine patterns of behavior and particular outcomes. Descriptive analysis was employed; which include frequencies, percentages and ANOVA. The organized data was interpreted on account of concurrence to objectives using assistance of computer packages to communicate research findings. Frequency distribution tables and charts was used for data presentation. After the analysis and interpretation of data, a final report was written to provide a summary of the findings.

# CHAPTER FOUR

# DATA ANALYSIS, FINDINGS AND DISCUSSION

## 4.1 Introduction

The purpose of this study was to assess the causes of unclaimed assets in the financial institutions in Kenya. The study made use of secondary data that was collected from published accounts of the financial institutions in Kenya. The researcher was able to collect data from all the nine financial institutions since all this information was contained in an industry report. This is an indication that a response rate for the data collection exercise was 100%. This chapter presents the findings of this study.

### 4.1.1 General Information

The researcher targeted 58 respondents from KCB. However, 54questionnaires were filled correctly and returned. This translates to 93.1%. This response rate was considered adequate as recommended by Babbie (2002). Table 4.1 shows the response rate.

*Table 4. 1*: Response Rate

| Category | Frequency | Percent |
|---|---|---|
| Response | 54 | 93.1 |
| Non response | 4 | 6.9 |
| Total | 58 | 100.0 |

The respondents were asked to indicate their age bracket. Respondents aged 31-40 years were 40.5% while respondents aged 41-50 years and above 51 years were 21.6% each. Only 16.2% of the respondents were aged 21-30 years. The results show that managers at KCB are middle aged and therefore more likely to be experienced in their respective fields. Table 4.2 shows the results.

*Table 4. 2*: Respondents distribution by Age bracket

| | Percent | Cumulative Percent |
|---|---|---|
| 21-30 years | 16.2 | 16.2 |
| 31-40 years | 40.5 | 56.8 |
| 41-50 years | 21.6 | 78.4 |
| 51 years and above | 21.6 | 100.0 |
| Total | 100.0 | |

The researcher wanted to know respondents' highest level of education. Majority of the respondents were found to be graduates (62.2%) while 21.6% of the respondents had post graduate qualifications. Only 16.2% of the respondents had tertiary or college as their highest level of education. Figure 4.1 shows the results.

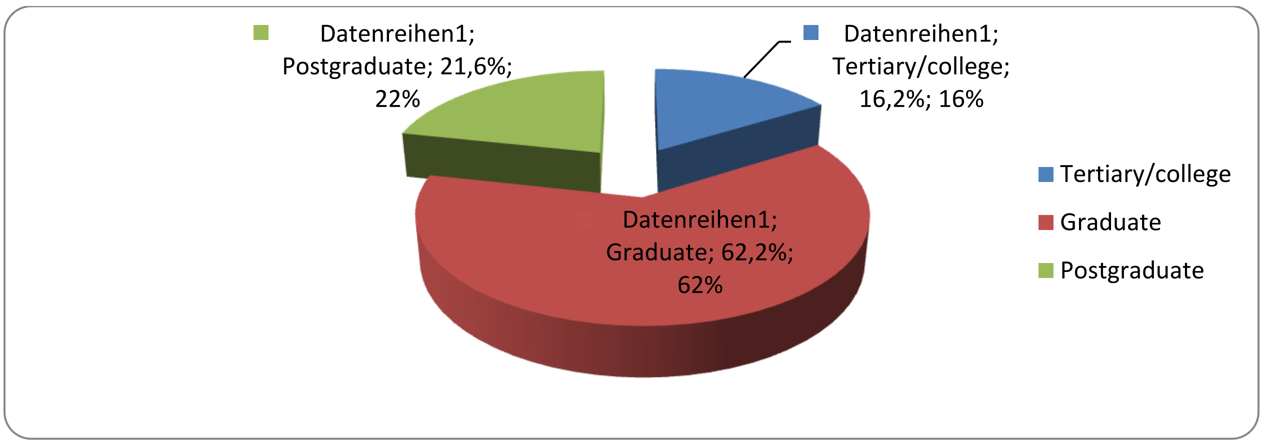


*Figure 4: 1*: Highest level of education

The respondents were asked to indicate the duration that they had worked at KCB. Respondents who had worked at KCB for 3-6 years were 40.5% while those that had worked for 7-10 years were 27%. Respondents who had worked at KCB for 11 years and above were 21.6% while only 10.8% of the respondents indicated that they had worked at KCB for less than 3 years. Table 4.3 shows the results.

