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EFFECT OF DIGITAL LENDING PROCEDURES ON FINANCIAL PERFOMANCE OF COMMERCIAL BANKS IN KISII COUNTY: MODERATING ROLE OF GOVERNMENT POLICIES

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ABSTRACT

The aim of the study was to assess the effects of digital lending procedures on financial performance of commercial banks in kisii county, moderating role of government policies. The specific objectives incuded; to determine the effect of application procedure on financial performance and to establish role of government on the relationship between digital lending procedures and financial performance. The study anchored on innovation diffusion theory and bank focused theory. The study used descriptive survey design. The study targeted population of 127 respondents bank employees. The sample size of 16 commercial banks in kisii town with a sample size of 107 employees working in the banks. Questionnaire were used for primary data collection. Secondary data collection used financial reports published by central bank of Kenya from 2016 to 2020 for 5 years. The study carried pilot study in Nyamira county with 11 questionnaires distributed to commercial banks. The vality of the instruments will be verified by supervisors and experts. The reliability of the instruments was maintained by cronbach alpha coefficients of 0.7 and above. The study used stratified random sampling technique to choose the sample size. Descriptive statistics included means, minimum, maximum, and standard deviations. The correlation analysis was also conducted to relationships and regression analysis to test the effect of relationship. Hierarchical analysis was done to analyze moderating role. The results were presented by tables and figures. The study showed that loan application procedures had week and positive significant correlations with financial performance. Thus, the improvement of loan procedures resulted to a decline of financial performance. The study recommended that commercial banks should automate loan application and approvale procedures for better monitoring. This could help management to manage loan procedures on financial peroformance and identify the best way to enhance financial performance.

Key Words: *Financial, Digital Currency, Digital Lending*

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INTRODUCTION

Digital era of the lending system was originated in the 21st century. Banking and Financial services transformed into the digital world which made the pathway to the digital lending system. A lot of financial software is arisen to reduce the manual work and the traditional process involved in the lending system (Kioko, 2013).

Digital lending is the process of offering loans that are applied for, disbursed, and managed through digital channels, in which lenders use digitized data to inform credit decisions and build intelligent customer engagement (Stewart, Yaworsky & Lamont, 2018).

Digital lending was founded by Amazon Lending in 2012 to extend credit to small businesses selling on Amazon's platform in the USA. At first, the company offered the service only in the US and Japan, but has extended business loan programme for sellers in the UK and seven more countries, including China. Amazon uses internal algorithms to choose sellers based on data points, such as the frequency at which merchants run out of stock, the popularity of their products and inventory cycles.Amazon offers three- to six-month loans of $1,000 to $600,000 to help merchants buy inventory. The company is reportedly charging annual interest rates ranging up to 13% (World economic forum, 2015).

Digital lending was started by the subsidiary Rakuten Card to offer Rakuten Super Business Loans to its merchants in Japan. Businesses were not preselected but invited to submit loan applications. The Rakuten Super Business Loans are intended to provide financial support mainly for business expansion and flexible working capital finance. Loans range from 1 million to 10 million yen (about $8,000 to $80,000) (World economic forum, 2015).

Digital lending in the e-commerce platform was launched by Alibaba launched Alipay Financial, a microcredit company, to offer loans from its own cash resources to existing small business clients in China. It offered 30-day working capital advances of up to $80,000 to fund sales of goods via its Taobao marketplace. Subsequently, the business expanded geographically and began offering a wider range of loan products. It also expanded its capital base by partnering with China Construction Bank and the Industrial and Commercial Bank of China. According to Chinese sources, it has now made loans worth RMB 13 billion ($2.1 billion) within the first two years (Begum, 2014).

Application procedures of digital lending, for one, has evolved considerably to facilitate much easier discovery of loans as well as a much simpler process of applying for loans and products like credit cards online (Kun, 2018).

