

**EFFECT OF DIGITAL FINANCIAL INNOVATIONS ON LOAN
PERFORMANCE OF DEPOSIT TAKING SACCOs IN MOMBASA COUNTY**

NABWIRE MILLAN ELIZABETH

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DECLARATION

Declaration by the Student

This thesis is my original work and has not been presented for a degree in any other University.

Signature_____ Date_____

Nabwire M. Elizabeth

MSF/1114/015

Declaration by the Supervisor

This thesis has been submitted for examination with my approval as University Supervisor.

Signature_____ Date_____

Dr. Charles Kamau

Technical University of Mombasa

Signature_____ Date_____

Dr. Mary Idua

Technical University of Mombasa

DEDICATION

I dedicate this thesis to my family who have and always keep on encouraging and praying for me to achieve my dreams. To God be the Glory and Honor.

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LIST OF ABBREVIATIONS

APIs	-	Application Programming Interface
BOM	-	Board of Management
CBK	-	Central Bank of Kenya
CEO	-	Chief Executive Officer
COVID 19	-	Coronavirus Disease of 2019
DT SACCOs	-	Deposit Taking Savings and Credit Co-operatives
EU	-	European Union
FCs	-	Financial Cooperatives
GDP	-	Gross Domestic Product
GSMA	-	Groupe Speciale Mobile Association
IMF	-	International Monetary Fund
MNO	-	Money Networks Organizations
NPLs	-	Non-Performing Loans
OECD		Organization for Economic Co-operation and Development
SASRA	-	SACCO Societies Regulatory Authority
SME	-	Small and Medium Enterprises
UK	-	United Kingdom
US	-	United States of AMERICA
WOCCU	-	World Council of Credit Unions

DEFINITION OF TERMS

Application Programming Interface An interface that enables communication between two software applications of different capabilities (Mackinlay, 2019).

Digital Financial Innovations The use of technological advancements in the provision of financial services (World Bank, 2020).

Internet(online) Banking The use of computers, mobile phones and or tablets to undertake banking activities over the internet mainly through an online portal on their bank's website (Ndwiga & Maina, 2018).

Loan Performance Measure of whether a loan is settled in full according to the loan contract or not (Nsengiyumva & Harelimana, 2020).

Mobile Banking Mobile banking technology refers to the use of mobile banking applications on a mobile telecommunication device to carry out financial transactions (Alliance for Financial Inclusion, 2016).

Process Digitalization The integration of digital technologies into business or organizational processes for enhanced performance (Mackinlay, 2019).

ABSTRACT

Financial institutions are now able to become more efficient while also putting the needs of the client first thanks to technological advancements in the digital financial sector. With the increasing competition, DT SACCOs in Kenya have sought to leverage on the different digital financial innovations to enhance their financial and operational performance. Despite adopting such innovations, SACCOs continue to deal with substantial percentages of loans that are not performing and a spike in non-performing loans is an indication of the typically negative performance of loans. This was the basis for this study which sought to investigate the effect of digital financial innovations adopted by SACCOs in Mombasa County on their loan performance. The researcher analyzed three theories—the diffusion of innovation theory, the open innovation theory, and the disruptive innovation theory—as well as the literature of related studies in order to identify the research gaps that served as the foundation for this study. A sample size of 70 respondents was drawn from a target population of 190 using the Nassiuma formula. The demographic for the study was the board of directors and personnel of the six DT SACCOs in Mombasa County. The study used a descriptive research design. Both primary and secondary sources of information were used to gather the data. The structured questionnaire underwent a pilot test to determine its validity and reliability for the primary data. The various SACCO financial accounts, reports, and databases were used to gather the secondary data. SPSS, a computerized statistical package for social sciences, and Excel were used to examine the data. The data was examined using descriptive statistics, such as mean, figures, frequency tables, and standard deviation. Inferential statistics was done using the multiple regression analysis and the z test. The results of the regression model demonstrated a statistically significant effect between process digitalization, mobile banking technologies, application programming interfaces, and online banking and loan performance. The study findings indicate that digital financial innovations have a substantial effect on loan performance in DT SACCOs in Mombasa. In conclusion, DT SACCOs have seen an increase in the quantity and quality of loans as well as better monitoring and loan repayment convenience upon adoption of digital financial innovations. Ultimately, the number of loans in default has significantly reduced. the number of loans in default. The study recommends that DT SACCOs should review their operations to clearly understand other factors that are contributing to the increase in members defaulting in paying their loans on time.