## 4.2. Summary Statistics

*Table 4. 3: Summary Statistics*

| Year | Model | Unstandardized | Standardized | t | Sig. | Year |
|---|---|---|---|---|---|---|
| | | B | Std. Error | | | |
| 2012 | (Constant) | .542 | .208 | | 3.056 | .004 |
| | Unclaimed assets | .362 | .123 | .544 | 3.382 | .002 |
| 2013 | (Constant) | .246 | .143 | | 1.758 | .789 |
| | Unclaimed assets | .000 | .000 | .147 | 2.333 | .879 |
| 2014 | (Constant) | .312 | .236 | | 2.367 | .784 |
| | Unclaimed assets | .000 | .000 | .168 | 3.254 | .986 |

It is evident from the findings tabulated above that in the year 2012; the unclaimed assets had a positive coefficient of 0.362. If there were no causes of unclaimed assets in the year 2012, the causes unclaimed assets in the financial institutions would be represented the constant which is 0.542. It is also evident from the findings tabulated above that in the year 2013, that the unclaimed assets had a coefficient of 0.000 if there were no causes of unclaimed assets in the year 2013, the causes of unclaimed assets in the financial institutions would be represented the constant which is 0.246. The table of coefficients for the year 2014 confirms that the unclaimed assets have a coefficient of 0.000. This is an indication that there is an insignificant level of unclaimed assets that were factored by financial institutions in Kenya. The causes of unclaimed assets is represented by the constant 0.312.

The researcher sought to find out the relationship between the unclaimed assets and the profitability of financial institutions and the unclaimed assets as the dependent variable in the year 2011. The year 2011 is the time when the unclaimed assets bill was passed in Kenya hence financial institutions did not include the unclaimed assets in their financial statements. The findings are presented next.

The findings from the study indicate that the regression coefficient for unclaimed assets is 0. This is an indication that the financial institutions in Kenya did not factor the unclaimed assets figures into their annual profits. It is also clear that the profitability of the companies as represented by the constant seems to have dropped due to removal of the unclaimed assets from the profit and loss account of the financial institutions since the constant seems to have dropped from 0.528 in 2010 to 0.246 in 2011.

In the year 2012 for example, the financial institutions did not also include the unclaimed assets in their financial reports as part of the profit and loss statement. The study sought to establish the relationship between this action and the profitability of the companies in the absence of the unclaimed assets figure that formed averagely 20% of the profitability of the companies in 2008, 2009 and 2010. The findings are discussed next.

It is evident that the results of the regression analysis from the year 2012 confirm that the regression coefficient of unclaimed assets is 0. This is an indication that the financial institutions in Kenya did not include any unclaimed assets in their financial reports. The profitability of the financial institutions is therefore represented by the constant 0.312 that seems to be lower than the years 2012, 2013 and 2014 but slightly higher than 2011. This implies that after the unclaimed assets bill was passed in 2011 the financial institutions had to look for other alternatives of maintaining their profitability hence the reason why the constant appears to be slightly higher in 2012. The estimated model for the relationship can therefore be represented by $Y = 0.528 + 0.344x + 0.376$.

### 4.3 Estimated Model

**Regression analysis**

Regression analysis is a statistical tool for the investigation of relationship between variables. Usually, the investigator seeks to mantain the casual effect of on variable upon another. Regression analysis allows you to model, examine and explore spatial relationship, and can help explain the factors behind observed spartial patterns. Regression analysis is also used for prediction

Regression analysis for construct legal framework

The overall model for the legal framework was tested. The findings shows the coeffient of determination R Square= 0.839 and R=.916 at 0.05 at significance level. This shows that there existed a strong positive corelation coefficient between Legal framework and Causes of unclaimed assets.

*Table 4. 4:* Model Summary

| **Model Summary** | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std Error of the Estimate |
| | .916 | .839 | .826 | .999 |
| **Predictors: ( constant) Legal framework** | | | | |

Regression analysis for construct Management Support

Table below presents the regression model the regression model of Management Support with a coefficient of determination of $R^2$ = 0.772 and R= 0.722 at 0.05 significance level. The coefficient of determination indicates that 72.2 % of the variation on Causes of unclaimed assets is influenced by Management Support. This shows that there exists a strong positive relationship between Management Support on Causes of unclaimed assets.