Application procedures process further requires the digital signature feature that allows applicants to e-sign the documents, the entire transaction is completely paperless, thus saving them the trouble of downloading and filling a physical application and then forwarding it to the lender. Moreover, with paperless digital loans, borrowers also do not need to visit the bank since the entire process, from applying for credit to disbursal of loans is conducted through digital channels (Michigan, 2018).

Application procedures in Tanzania have been eased in a way that , while it usually took weeks, or even months, in the past for borrowers to have their personal loan applications approved through banks, instant loan approvals are finally a reality for credit-seekers who can receive the funds in their bank accounts in as little as 24 hours. More importantly, though, the evolution of digital lending and paperless personal loans has been a boon for a large number of salaried and self-employed individuals in the country who were denied credit due to poor CIBIL scores or the lack of an adequate transaction history with banks and financial institutions (Fumo, 2014).

Financial performance was faced challenges in India commercial banks through credit lending. The response of cash received through deposits and circulated with bank questionnaies has become a challenge evidenced by closure of banks. In Ghana, banks have faced difficulties in adopting digital lending and accessibility of credits. The commercial banks challenges has been shown by collateral evidence with information required by clients from audited financial reports accompanied wity application cost. The interest rates charged is high in commercial banks resulting to extreme difficulties to access loan application in banks (Vuvor and Ackah 2011).

Financial performance of Commercial Banks enables the underprivileged people in the society such as the youth to move from daily problems of survival to planning for their future, empowering youth socially investing in better nutrition, and better education (Ehigiamusoe, 2015).

Financial performance has enabled some Banks supply loans to begin business enterprises. As a result, there has been an increase in awareness that business enterprises are vital for economic growth and poverty reduction (Von Pischke, 2007).

Financial performance of Commercial Banks in Africa takes more than a good idea to make it in business anywhere. But to make it in Africa, where infrastructure is often poor, the regulatory environment confusing at best, and the currency markets unstable, an entrepreneur must be armed with even more creativity, determination, and patience (Okwoko, 2017).

Financial performance is accelerated by a number of factors in Africa of course important to have the right policy environment, with appropriate tax incentives and labor laws (Sissoko, 2013).

Financial performance of Commercial Banks is determined mostly by Early-stage capital that is needed for business organizations to establish themselves, but it’s often not available in frontier and emerging markets. That makes it difficult for those without capital to become businessmen (Malema, 2010).

Financial performance of Commercial Banks requires that effective and relevant mentorship is often crucial for helping firms access the advice and support they need to overcome challenges and pursue their vision to enhance performance (Nzilani, 2013).

Statement of the Problem

When application procedures as moderated by government policies are fully implemented, they improve the financial performance of Commercial Banks in Kisii County. The financial performance of Commercial Banks in Kenya had been declining hence a major concern in the Banking industry. The financial performance of Commercial Banks as measured by Return on Asset (ROA) was 3.1 in 2018 which dropped to 2.8 in 2019 and further dropped to 1,4 in 2020 (CBK Supervisory report, 2021). Such a decline in financial performance of Commercial Banks in Kenya is a worrying trend. Nyaisenda (2017) analysed the effect of digital lending procedures on financial performance of Commercial Banks in Kisii County, the study aimed to determine the effect of application procedure and monitoring procedure on financial performance of Commercial Banks in Kenya.

Omondi (2014) found that digital lending procedures affect financial performance of Commercial Banks in Kenya between 2010-2014. The study aimed to determine the effect of application procedure and approval procedure on financial performance of Commercial Banks in Kenya. The study did not include monitoring procedures which is important in digital lending procedures. On the basis of the above gaps, the study assessed the effect of digital lending procedures on financial performance of Commercial Banks in Kisii County with a moderating role of Government policies.

Objectives of the Study

- To determine the effect of loan application procedures on financial performance of Commercial Banks in Kisii County.
- To find out the role of government policies on the relationship between digital lending procedures on financial performance of Commercial Banks in Kisii County.

The study tested the following hypotheses:

- $H0_{1:}$ Loan application procedures has no statistically significant effect on financial performance of Commercial Banks in Kisii County.
- $H0_{2:}$ Government policies has no statistically significant effect on the relationship between digital lending procedures and financial performance of Commercial Banks in Kisii County.

