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INFLUENCE OF REGULATORY COMPLIANCE ON STRATEGIES ADOPTED BY COMMERCIAL BANKS IN KENYA

Maina W. Milkah
Assistant Vice President, Legal Counsel, Barclays Bank of Kenya Limited, Kenya

Okech C. Timothy
Associate Professor of Economics, United States International University – Africa, Kenya
ctokech@gmail.com

Abstract

The purpose of the study was to assess the influence of regulatory compliance on strategies adopted by commercial banks in Kenya. Descriptive research design was adopted with senior employees from commercial banks constituting the target population. To identify the sample elements, stratified random sampling technique was applied based on Kenya's Central Bank categorization of the banks. Both primary and secondary data were collected with secondary data collected from published sources of the banks, while primary data was collected using questionnaire which contained both open-ended and closed-ended questions. Data collected was analyzed using SPSS to obtain both descriptive and inferential statistics. The study revealed that capital structure of the banks is highly regulated, and that capital requirements are essential for banks performance, with corporate governance playing key role in determining the performance of the bank. Similarly, the profits realized by the banks are not necessarily influenced by the amount of credit and non-performing loans in the banks, and that credit risk compliance is considered essential in influencing the various strategies adopted by commercial banks. Also, the operational strategies were influenced by how a banks moves forward in an effort to streamline its operational strategies and capital regulation and finally, banks continue to exploit income diversification strategies, adopting bank policy on regulatory compliance to enhance bank performance. In conclusion, regulatory requirements on the banking sector have a significant impact on the strategies adopted by bank in Kenya and that capital requirement is essential for banks performance. Further, corporate governance in banks significantly determine the future of the bank, while credit risk compliance is essential in influencing the various *strategies adopted by the banks. It is recommended that commercial banks need to periodically formulate strategies that are in line with the industry regulatory requirements ensure the sustainability of their business for the benefit of the stakeholders. Banks should also consider establishing strategies that help them conform to the credit risk requirements, capital regulations and liquidity requirements as well as strategies that assure income diversification strategies financial innovations with high returns at a reasonable risk level, monetary, fiscal and prudential supervisory policies.*

Keywords: Regulatory Requirements; Bank Strategies, Compliance, Credit risks

INTRODUCTION

Worldwide, regulation continues to be applied by governments as intervention measures in the various sectors of the economy aimed at shaping the welfare of economies and societies (OECD, 2012). The object of these is to ensure that regulations support good governance aimed at stirring economic growth and development and the achievement of broader societal objectives including social economic welfare, environmental sustainability, and the respect of the rule of law. These further address the need to ensure that regulations and regulatory frameworks are justified and are of high quality and achieve policy objectives. The policies enable policy makers to reach informed decisions about what to regulate, whom to regulate, and how to regulate. As an integral part of effective public governance, the foundation for building integrity, regulation helps in shaping the relationship between the state, citizens and businesses including the banking sector (OECD, 2012). The use of regulatory policy to inform and improve policy formulation and decision-making has various dimensions and an array of tools must be deployed in a consistent and mutually supporting manner if systemic quality improvement is to be assured. The tools include regulatory impact analysis, the consideration of regulatory alternatives, and administrative simplification for compliance purposes, regulatory transparency and ex-post evaluation of existing regulation (Deloitte, 2015). Regulatory compliance is grounded in the principles of governance and engages a wider domain of players including the legislature, the judiciary, sub-national and supra-national levels of government as well as standard setting activities of the private sector which in many cases, is the one regulated.

In the banking sector, bank regulation spans from microeconomic anxiety over the ability of bank creditors to monitor the risks derived on the lending side, and from micro and macroeconomic concerns over the steadiness and firmness of the banking system in the case of a bank crisis (June, 2005). The dependability of financial institutions in the sector, as the safeguards of households' deposits and/or savings according to June is an issue that regulators and governments endeavor to give assurance to the wider economy because a failure of the regulate poses a systemic risk that can threaten the very stability and ability of a government to fend for its own people. The insolvencies and mismanagement of banks have stirred up stringent bank regulatory compliance. Wilkinson and Turing (1996) opine that the detail in the regulatory measures, statutes and guidance from the regulatory body are intended to prevent collapse of the banking industry. Regulation is one of the most important factors in shaping banks today, costly economic negative spillovers are caused by regulatory arbitrage, while on the other hand, regulation free banking system is not an option either (Petitjean, 2013). Other measures have also been initiated and implemented in response to the political events and financial crises (Spong, 2000).