*Table 4. 5*: Model Summary

| **Model Summary** | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std Error of the Estimate |
| | .722 | 0.772 | .790 | 0.9362 |
| **Predictors: ( constant) Management Support** | | | | |

Regression Analysis For Construct Succession planning

Table below presents the regression model the regression model of Succession planning with a coefficient of determination of $R^2$ = 0.772 and R= 0.752 at 0.05 significance level. The coefficient of determination indicates that 75.2 % of the variation on Causes of unclaimed assets is influenced by Succession planning. This shows that there exists a strong positive relationship between Succession planning on Causes of unclaimed assets.

*Table 4. 6*: Model Summary

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std Error of the Estimate |
| | .752 | .772 | .790 | 0.8244 |
| **Predictors: ( constant) Succession planning** | | | | |

**Overall Model**

Multiple regression analysis was used to determine whether independent variables; Legal framework(X1), Management Support (X2) and Succession planning (X3) simultaneously affect the dependent variable Y which is causes of unclaimed assets. The sub-section examines whether the multiple regression equation can be used to explain the hypothesis of the independent variables on causes of unclaimed assets. The model used for regression analysis was expressed in the general form as given below

$$Y = a + B1x1 + B2x2 + B3x3 + e$$

Where;

Y = Causes of unclaimed assets (Dependent variable)

$a$ = Constant (Co-efficient of intercept)

X1 = Legal framework (independent variable)

X2 =Management Support (independent variable)

X= Succession planning (independent variable)

e =Error term

B1 ……………….B3= Regression co-efficient of five variables.

For this model, Causes of unclaimed assets was used as the dependent variable (Y) and independent variables included X1-X3. The relationships between dependent and independent variables and the results of testing significance of the model were also respectively interpreted. In interpreting the results of multiple regression analysis, the three major elements considered were: the coefficient of multiple determinations, the standard error of estimate and the regression coefficients. $R^2$ was used to check how well the model fitted the data. $R^{2.}$ Is the proportion variation in the dependent variable explained by the regression model?

Table below reports the model of causes of unclaimed assets with the coefficient of determination $R^{2\,=}$ .801 and R =0.819 at 0.05 significant level. The coefficient of determination indicates that 81.9% of the variation on causes of unclaimed assets of financial institutions can be explained by Legal framework(X1), Management Support (X2) and Succession planning (X3. The remaining 19.9% of the variation is affected by other variable not included in the model. This shows that the model has a good fit since the value is above 75%.

*Table 4. 7*: Regression Model Summary

| | **Model Summary** | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std Error of the Estimate |
| | **.819** | **.801** | **.826** | **5.73** |

The variance of the residuals (or errors) is the value of the mean square which is 5.73. As can be observed in table, the predictors X1-X3 represent the independent variables, which are the factors enhancing causes of unclaimed assets.

### 4.4 Discussion of Findings

The study findings confirm that; legal framework, management support and succession planning, are major causes of unclaimed assets in financial institutions in Kenya. This is an indication that initially before the enactment of the unclaimed assets bill in Kenya, the financial institutions used to factor unclaimed assets into their profit and loss accounts. This is the reason why the profits of the financial institutions have a significant portion of their variance explained by the unclaimed assets. The findings confirm the view held by NCVO (2013) which states that unclaimed assets initially held by financial institutions that may end up not be accounted for need to be put into good use.

The findings also reveal that for two consecutive years, the financial institutions in Kenya did not factor into their profit and loss accounts the unclaimed assets in compliance with the unclaimed assets regulation. This resulted to a significant decrease in the profitability of the financial institutions in Kenya. This happened because the government requires through the regulation that financial institutions should remit all the unclaimed assets in their custody to the government. This regulation has been enacted in many other countries in order to streamline the management of unclaimed assets. Regulation of the financial industry was supported by Acharya (2009) who asserts that it is commonly agreed in economics that there is an important role for public sector involvement and regulation even in a competitive financial industry. Financial markets are exposed to the two fundamental problems of asymmetric information. They further indicate that regulations such as those governing unclaimed assets are one way of ensuring transparency and accountability in the financial industry.

### 4.3.4 The Relationship between Financial institutions and Unclaimed Financial Assets

Figure 4.1 shows a correlation coefficient 0.804 between Financial institutions and unclaimed Financial Assets, indicating a positive correlation between the two variables this shows evidence that the higher the unclaimed financial assets are the higher the interest earned on them hence associated with Financial institutions.