LITERATURE REVIEW

Theoretical Review

Bank Focused Theory

The theory was advocated by Lyman 2006. It is emerged by the idea that bank focuses on providing banming services at rate of earning at minimal cost. Bank users are not tradition to low cost of service delivery channels to customers existing in daily activities. The bank services are accessible to a wide range of information technology with Automatic teller machine to the banking internet or use mobile phones to give services to customers need (Olalere & Wan 2016).

The assumption of this theory is that bank focuses highly on customers need and experience of identifying transactions, accessibility, identity, personalization of reliable services. The banks are therefore trying to address issues raised by customers in the banking hall for easy interface use, make secure help by many authentifications and use technology to apply information. Technology related issues are useful in the running of the banks continuous 365 days of the year. Bank can obtain technology benefits through digital registration of loan applicants and provide customer service delivery charter effectively. The technology makes easy for organization to access desired services in time at any place of performing the bank transaction to clientiles (Kapoor 2010).

The theory is limited as explains only the focus of the bank transactions and not apply customer welfare about the effect of loans to borrowers. The risk of borrowing has not been explained by the theory and hence it may be safe to rely on digital lending due to the security aspect when hackers are threaten by nature of the security(Hogan 2011).

The theory is relevant to explain digital lending practices applied by commercial banks because it describe all benefit achieved by use of technology in loans.

Technology Acceptance Model

This model was originally put forward by Davis in 1986 to expounding on attitude behind the urge to employ technological knowhow. TAM deals with perceptions and not systems real usage and argues when new technological advancement is introduced to the customers, either one of this occurs that is, Perceived Ease of Use (PEOU) and Perceived Usefulness (PU) influence their decision (Lule, Omwansa & Waema, 2012).

The theory assumes that the level of confidence that people put on a system and if users perceive a new technology to be beneficial in support of both short and long-run, there is that encouragement to use the system. Further, the level by which an individual consider a system to boost performance in the short and long-run is the PU. The TAM affirms that the systems real utilization is established by each user's behavioral intention for usage and is inspired by an individual’s perception to the system. The theory also explains that the perception towards new technology has a direct relation to its functionality as well as the simplicity of the system (Lim & Ting, 2012).

The theory is limited to the support of the recognitions or suspicions of the advancement of the instrumental and in the improvement of states of mind that would in the long run result in system usage mis conduct (ILO, 2013).

The theory is relevant to the loan approval procedures since it explores the attitude of individuals towards particular system and also gives details and clarifies and portrays the reasons why clients acknowledge or dismiss an advancement or data framework. Technology acceptance model become an important theory to consider in evaluating individual ability to digital lending. The theory is precise to describe bank objective of managing digital financing services on performance of many organization today.

Empirical Literature

Application Procedures and Financial Performance

Signhildbrowsvik (2010) examined the effects of loan application procedure on financial performance of Switzerland commercial banks. The study aim to determine the effect of personalization aspects and cashflow and financial performance. The use descriptive reseach design and sample size of 91 employees.Descriptive analysis was used with means and percentage. The study noted that capital accessibility of the banks are the major challenges. The money lending is not sufficient to include business transaction by digital lending. The government ensured that banking environment are safe for digital lening for people procedures and improves financial accessibility by credit subsidies, guranteing loan application affect microcredit process.

Czura, Karlan and Mullainathan (2011) did the effect of loan application procedures on financial performance of Commercial Banks in India. The study aimed to determine the effect of borrower's residence and personal information on financial performance of Commercial Banks in India. Using exploratory research design, the study used a sample size of 111 employees. The study was analyzed using descriptive statistics and correlation analysis. The study showed that

The study noted that persone details of the banks are the major problem. The borrower lending is not adequate to comprise commercial deal by digital loaning. The government ensured that investment setting are safe for digital lening for people procedures and improves financial convenience by credit grants, giving loan application affect various procedures in repayment of loans.

sChigunta (2012), the effect of bank loan application procedures on financial performance of Commercial Banks in United Kingdom. The study aimed to evaluate the effect of personal information and income sources on financial performance of Commercial Banks in United Kingdom. Using cross sectional research design, the study adopted a sample size of 81 employees. The chi-squae test noted that financial performance can be influenced by loan application programs in Italy. The business trust of the prince in united Kingdom responded that application procedures are easily ude to explain financing of banks. Banking policy and regulations helps to improve development of loans to clientele in banks.