In the face of a crisis, the challenges and the delicateness of the banking system become extremely pronounced and enhancements of regulatory reforms to set new rules and exercise excessive controls to put an end to ill practices, while mitigating the negative impact on the economy become necessary (Svilenova, 2011). The numerous financial crises globally including the 2007-2008 was arguably the most severe since the Depression of 1930, with ripple effects experienced worldwide attributed to the financial interconnectedness. In this crisis, many homeowners lost their houses as the cost of mortgage repayment became unbearable and countless bank runs, forcing the Central Banks to intervene and save the banks from collapse in the wake of a fierce threat of stability and inability to meet credit and deposit obligations. The situation was acerbated in the wake of the global economic crisis with a number of regulations and supervision mechanisms implemented which in the process affected bank strategies and business models (Deloitte, 2015). This according to Deloitte, led to a paradigm shift within the banking industry with supervisory institutions initiating keen interest in strategies and models that individual banks had adopted in order to assess and remedy any areas that may be deemed of concern.

The levels of equity capital and liquidity demanded by regulators continue soaring turning regulation to a strategic consideration for banks. In the process, boards and senior management have continued to be held to accountable for the consequences of their actions and inactions (Deloitte, 2015). Those who feel disenfranchised as a result of curtailed behavior may whine about their loss of profits and impending adverse effects on novelty. On the contrary, the same regulations are geared towards creating a more efficient banking system, and in the end what is of utmost importance is how banks can use the compliance to regulations to inform on strategy so as to secure sustainable returns (The Banker, 2014). The regulator however, has to balance the needs of all parties involved, whilst taking into account the effects of non-compliance and act in utmost good faith. Justifiably, banks exist to make profit and bank executives are free to make varied decisions on the daily operations, however, banking is commonly treated as a matter of public interest. Regulations and laws on banking range from who can open banks, the products that can be offered and bank expansion.

The regulatory response to the financial crisis has had three main objectives. Firstly, to reduce the likelihood that any large financial institution fails; secondly, to limit the harmful spillovers to the broader economy that would be triggered by the disorderly failure of a large institution; and finally, to reduce the risk that Taxpayers, rather than private investors, are asked to absorb losses in a future crisis (Greenwood, Hanson, Stein and Sunderam, 2017). Policy-makers continue to seek new ways to rectify the damage caused to economies due to the failures of financial institutions by adopting a large set of regulatory reforms. Today, bodies such the IOSCO and BCBS, together with Australian regulatory bodies – APRA, ASIC and the Reserve Bank of Australia are championing the provision of a stable and predictable regulatory framework that has provided guidelines that banks have used to align their business models to in a bid to prevent the adverse effects of a financial catastrophe on an entire economic system (KPMG, 2016).

The banking sector is one of the most regulated industries in the whole world today. Barth, Caprio and Levine (2006) note that banks all over the globe have been subjected to one form or another of non exhaustive list of regulatory reforms that requires compliance. These include: limits on branching and new entry; precincts on pricing; line-of-business restrictions and regulations on ownership linkages among financial institutions; restrictions on the portfolio of assets that banks can hold; and compulsory deposit insurance (or informal deposit insurance, in the form of an expectation that government will bail out depositors in the event of insolvency). Others according to Barth, Caprio and Levine (2006) include capital-adequacy requirements; reserve requirements (requirements to hold a certain quantity of the liabilities of the central bank; anti-money laundering controls that speaks to having the awareness of the source of funds from bank customers (banks have had to put in place compliance transaction monitoring systems a risk mitigation to flag any alarming transactions); KYC (Know Your Customer) guidelines on how to on board bank customers and documents to ask for in order to verify validity of an individual or business entity.