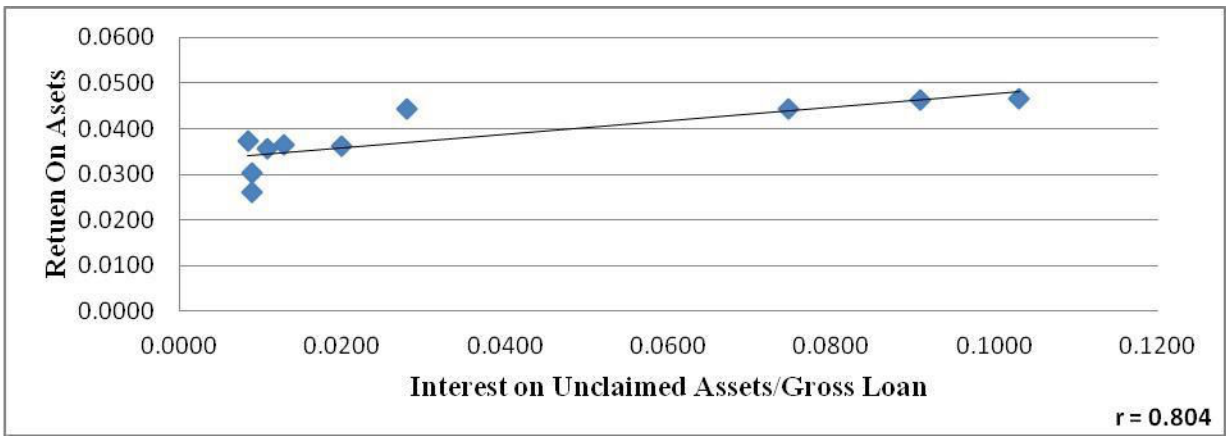


*Figure 4: 2.* ***Figure 4.1 Relationship between Financial institutions and Unclaimed Financial Assets***

### 4.5 Summary

The purpose of the study was to establish the causes of unclaimed assets of the financial institutions in Kenya. All financial institutions are crucial to the allocation of resources in a modern economy. They channel household savings to the corporate sector and allocate investment funds among firms; they allow inter-temporal smoothing of consumption by households and expenditures by firms; and they enable households and firms to share risks.

According to Ministry of Finance (2008) quite a number of billions are held by financial institutions as unclaimed is circulating in the financial system to earn interest. Financial system is the system that allows the transfer of money between savers (and investors) and borrowers. A financial system can operate on a global, regional or firm specific level. Financial systems are crucial to the allocation of resources in a modern economy. They channel household savings to the corporate sector and allocate investment funds among firms; they allow inter-temporal smoothing of consumption by households and expenditures by firms; and they enable households and firms to share risks. These functions are common to the financial systems of most developed economies. Yet the form of these financial systems varies widely. The main objective of the study will be to assess the causes of unclaimed assets in financial institutions listed in NSE

According to the literature reviewed, governments are adopting regulations that are meant to manage the unclaimed assets that are held by financial institutions. It is however clear from the reviewed literature that most governments share some content in the laws that they enact. The unclaimed assets regulations are not very old in some countries since they have not been effected for more than a decade.

The review also confirms that studies on the effect of regulations on unclaimed assets and performance of commercial banks and other financial institutions are rare. Minimal research activity has been seen in this area. This leaves a very huge research gap that has to be filled. This study will therefore seek to fill this existing gap.

# CHAPTER FIVE

# DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents the summary of findings in section 5.2; the conclusions in section 5.3; the limitations of the study section 5.4; and recommendations for further research in section 5.5.

## 5.2 Summary

The main objective of the study is to assess the causes of unclaimed assets in financial institutions listed in NSE and the specific objectives include; To assess whether Legal framework is the cause of unclaimed assets in financial institutions in Kenya, to determine if management support is the cause of unclaimed assets in financial institutions in Kenya unclaimed assets and to establish the whether succession planning is the cause of unclaimed assets in financial institutions in Kenya.

A descriptive research design was used in this study. The target population was all employees of Kenya Commercial Bank. The sample size for this study was 30% of employees working at different departments at KCB headquarters. The study used the secondary data of published financial reports of banks and reported unclaimed financial assets and primary data collected using the questionnaire. Primary data was collected through drop and pick method. Secondary data was sourced from the NSE website and from the central bank website. Periodic journals were also used to add some quantitative data.

## 5.3 Discussion of the Study

The purpose of this study was to establish the causes of unclaimed assets of financial institutions in Kenya.