Liran, Jenkins and Levin (2013) conducted a study on the effect of loan application procedures on financial performance of Commercial Banks. The study aimed to access the effect of personal information on growth of entrepreneurial SMEs. The study adopted exploratory research design, the study used 93 respondents who were distributed with the questionnaires. Questionnaires were analyzed by regression analysis to determine the credit scoring systems and how it value loan application an risk of loan loss. The exceptions of credit score systems can affect performance through increase in profits from dollars loan application of 600 high risk to 456 low risk dollars. The study showed that decrease in loan application results to change in credit scoring and productivity decreases with performance in exchange dollars.

Raphael Chemitei (2016) analyzed the effects of loan application procedures on financial performance in Edoret town banks. The sample size of 102 responents with descriptive research design. The ch-square analysis showed that credit scoring information decreases perfoming loans and non-performing loan applications. The study showed that loan applicant share information from lending procedures, appraisal of loans, loan advance of borrowers control digital technology on defaults and reduce loan loss costs

Mwangi & Shem (2012) analyzed the effects of loan application procedures on financial performance in Kiambu commercial banks. The study sought to establish the effects of income sources on financial performance. The study used commercial banks in Kiambu Town. The study used descriptive research design. The sample of 122 respondents were analyzed with questinnaires. The correlation analysis indicated that credit information affect financial accessibility in the commercial bank. The credit risk were worth to be used by most digita lending procedures with willing borrowers depending on the interest rate applied. The study indicatedthat loan informations affect lending rates with applicable collateral assets following loan application.

A study by Moraa (2014) accessed the effect of loan application procedures on financial performance of Commercial Banks in Embakasi South. The study aimed to access the effect of sources of income on financial performance of Commercial Banks. The study applied a case study research design and a sample size of 114 employees. The study was analyzed using descriptive analysis in Embakasi South. The study noted that loan procedures of the applicants are the major experiments. The money advancing is not sufficient to include business transaction by digital lending. The management ensured that finance situation are safe for digital lening for people procedures and progresses financial accessibility by credit grants, guranteing loan application affect microcredit process. Customers are lending loans from commercial banks to manage loan applications and the need for customers. This lending procedures are involved various conditions and terms for financing of loans affect financial performance. The study noted that credit worthness procedures are inadequate to get information. The money lending is not sufficient to include commercial banks by digital lending. The direction ensured that investment atmosphere are safe for digital loan procedures and financial performance.

Government Policies and Financial Performance

Fereidouni et al. (2010) examined the effect of Government policies on financial performance of Commercial Banks in Iran. The study aimed to examine the effect of Government policies on financial performance of Commercial Banks. Adopting descriptive research design, the study was analysed using descriptive statistics and a sample of 119. The showed that government policies and lending is not sufficient to embrace loan transaction by digital lending. The government ensured that banking environment are safe for digital lening for people dealings and improves economic resource availability by loan approval procedures. Collateral and proper financial records are required for management of skills in the enterprise. Lenders are willing to give more financial accessibility and guarantee collaterals on borrowing credit on loan approval and financial performance.

Alvarez et al. (2011) sought to examine the effect of Government policies on financial performance of Commercial Banks at regional level in Spain. The study aimed to examine the effect of Government policies on financial performance of Commercial Banks. Adopting descriptive research design and a sample of 98. The study used fixed random models and panel data using Global entrepreneurship monitoring for 2006 to 2009 3 years period. The study showed that cultural social economic perception added with business opportunities set ups were lineary analyzed. Correlation analysis showed that banking environment affect digital financing for people loans and resource availability by loans. Collateral and proper financial records are required for management of skills in the enterprise. Lenders are willing to give more business loan accessibility and guarantee collaterals on borrowing credit.