In Kenya, the government introduced the interest cap rate in 2016 which requires banks to cap interest rates at no more than four percent above the base rate set by the CBK (Alushula, 2017). This has had a ripple effect on the industry with several banks opting to cut down on operational costs aimed at improving efficiency and consolidation of operations including closure of branches and merging of branches a year later. Others opted for laying-off of employees with over Two-thousand staff reported to have been laid off in one year by ten banks. Additionally, a few leading banks are using the regulation on forecasting of balance sheets and profit and loss (P&Ls) for their own internal planning aimed at improving efficiency while at the same time accelerate the overall generation of the baseline (Alushula, 2017).

Several banks are taking advantage of KYC to on board customers by leveraging and implementing new capabilities and processes to convert new customers into revenue quickly while also using KYC for ongoing transaction to uncover real time needs providing insights to the changing client needs (Culp, 2014). Kenyan Wall Street (2018) documents that how a resorted to increasing its sales volumes in the upper segments, increasing product penetration in current client base and increasing focus on transactional banking deposit to survive in the wake of regulatory reforms. Compliance to regulations, however, has a direct impact on the strategy that banks adopt, and it is their onus to respond to the market changes as quickly as they can to ensure sustainable business models. KPMG (2016) opines that the process of adjusting to new regulatory requirements is not simply about completing compliance requirements, but also crafting dynamic processes and maximizing the use of next-generation analytics in order to track regulatory changes as they emerge. Additionally, the sector is regulated locally by the Banks Act, Electronic Communication and Transaction Act (ECT Act) and the Financial Intelligence Center Act (FICA), and internationally if they have international operations by the Gramm-Leach-Bliley Financial Services Modernization Act (GLBA), the Sarbanes-Oxley Act (SOX) and the Basel II Accord, among others. On account of the essential function of managing customer's funds and the conversion of short term deposits into longer term lending, banks are exposed to the possibility of illiquidity. For example, the inability to meet their obligations to depositors which could arise from poor lending practices, mismatch of funds, penalties and fines thereby denting their reputational image and as such are prone to fragility. Nevertheless, the manner in which a bank's operations are conducted and the regulatory framework within which they function has a direct impact on performance and, effectively, the strategies employed.

As noted by Sentero (2013) the regulatory framework in Kenya affects the performance of banks in Kenya. Nasieku (2014) also notes that the regulatory framework has affected economic efficiency and behavior of banking sector in Kenya. In all these efforts, what is however not clear is how have commercial banks adjusted in lieu of regulatory requirements. Against this, it was necessary to analyse the influence of regulatory compliance and reforms on commercial banks' strategies and the coping strategies.

Purpose of Study

The purpose of this study was to evaluate the influence of regulatory compliance and reforms on Commercial banks' strategies. The study was guided by three specific objectives namely: i) to examine the regulatory requirements that affect strategies adopted by commercial banks; ii) to determine how regulatory compliance affects banks' strategies; and iii) to examine the strategies adopted by banks to enhance regulatory compliance.

RESEARCH METHODOLOGY

In the study, descriptive design was adopted. This design was adopted as it allowed the collected data to be presented by means of simple statistics, figures and tables, percentages and mean scores, and frequency distributions. The target population in the study comprised of top management, middle management and staff involved in strategy formulation and implementation. This study targeted licensed commercial banks, drawn from the Central Bank categorization in terms of tiers namely tier 1, 2 and 3. These were targeted since in the recent past, there have been reports showing that the regulations have impacted on their performance negatively. Stratified random sampling was used to identify the respondents in order to ensure that the target population is appropriately represented in the sample in order to increase the efficiency of the study (Kothari, 2007; Bartlett, Kotrlik and Higgins, 2001). Proportional allocation procedure was used to ensure that each element in each stratum had equal probability of being included. Computer random numbers were generated for each category and respondents assigned these numbers randomly. The sample frame was obtained from the Central bank based on the banks` categorization. Thereafter, a list of respondents was obtained from the human resources records of the selected banks. The sample size of respondents from the projects was calculated using the formula suggested by Krejcie and Morgan (1970). This method provided a sample size that was sufficient to provide reliable and valid data that could be triangulated for purposes making necessary inferences applicable to the target population.