The study adopted a survey research design that included all the financial institutions in Kenya. The number of financial institutions was 9 by June 2013. The researcher opted for a census this was a small number. The study made use of secondary data that was collected from published accounts of the financial institutions in Kenya. The data was analyzed using simple linear regression with unclaimed assets as the independent variable and profitability as the dependent variable.

The study revealed that unclaimed assets formed a significant percentage of the profits that were declared by financial institutions in Kenya before the year 2011. However, after the enactment of the bill on unclaimed assets in 2011, all the financial institutions were required to submit their unclaimed assets to the government and this significantly affected their total profits. Their profits seemed to significantly drop for the years 2011 and 2012 when the unclaimed assets were removed from the profit and loss accounts of the financial institutions. The study concludes that unclaimed assets formed a significant portion of the profits of commercial banks

The study reveal that in the year 2008 before the financial institutions in Kenya started remitting the unclaimed assets to the government, the unclaimed assets formed a significant part of their declared profits. For instance in 2008 the unclaimed assets explained up to 37% of the variance on profitability of the financial institutions in Kenya. The study further established that in the year 2009 the unclaimed assets were still part of a significant portion of the financial institutions in Kenya. In the year 2009 the unclaimed assets comprised 29.1% of the profits that were earned by the financial institutions.

The study revealed that the trend that is observed from the year 2008 and 2009 still continues into the year 2010 where the financial institutions' profits have a significant percentage of the unclaimed assets.

The findings confirmed that in the year 2012, a replication of the scenario in 2011 happened. There were no unclaimed assets that were factored into the profits of the financial institutions in Kenya since the bill had taken effect from 2011. The profitability had so far dropped but there seemed to be a slight improvement as indicated by an improved constant in the year 2012. The study revealed that financial institutions had lost income through enactment of the bill and therefore had to seek for other alternatives of covering the gap that was left by the unclaimed assets that were initially part of their income from investments.

**5.4 Conclusions**

Unclaimed assets formed a significant percentage of the profits that were declared by financial institutions in Kenya before the year 2011. However, after the enactment of the bill on unclaimed assets in 2011, all the financial institutions were required to submit their unclaimed assets to the government and this significantly affected their total profits. Their profits seemed to significantly drop for the years 2011 and 2012 when the unclaimed assets were removed from the profit and loss accounts of the financial institutions. During this year, the total unclaimed assets that were part of the profits of financial institutions were estimated to be 32.1%. However in the year 2011, the trend changes when the unclaimed assets bill was enacted requiring financial institutions to remit all unclaimed assets in their custody to the government. This meant that in the profit and loss account of these companies, there was reflection of unclaimed assets. The study confirms that in the year 2011 the coefficient for unclaimed assets was zero and indication that it did not feature in the profits of the companies. The profitability of the financial institutions seemed to reduce significantly with the removal of the unclaimed assets. This reduction in the profitability due to removal of unclaimed assets may however be short-lived since the companies are keen on pursuing other alternatives of maintaining their profitability.

### 5.5 Recommendations of the study

Since the study findings confirm that unclaimed assets formed a significant percentage of the profits of life assurance companies in Kenya. This is an indication that initially before the enactment of the unclaimed assets bill in Kenya, the commercial banks used to factor unclaimed assets into their profit and loss accounts. This is the reason why the profits of the commercial banks have a significant portion of their variance explained by the unclaimed assets. It is therefore recommended that unclaimed assets initially held by financial institutions need to be put into good use by the government or given to the rightful owners.

As the findings also reveal that for two consecutive years, the commercial banks in Kenya did not factor into their profit and loss accounts the unclaimed assets in compliance with the unclaimed assets regulation. This resulted to a significant decrease in the profitability of the commercial banks in Kenya and it thus recommended the government to account for this difference.

The government is required through the regulation that commercial banks should remit all the unclaimed assets in their custody to the government. This regulation has been enacted in many other countries in order to streamline the management of unclaimed assets. Regulation of the industry was supported by Acharya (2009) who asserts that it is commonly agreed in economics that there is an important role for public sector involvement and regulation even in a competitive industry. Financial markets are exposed to the two fundamental problems of asymmetric information. They further indicate that regulations such as those governing unclaimed assets are one way of ensuring transparency and accountability in the industry.

**5.6 Recommendations for Further Research.**

The duration since the unclaimed assets bill was passed in 2011 and 2013 may not be long enough to get a trend that can give conclusive information. It will be important for this study to be replicated after five years in order to observe the trend by then.