Schott and Jensen (2013) analyzed the effects of government policies on financial performance of banks. It was to assess how government policies affect financial performance of banks in US. Crosssectional research design was adopted to analyze 121 responents using regression analysis. This results indicated that government policies affect financial performance of firms in developing economies. The study showed that developing nations increased financial performance through loan accessibility with favorable government policies. Political influence also affect financial performance.

Ojasalo (2014) determine the effects of government policies and financial performance of finland Comerica bank. It was established that government policies affect financial performance of the bank, using descriptive research and descriptive statistics, the study showed that 211 employees agree from qualitatitive interview informant that government policies increased image of loan application by improving attractiveness of customers. . The lending activity is not related to loan transaction lending. The government ensured that banking environment are safe for digital lening for people dealings and improves economic resource availability by loan approval procedures. Collateral and proper financial records are required for management of skills in the enterprise..

A study by Sharu and Guyo (2015) did a study on the effect of Government policies on financial performance of Commercial Banks. The study aimed to examine the effect of Government policies on financial performance of Commercial Banks. Adopting mixed research design, the study was analysed using descriptive statistics and a sample of 112. The study established that government policy played a significant positive role in financial performance of Commercial Banks. The study highlighted administrative and regulatory framework as obstacles to growth of startups especially in developing. The study concluded that governments have procedures and policies that are not friendly to the youth owned enterprises.

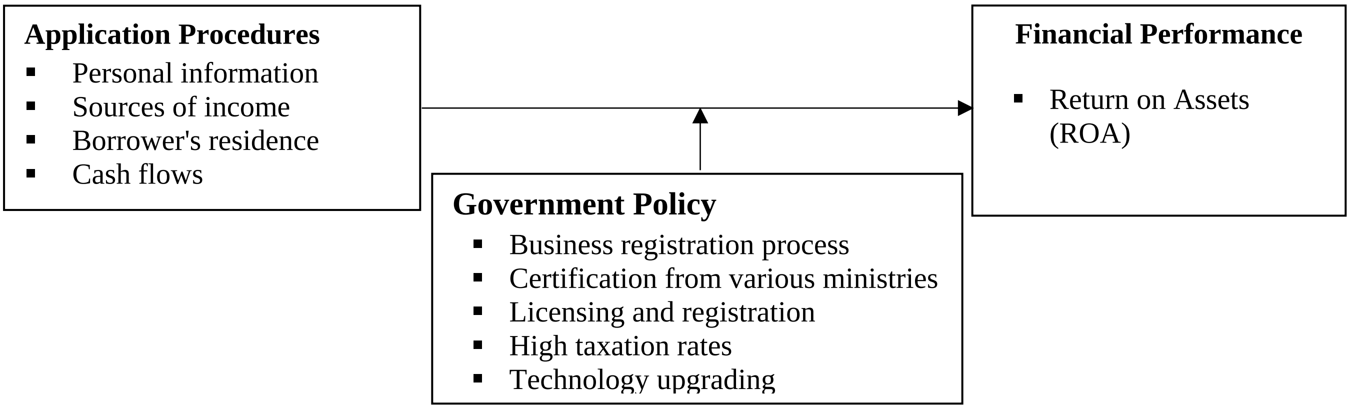
Waziri (2012) determined that effects of government policies and financial performance of Nigeria banks. The study aim to assess the effects of government policies on financial performance. Descriptive research design was used using descriptive statistics on 99 respodnets in Nigeria banks. Cultural variation affect confident of loan application and thus government policies on monetary practice encourage digital lending. Policies on promotion of social responsibility of the firms affect financial performance. The government policies build customer attitude, confidence in supporting loan application procedures. Government policies encourage customer ideas by providing social responsibility to its people. The bank policies can provide technological support to the customers by encouraging promotion of inter bank relations in research and developments. The study included that affordable financial requirement enable accessibility of financial markets by prompting registration of banking customers with promotion of digital learning environment. The policies of building infrastructure services, stablisie macroeconomic conditions, investment securities, political climate and stability. The study recommends that loan guarantors are given scheme that remains digital adoptability of government policies among OECD Countries and revised managemenbt of research and design of loan application by lending direct, trade credits, interest rate margins and subsidies with provison of advances to business consultancy.