In the study both primary and secondary data were collected with primary data was collected using questionnaire that contained both closed and open ended questions. The questionnaire was divided into various sections which captured the respondents' general information and specific information drawn from the research questions. In contract, secondary data was collected from secondary sources including the banks' strategic plans, published quarterly, semi-annual and annual reports. Validity was conducted through test-retest method of the questionnaire on some selected staff from the target population considered to exhibit similar characteristic with the target population. Cronbach's Alpha value was computed with all the variables reporting a value higher than 0.8. Data collected was cleaned, validated, edited and coded and analyzed using SPSS to obtain both descriptive and inferential statistics. Descriptive statistics included but not limited to frequency tables, pie charts, line graphs, means and other measures of central tendency. Statistical tests were conducted before computing inferential statistics including beta, p-values, r-square and ANOVA.

FINDINGS

The first objective of study was to establish the regulatory requirements that affected strategies adopted by Kenyan banks. In total, 74% of the respondents strongly agreed that in Kenya, capital structure of banks is highly regulated, while 23% of the respondents agreed, with only 3% of the respondents strongly disagreeing and none of the respondents disagreed nor remained neutral. This is an indication that in the country, the capital structure of banks is highly regulated. Further, 78% of the respondents strongly agreed that capital requirements were essential for banks performance, 19% agreed with 3% disagreeing, while none of the respondents strongly disagreed an indication that capital requirement is essential for banks performance. In addition, 96% of the respondents agreed that Central Bank of Kenya requires institutions to maintain minimum cash balances as a reserve against depositors and other liabilities, while 3% strongly disagreed with 1% remaining neutral. This equally shows that the central bank of Kenya requires institutions to maintain minimum cash balances with it as a reserve to caution depositors and other liabilities.

Similarly majority of the respondents (96%) strongly agreed that liquidity is required to meet regular financial obligations of the bank, without necessarily dipping into reserves, while 3% strongly disagreed and none of the respondents remaining neutral. This is a revelation that these banks require liquidity to meet regular financial obligations without having to dip into its. More than half of the respondents (61%) strongly agreed that corporate governance plays a big role in determining the future of the bank, with 36% of the respondents agreeing, while 3% of the respondents strongly disagreed. An insignificant percentage (10%) of the respondents, however, strongly agreed, 29% agreed that the bulk of the profits of commercial banks are not influenced by the amount of credit and non-performing loans, with 29% disagreeing and 23% strongly disagreed. This is an indication that the bulk of the profits of commercial banks are not influenced by the amount of credit and non-performing loans in the banks. Lastly, 19% of the respondents strongly agreed and 52% agreed that credit risk management is highly regulated, 3% strongly disagreed and 7% disagreed and 19% remained non committal an indication that credit risk management is highly regulated. In the study, a regression analysis was conducted to examine the impact of regulatory requirements on Kenyan banks' strategies by first conducting a linearity test to examine if there was a significant linear relationship between regulatory requirement and bank strategies using Pearson's correlation coefficient.

The results show that there was a significant positive linear correlation (r = 0.694, p-value = 0.01) between regulatory requirements and bank strategies with regression analysis results showing r-value of 0.571 and coefficient and adjusted R-square (r^2) =0.327. This shows that the independent variable, regulatory requirement accounts for 32.7% of the bank strategies among the banks, while the remaining percentage is accounted for by factors outside this model. The beta coefficient as a measure of significance of the independent variable in predicting the dependent variable was also estimated and resulted reported in Table 1. The results shown in the table, reveal that regulatory requirement has Beta of .571 and p<.05 indicating that a 1-unit increase in regulatory requirement, bank strategies among banks increases by 0.520 units and is significant

Table 1: Regression Results of Bank Strategies and Regulatory Requirements

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.571[a]	.327	.303	.53298

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.826	.273		3.025	.005
	Regulatory Requirements	.520	.139	.571	3.750	.001

a. Dependent Variable: Bank Strategies; Predictor: Regulatory Requirements

Also conducted was the ANOVA to explain whether the regression model was statistically significant in predicting the dependent variable. The results as summarized in table 2 support regression analysis, (p-value < 0.05) that the model regulatory requirement is statistically significant in predicting the bank strategies.

