Journal of Business Management and Economic Research

2021, 5 (5): 155-166 DOI: 10.29226/TR1001.2021.279

Journal Homepage: https://www.jobmer.org

Does Income Diversification Increase or Decrease Financial Risk? Evidence from Kenyan Commercial Banks

Timothy Kiptum*
Finance and Accounting Department
Moi University, Kenya
*Corresponding Author: kiptumtimothy9@gmail.com

Naomi Koske
Finance and Accounting Department
Moi University, Kenya

Patrick Limo
Finance and Accounting Department
Moi University, Kenya

Abstract

This paper aims at examining whether the income diversification reduce or increase the financial risks of the commercial banks in Kenya. Over decades the commercials banks in Kenya have been faced with a number of risks such as weaker asset quality, increase in non-performing loans and variability of returns hence engaging on income diversification as a strategy of mitigating such risks. This study uses a sample of 31 Kenyan banks and data for the period 2008-2019. Data is analyzed through random effect regression analysis. The study finds that income diversification decreases the financial risks. The reduction in financial risk resulted when the banks manage the agency costs and increase of income from non-interest activities. In addition, the key determinants of bank financial risk are; bank size, loan portfolio quality, lending strategy and market share which recorded a significant effect.

The findings of this study help managers to improve the financial outlook of their banks by pursuing income diversification in order to reduce financial risk.

Keywords: Income Diversification, Financial Risks and Commercial Banks

Suggested Citation:

Kiptum, T., Koske, N. & Limo, P. (2021). Does Income Diversification Increase or Decrease Financial Risk? Evidence from Kenyan Commercial Banks. *Journal of Business Management and Economic Research (JOBMER)*, Vol: 5, Issue: 5, 155-166.