The study expert from world bank (2011) presents that business environments determine loan applications procedure. The study showed that business entries and starting capital, business location, operation, reporting and accounting determine loan application procedures. The business operations in Sudan are more faced with difficulties from loan application procedures and further environment adverse. The cost of loan application is more expensive to determine the steps followed than other developing countries commercial banks. The study noted that loan application procedures are also affected by significant exchange rates variations on financial performance among required business areas.

The literature reviewed has left a conceptual gap where by all these studies did not use Government policy as the moderating variable. As a consequence, the motivation for this study was the effect of digital lending procedures on financial performance of Commercial Banks in Kisii County with a moderating role of Government policy.

Conceptual Framework

A conceptual framework is a product of qualitative process of theorization which interlinks concept that together provides a comprehensive understanding of a phenomenon or phenomena (Jabareen, 2009). The conceptual framework of this study relates to independent variables such as; application procedures, and the moderating role of government policy while the dependent variable were: financial performance of Commercial Banks in Kisii County.The conceptual framework.



Independent Variable **Moderating Variable** **Dependent Variable**

Source: Researcher (2021)

Figure 1: Conceptual Framework

METHODOLOGY

The study adopted a descriptive research design since the researcher focused on describing both in depend and dependent variables. The target population for this study was the 127 Bank employees from 16 Commercial Banks operating within Kisii County, Kenya. The sample size 107 respondents was taken in this study.
The data collection procedure that were adopted in the study was questionnaire by use of drop and pick method for a period of one week whereby the researcher took the Questionnaires to the respondent to be collected after one week.

FINDINGS AND DISCUSSIONS

Demographic Characteristic

The study wanted to find out the effect of digital lending practices on financial performance of Commercial Banks in Kisii county. The independent indicators of the study were: loan application procedures. Government policies was the moderating variable. The study used closed-ended questionnaires to collect primary data from a sample size of 101 respondents. Secondary was collected from published annual reports for five using data collection sheet. Data analysis was done using descriptive statistics, and inferential statistics.

Descriptive statistics

Laon Application Procedures

The study carried out descriptive analysis to determine loan application procedures of banks in Kisii county. The findings of the study were presented below:

Table 1: Laon application procedures

	N	Minimum	Maximum	Mean	Std. Deviation
Credit lenders look at borrowers credit rating before loan approval	101	1.00	5.00	4.6634	.58783
The borrower is checked whether he/she is listed in the credit bureau before getting approval	101	1.00	5.00	4.2970	.60901
Fulfillment capacity of borrower is determined first	101	1.00	5.00	4.4158	.65219
Borrowers interpersonal relationship is put in check before getting an approval	101	1.00	5.00	4.2970	.68622
Average mean				4.4818	
Valid N (listwise)	101				

source: filed data 2023

The study noted that, Credit lenders seek borrowers personal information as part of the loan application procedures had mean of 4.7525 with standard deviation .55508, Digital credit lenders seek to know borrowers source of income to gauge his repayment ability had mean of 4.4059 with standard deviation of .61933, Digital lenders seek to know the borrowers place of residence had mean of 4.5149 with standard deviation of .62632, The cash flow of the borrowers businesses helps to determine how much money to be given as loan had mean of 4.3960 with standard deviation of .63371, Mobile-based loans are approved on mobile platform had mean of 4.3762 with standard deviation of .73282 and Banks demands for additional information before disbursing loans to qualified applicants had mean of 4.4455 with standard deviation .79341. It was noted that, Credit lenders seek borrowers personal information as part of the loan application procedures had the highest mean while Mobile-based loans are approved on mobile platform had the lowest mean. The study noted that, seeking personal informal help lenders gather crucial information that can help them reach loaners and recover their money in case of default. Thus, financial performance is enhanced as chases of default is minimized.