Table 2: ANOVA Results of Bank Strategies and Regulatory Requirements

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.995	1	3.995	14.064	.001[b]
	Residual	8.238	29	.284		
	Total	12.233	30			

a. Dependent Variable: Bank Strategies; Predicators: Regulatory Requirements

The second objective of the study was to examine how the regulatory compliance affected strategies adopted by Kenyan banks. These results shows that a large majority of the respondents agreed (91%) agreed that credit risk compliance is considered essential in influencing the various strategies adopted by commercial banks, while 3% were neutral, and 3% strongly disagreed with another 3% also disagreeing. This shows that credit risk compliance is considered to be a very essential aspect that influence the various strategies adopted by commercial banks, as agreed by 91% of the respondents. Further, 39% of the respondents strongly agreed, 52% agreed, 7% were neutral, and 3% strongly disagreed that operational strategies were influenced by how a bank moves forward in an effort to streamline its operational strategies. This shows that operational strategies are influenced by how a bank moves forward in an effort to streamline its operational strategies, as agreed by the majority (91%) of respondents. In addition, 42% of the respondents strongly agreed that capital regulation improves the performance of banks and financial stability, with 42% agreeing, 3% strongly disagreed, while 13% remained neutral an indication that capital regulation improves the performance of banks and financial stability. Majority of the respondents strongly agreed that corporate governance affects strategies adopted by commercial banks, with a small percentage (3%) of the respondents' strongly disagreeing, while, 7% remained neutral. This reveals that corporate governance affects strategies adopted by commercial since 91% of the respondents were in support. Also revealed was that 26% of the respondents strongly agreed, 39% of the respondents agreed that banks hold high liquidity, while 10% disagreed and 3% strongly disagreed and 23% remained neutral. Finally, 45% strongly agreed that liquidity requirements influence the various strategies adopted by commercial banks, 45% agreed, while 10% of the respondents disagreed. The results showed that liquidity requirements influence the various strategies adopted by commercial banks, as agreed by 90% of the respondents.

Correlation analysis shows that credit risk compliance was considered essential in influencing the various strategies adopted by commercial banks and had a significant positive correlation ($r=.682$, $p<.01$) with bank strategies. The findings also show that operational strategies are influenced by how a bank moves forward in an effort to streamline its operational strategies with a significant positive correlation ($r=.463$, $p<.01$). The results further show that capital regulation improves the performance of banks and financial stability with a significant correlation with bank strategies, as shown with $r=.414$, $p<.05$. Corporate governance positively affects strategies adopted by commercial banks ($r=.598$, $p<.01$) and that banks hold high liquidity at the opportunity cost of some investment, which could generate high returns which was however insignificant ($r=.248$, $p>.05$. Further, liquidity requirements influences the various strategies adopted by commercial banks although the value was insignificant and positive (r=.260, p>.05). In terms of linearity test, there was a significant positive relationship (r = 0.694, p-value<0.01). The regression analysis on the other hand, show that the relationship between bank strategies and regulatory compliance accounts for 48.2% of the bank strategies among the banks, while the remaining 51.8% is accounted for by other factors outside this model consideration. Table 3 provides the summary statistics.

Table 3: Regression Results

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate
1		.694[a]	.482	.464	.46756

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	.521	.258		2.023	.052
	Regulatory Compliance	.724	.139	.694	5.192	.000

a. Dependent Variable: Bank Strategies; Predictor: Regulatory compliance

Accompanying the regression model was the ANOVA that was conducted to examine the significance of regulatory compliance on bank strategies. As shown in Table 4, p- value was less than 0.05 showing that regulatory compliance was statistically significant in predicting the bank strategies. The beta value (0.694) was also statistically significant (p<.05) an indication that a change in regulatory compliance positively and significantly affect bank strategies among the banks.

Table 4: ANOVA Results

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.893	1	5.893	26.957	.000[b]
	Residual	6.340	29	.219		
	Total	12.233	30			

a. Dependent Variable: Bank Strategies

b. Predictors: (Constant), Regulatory Compliance

The third and final objective was to analyze the bank strategies adopted by Kenyan banks. The results show majority of the respondents (90%) agreed that commercial banks are increasingly exploiting income diversification strategies to enhance bank performance with 10% opting to remain neutral. Similarly, 64% of the respondents strongly agreed with 23% disagreeing that commercial banks are adopting financial innovations that promise high returns but at reasonable risk levels. This was however, disagreed by 10% of the respondents with 3% opting to remain neutral a revelation that commercial banks continue to adopt financial innovations strategies aimed at higher returns. Additionally, 26% of the respondents strongly agreed, while 39% agreed that commercial banks are adopting financial reconciliations that promise high returns but at reasonable risk levels. This shows that commercial banks are adopting financial reconciliations that promise high returns but at reasonable risk levels, as agreed among 65% of the respondents.

