

ABSTRACT

Globally, lending practices are central to the realization of critical banking objectives with investment performance being the baseline yardstick for the sector. Prior to 2015, Kenya's banking sector was vibrant and highly profitable. Sector loan book grew at an impressive compound annual growth rate of 16% from 2011 and 2015, lending to gross domestic product was 35%. However, after the interest rate cap in August 2016, there has been a general slowdown to lending, January, 2016 (16.8% growth); August, 2016, (5.4 %growth) and December, 2016, (4.3% growth). Non-performing loans increased across the sector from an industry average of 5.2% before 2015 to an average of 7.9% as at September 2016. Credit management and performance literature show that lending practices are important drivers of bank performance in terms of return on investment and market share. Prior local studies mainly focus on general credit management practices in different sectors and studies have not explored the influence of lending practices on investment performance of commercial banks. Given the critical role the commercial banks play in the Kenyan economy, it is not apparent how know your customers (KYC) procedures, loan repayment and cash lending policies influence investment performance of commercial banks in Kisumu city. The purpose of this study was therefore the influence of lending practices on investment performance of commercial banks in Kisumu city, Kenya. The specific objectives of the study were to: establish the influence of KYC procedures on investment performance; determine the effect of loan repayment policies on investment performance and establish the influence of cash lending policies on investment performance. The study was anchored on financial acceleration theory. A correlation research design was employed. The target population was 81 branch, credit and operation managers of 27 commercial banks in Kisumu city. Purposive sampling technique was used to arrive at study sample of 71 respondents. The study used both primary and secondary data. A semi-structured self-administered questionnaire was used to collect primary data. Secondary data was collected through desk review. Reliability of questionnaires was tested on pilot data from 10 respondents and yielded a coefficient of above 0.701 implying internal consistency. Content validity test was done using expert reviewers. Data was analyzed using inferential statistics such a multiple regression analysis. The results indicate that KYC practice is a positive significant predictor of investment performance ($\beta = .180$ ($p = .010$)), loan repayment practice is a positive significant predictor of investment performance ($\beta = .408$ ($p = .000$)) and cash budgeting practice affects investment performance significantly positively ($\beta = .407$ ($p = .007$)). The study concludes that embracing KYC practices, loan repayment and cash budgeting practices by commercial banks in Kisumu city leads to improved investment performance. The recommendations of the study are that commercial banks in Kisumu city should intensify use of KYC practices, managers of commercial banks in Kisumu city should enhance application of loan repayment practices and commercial banks in Kisumu city should continue embracing cash budgeting practices as this was found to improve investment performance. The study findings will be of significance to commercial bank policymakers and other stakeholders in designing the optimal lending practices and maximizing the investment performance. In addition, provide new evidence and form a basis for future research in the area of credit management and investment performance.