The unclaimed assets bill affects many other institutions including even commercial banks. It will be important to carry out the same study in another industry for comparative reasons. This will assist in establishing the effect of unclaimed assets in other industries other than the financial industry. There is also need to conduct a research on financial companies that are composite in nature i.e. the life business is conducted together with the General business though in different departments, in order to understand the makeup of the unclaimed assets in the total assets of the company and their contribution in the overall investment income.

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## Appendix I: Questionnaire

Dear respondent,

I am a Master of Business Administration student at Presbyterian University of East Africa (Finance Option) and as part of my coursework assessment; I am required to carry out a research on my field of study. I would, therefore, appreciate if you assist me collect data in your area of operation to this end. The results of the research will be solely for purposes of academic and in no way your participation be implicated in the research findings. Thus confidentiality is guaranteed.

Thank you. Salad Sarite

**Part 1: Personal Information**

a. Profession ...............................................................

b. Age Bracket (tick one as appropriate)

15-35 yrs

35 – 55yrs

55 – 75yrs

Above 75yrs

c. Highest Level of Education (Tick one as appropriate)

Primary

High School (Secondary)

College/Polytechnic

University

Others (Specify)

d. Your physical address ---------------------------------------------------

**Part 2: Legal Framework**

2.1 This part will assess your involvement opinion on Legal Framework between the bank and account holder.

a.is there regular communication to clients? Yes ( ) No ( )

If yes, briefly explain.......................................................................................................................

.............................................................................................................................................

2.2 In this part indicate your level of agreement as regards to management of risk.

Aspect

Letter are regularly sent to account holders

Clients are called regularly

Amount disbursed

**<u>KEY</u>**

**SD-Strongly Disagree, D- Disagree, N-Neutral, A-Agree, S.A- Strongly Agree**

**Part 3: Management support**

3.1This part assesses the respondent's knowledge about the components of Management support

a. Do customers get training on financial management from the bank? Yes ( ) No ( )

3.2 In this part indicate your level of agreement as regards to financial literacy.

Aspect

Provision of financial reports

Trainings are done on customers

Financial Reports are published

**KEY**

**SD-Strongly Disagree, D- Disagree, N-Neutral, A-Agree, S.A- Strongly Agree**

**Part 4: Interest Rates**

a. In your own opinion, how does interest rates affect unclaimed assets?...........................................................................................................................
...........................................................................................................................
...........................................................................................................................
...........................................................................................................................
b. Briefly, explain how the cost of borrowing in group lending differs with that of individual borrowing...........................................................................................................................

..........................................................................................................................................

..........................................................................................................................................

c. Are the interest earned on unclaimed assets ploughed back to the value of unclaimed assets and the same is posted to the public? Yes ( ) No ( )

If yes, what are the major hindrances affecting unclaimed assets?.........................................................................................................................................

..........................................................................................................................................

.........................................

**Part 5: Availability of will**

a. How do you rate the will aspect on distribution of financial assets?

Aspect

No will

The will is ambiguous

No next of keen in the accountholder's data

The process of dispersion is tedious

The banks use the money to make profits

**KEY**

**SD-Strongly Disagree, D- Disagree, N-Neutral, A-Agree, S.A- Strongly Agree**

b. As the bank, are you satisfied with the way unclaimed assets are being handled by banks?

Yes ☐ No ☐

If yes in (i) above, please explain your experience.

…………………………………………………………………………………………………….

……………………………………………………………………………………………………..

…………………………………………………………………………………………………….

c. The main objective of Unclaimed Financial Assets Authority is to ensure these assets get to the owners and/or heirs. Has it achieved its prime objectives?

☐ ☐

Yes No

**Appendix II:Research Budget**

| Activity | Amount (Ksh) |
|---|---|
| Preparation and Printing of the Questionnaires | 12,000.00 |
| Travelling | 6,500.00 |
| Accomodation while Administering the Questionnaires | 4,000.00 |
| Data Analysis | 6,000.00 |
| Miscelleneous Expenses | 3,500.00 |
| **Total** | **32,000.00** |

**Appendix III: Work plan**

| Activity | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jun |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Identification of the research problem | | | | | | | | | | | | |
| Proposal Writing | | | | | | | | | | | | |
| Proposal presentation | | | | | | | | | | | | |
| Pre-test of questionnaire | | | | | | | | | | | | |
| Distribution of Questionnaire | | | | | | | | | | | | |
| Data collection, compiling and analysis | | | | | | | | | | | | |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Report presentation | | | | | | | | | | | | |