In the study, 49% of the respondents strongly agreed with 48% agreeing that monetary, fiscal and prudential supervisory policies significantly contribute towards the creation of a systematically risky or stable financial environment with 3% strongly objected. Also, 36% of the respondents strongly agreed, while 45% agreed that Commercial banks were adopting bank policy on regulatory compliance to enhance bank performance, although 3% of the respondents strongly disagreed, while 3% and 13% disagreed and remained neutral, respectively. The results could imply that commercial banks are adopting bank policy on regulatory compliance to enhance bank performance, as agreed by 81% of the respondents. Lastly, 32% and 42% of the respondents strongly agreed and agreed, respectively that Commercial banks have embraced proper accounting records keeping in an effort to remain complaint with the regulation. A multiple linear regression was conducted with regulatory compliance and regulatory requirement as the explanatory variable, while bank strategies constituted the dependent variable. The results are summarized in table 5. The results shows that the independent variables, regulatory compliance and regulatory requirement jointly account for 48.8% of the bank strategies, while the remaining percentage is accounted for by other factors outside this model.

Table 5: Results of Multiple Regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.699[a]	.488	.452	.47279

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	.482	.268		1.795	.083
	Regulatory Requirements	.111	.184	.122	.602	.552
	Regulatory Compliance	.629	.211	.603	2.976	.006

a. Dependent Variable: Bank Strategies; Predictors: Regulatory Compliance, Regulatory Requirements

The beta coefficient as a measure of the significance of the independent variables in predicting the dependent variable for regulatory requirements was 0.122 and statistically insignificant ($p>.05$). Regulatory compliance had a beta of 0.603 and statistically significant ($p<.05$).The regression model was followed by ANOVA whose results are summarized in table 6 to examine whether the regression model is statistically significant in predicting the dependent variable.

Table 6: ANOVA Results of Bank Strategies

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.974	2	2.987	13.364	.000[b]
	Residual	6.259	28	.224		
	Total	12.233	30			

a. Dependent Variable: Bank Strategies

b. Predictors: (Constant), Regulatory Compliance, Regulatory Requirements

DISCUSSION

The finding on the regulatory requirements that affected strategies adopted by commercial banks showed capital structure of banks is highly regulated resonating with Mwega (2009) who noted that the CBK was established to assist in developing and maintaining sound financial and credit and the banking structure in the country where the capital structure of banks is regulated under the CBK. As argued by Acharya, Almeida and Campello (2013), capital requirement regulations represent a mainstay of banking sector policies around the world, which determine the precise amount and nature of banks' capital. From the results, capital requirements were essential for banks performance. This it could be argued that it is meant enable banks make profits given the fact attaining minimum capital minimizes the risks of distress in banks especially in the case of short-term borrowing which is however considered costly. The study also revealed that the central bank of Kenya requires institutions to maintain minimum cash balances in the account at the Bank as a reserve against depositors and other liabilities. As a policy, the Central Bank of Kenya requires a bank to maintain a statutory minimum of 20% of its deposit liabilities and liquid assets (CBK, 2006). This finding supports Gray (2011) who noted that more than 90% of central bank across the world requires banks to have a minimum reserve against their liabilities. It was also found out that banks in Kenya require liquidity to meet regular financial obligations of the bank without dipping into its reserves, this corresponds to Echekoba, Egbunike and Ezu (2015) who opined that banks must ensure that they keep a sound liquidity position always to ensure they can meet their financial obligations.

It was also found out that corporate governance in Commercial Banks plays a big role in determining the future of the bank. The findings could be linked to the recent spate of a number of commercial banks either collapsing or being put under statutory receivership. The study also established that the bulk of the profits of commercial banks are not influenced by the amount of credit and non-performing loans in the banks. This is in line with the findings by Kithinji (2010) who established that majority of commercial banks' profits are not influenced by the amount of credit and non-performing loans. This finding relates also to Nasieku (2014) who found that the behavior of banking sector in Kenya in terms resource allocation and utilization (efficiency) was affected by level of capital held by bank and the country's economic situation. On maintaining a specific stand in credit market the study found that, basic risk sensitive measure of capital does not jeopardize ability of banks to service the economy. The results also revealed that credit risk management was highly regulated in the country. This finding corresponds to Raad (2015) which established that credit risk management is significant since profit is made through credit disbursement and therefore it is critical for proper management of credit risk. Kargi (2011) also reports that credit risk management has a significant impact on the strategies of Nigerian banks.

In terms of the effects of regulatory compliance on banks' strategies by commercial banks, the study revealed that credit risk compliance is considered essential aspect that influences the various strategies adopted by commercial banks. This finding is in line with the observation made by Kargi (2011) that credit risk management has a significant impact on the strategies of Nigerian banks. According to Kargi (2011) banks' strategies were negatively affected by the levels of loans and advances, non-performing loans and deposits thereby exposing them to great risk of illiquidity and distress. Kolapo, Ayeni and Oke (2012) made a similar observation noting that credit risk management has a significant impact on the various strategies of commercial banks. It was also established that operational strategies were influenced by how a bank moves forward in an effort to streamline its operational strategies. This result corresponds with the findings of Odunga *et al.,* (2013) who revealed that bank's operational strategies in Kenya are influenced by how a bank moved forward in an effort to streamline its operational strategies. Equally, it was established that capital regulation improves the performance of banks and financial stability. This result supports the findings of Gudmundsson, Ngoka-Kisinguh and Odongo (2013) who found out that capital regulation enhances the performance of commercial banks in Kenya and their financial stability.

Further, the findings showed that corporate governance affects strategies adopted by commercial banks. Specifically, commercial banks tend to hold high liquidity, which has an opportunity cost of some investment, which could generate high returns. This observation correlates to the argument of Kamau (2014) who observed that when banks hold high liquidity, they do so at the opportunity cost of some investment that could generate high returns and hence more gains for the owners/shareholders. Lastly, it was established that liquidity requirements influence the various strategies adopted by commercial banks. As observed by Ndung'u and Ngugi (2000), a high liquidity requirement makes commercial banks in Kenya to change their strategy from lending out money and maintaining a high liquidity that is higher than the minimum required by the central bank. Banerjee and Mio (2017) also found out that bank adjusted their assets and liabilities, increasing the share of high quality liquid assets and non-financial deposits while minimizing intra-financial credit and short-term wholesale funding.

In the study, it was also revealed that commercial banks are increasingly exploiting income diversification strategies to enhance bank performance, this finding correlate with the observation of DeYoung and Rice (2014) who noted that diversification of banking activities in areas such as product diversification, merger and overseas expansions have increased considerably in the recent past. The study results also showed that commercial banks are adopting financial innovations that promise high returns but at reasonable risk levels. This is in line with Beyani and Kasonde (2014) who argued that institutional, process and product innovations present heightened risk levels especially due to unfamiliarity levels at first and thus banks have to adopt innovations, which promise high returns at a reasonable risk level in order not to compromise regulatory compliance. This is because financial innovation provides fresh products and strategies to suit various situations of time and market and to attain various requirements of members in the financial system. This finding supports Solans (2003) whereby it was contended that innovation in the banking industry is perceived as the creation and promoting of new financial tools, technologies, instructions and markets that enable information access, trading and modes of payments. Innovation is brought about by among other factors, decrease in costs of bankruptcy, tax advantages, decrease in moral hazards, decreased regulatory expenses, transparency and customization (Gorton and Metrick, 2010).

Results also showed that commercial banks continue to adopt financial reconciliations that promise high returns but at reasonable risk levels. This finding resonates with who observed that the audit control environment in banks carries a significant positive correlation with financial performance (Tung'a, 2013). The study findings also showed that monetary, fiscal and prudential supervisory policies can be significant contributors to creating a systematically risky or stable financial environment. These findings are correlates to the findings of Garicano and Lastra (2010) who similarly found out that monetary, fiscal, and prudential supervisory policies could be important contributors to establishing a systemically risky or stable financial environment. It could be argued that financial reconciliation is necessary in making sure that there is effective financial management. As reported by Njonde and Kimanzi (2014) comprehensive record keeping system makes it possible for entrepreneurs to develop accurate and timely financial reports that show the progress and current condition of the business. Better reports on cash reconciliation will enable the commercial banks to keep track of any loopholes that may arise for cash frauds. In a bid to identify a number of antecedents associated with fraudulent financial reporting, Bell and Carcello (2010) conducted a study which found out that such items as rapid growth, weak or ineffective internal controls, managerial preoccupation with meeting earnings projections, and aggressive managerial attitudes coupled with weak control environments increase cash mismanagement in financial institutions.

The study also revealed that commercial banks in Kenya are adopting bank policy on regulatory compliance to enhance bank performance. It was also found out that commercial banks in Kenya have embraced proper accounting records keeping aimed at remaining compliant with regulation. This corresponds to the argument by Abdul-Rahamon and Adejare (2014) where it was argued that there is need for commercial banks to take up proper accounting records keeping in order achieve regulatory compliance. Generally, it is a good practice to develop policy that clearly stipulates how business responds to various circumstances. This, Cihak *et al* (2012) noted that in almost all cases, this policy should aim at fostering market mechanisms in the functioning of the banking system, especially the setting of interest rates for saving and borrowing and competition among banks. It is natural for governments everywhere to be tempted to distort the functioning of the financial system to facilitate the financing of their own operations or of specific economic activities or agents that they favor, a stance that the economic jargon loosely refers to as financial repression

CONCLUSION

This study concludes that regulatory requirements on the banking sector have a significant impact on the strategies adopted by commercial bank an indication that capital structure of banks is highly regulated. Further, the capital requirement stipulated by the regulator is essential for banks performance. From the study, it is evident that the central bank of Kenya requires institutions to maintain minimum cash balances as a reserve against depositors and other liabilities. The study equally revealed that commercial banks require liquidity to meet regular financial obligations of the bank without dipping into their respective reserves. Further, corporate governance seem to play a significant role in determining the future of the bank. Finally, the bulk of the profits of commercial banks are not influenced by the amount of credit and non-performing loans in the banks and that that credit risk management is highly regulated in Kenya. Also, regulatory compliance has a significant positive effect on the bank strategies in Kenya, with credit risk compliance considered essential in influencing the various strategies adopted by commercial banks. Operational strategies were influenced by how a bank moves forward in an effort to streamline its operational strategies and that capital regulation improves the performance of banks and financial stability, while corporate governance affects strategies adopted by commercial banks. Banks were also found to be holding high liquidity as an opportunity cost of some investment in the generation of high returns. Strategies adopted by commercial banks were significantly influenced by the regulatory requirement and the compliance with the requirements. Further, commercial banks seemed to increasingly exploit income diversification strategies to enhance performance in addition to the adoption of financial innovations models that promise high returns with moderate risk levels. Evidenced in the study is that monetary, fiscal and prudential supervisory policies significant contribute towards the creation of a systematically risky and that commercial banks continue to adopt policy on regulatory compliance to enhance their performance, while embarrassing international accounting records keeping for purpose of remaining compliant.

RECOMMENDATIONS

This study recommends that commercial banks formulate strategies that will place them at a better position to comply with the regulatory requirements. This would ensure the sustainability of their business for the benefit of the stakeholders including the shareholders. It is also recommended that the regulator in this case Central bank should establish sound regulations in the banking sector, having in mind that the regulation put in place will affect bank strategies and consequently their performance and that of the economy of the country as whole. Banks should establish strategies that will enable them to confirm to the various regulations and requirements including credit risk requirements, capital regulations and liquidity requirements. This would help in improving the performance of the banks and their financial stability. The strategies adopted by banks are influenced by the regulatory requirements and compliance to the regulations. Therefore it is recommended that banks adopt strategies that are aligned to the regulatory requirements. Some of the strategies that the banks may consider include but not limited to income diversification strategies that enhance bank performance, adopting financial innovations with high returns at a reasonable risk level, monetary. Other may include fiscal and prudential supervisory policies, adopting bank policy on regulatory compliance to enhance bank performance and proper accounting records keeping.

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