Government Policy

The study carried out descriptive analysis to determine government policy. The findings of the study were presented below.

Table 2: Government policy

	N	Minimum	Maximum	Mean	Std. Deviation
Business registration process is very easy	101	1.00	5.00	4.6832	.66228
Certification from various ministries is less time consuming	101	1.00	5.00	4.1782	.58985
Licensing and registration exercise takes a shorter time	101	1.00	5.00	4.4356	.65446
Taxation rates are not high	101	1.00	5.00	4.1881	.85689
The government policy regarding Technology is up to date	101	1.00	5.00	4.1584	1.06520
Average mean				4.3287	
Valid N (listwise)	101				

Source : Field data 2023

The study identified that, Business registration process is very easy had mean of 4.6832 with standard deviation .66228, Certification from various ministries is less time consuming had mean of 4.1782 with standard deviation of .58985 , Licensing and registration exercise takes a shorter time had mean of 4.4356 with standard deviation of .65446, Taxation rates are not high had mean of 4.1881 with standard deviation of .85689 while The government policy regarding Technology is up to date had mean of 4.1584 with standard deviation of 1.06520. It was identified that; Business registration process is very easy had the highest mean while The government policy regarding Technology is up to date had the lowest mean. Thus, registration process of Business is very easy. This has made it easier for banks to set up more new branches in Kisii county hustle free. Opening more branches increases revenues generation and hence, increased financial performance for banks in Kenya.

Financial Performance

The study carried out descriptive analysis to determine financial performance of banks in Kisii county. The findings of the study were presented below.

Table 3: Financial Performance

	N	Minimum	Maximum	Mean	Std. Deviation
Barclays Bank	5	.01	.03	.0204	.00913
Kenya Commercial Bank	5	.02	.03	.0290	.00557
Cooperative Bank	5	.01	.04	.0246	.01141
Equity Bank	5	.02	.04	.0318	.00669
Bank of Africa	5	-.08	.06	.0186	.05358
Diamond Trust Bank	5	.01	.04	.0252	.01439
Eco. Bank	5	.01	.04	.0154	.01155
National Bank	5	.00	.50	.1166	.21527
I & M Bank	5	.03	34.16	.1614	.15366
Family Bank	5	-.15	.01	.0218	.06897
Credit Bank	5	.00	.01	.0072	.00554
Sidian Bank	5	-.02	.20	.0366	.09193
Kenya Women Finance Trust	5	-.41	.01	.1406	.18635
SBM Bank	5	.02	.10	.0398	.03160
Kingdom Bank	5	-.11	-.01	.0588	.03949
Average mean				0.0499	
Valid N (listwise)	5				

Source : Field data 2023

The study identified that, Barclays Bank had mean of .0204 with standard deviation .00913, Kenya Commercial Bank had mean of .0290 with standard deviation of .00557, Cooperative Bank had mean of .0246 with standard deviation of .01141, Equity Bank had mean of .0318 with standard deviation of .00669, Bank of Africa had mean of .0186 with standard deviation of .05358. Diamond Trust Bank had mean of .0252 with standard deviation .01439, Kenya Commercial Bank had mean of .0154 with standard deviation of .01155, National Bank had mean of.1166 with standard deviation of .21527, I & M Bank had mean of 16.1428 with standard deviation of 15.36628, Family Bank had mean of .0218 with standard deviation of .06897. Credit Bank had mean of .0072 with standard deviation of .00554. Sidian Bank had mean of .0366 with standard deviation of .09193, Kenya Women Finance Trust had mean of .1406 with standard deviation of .18635, SBM Bank had mean of .0398 with standard deviation of .03160 while Kingdom Bank had mean of .0588 with standard deviation of .03949. It was established that, Kingdom Bank had the highest financial performance while Credit Bank lad the lowest mean. Further it was noted that, financial performance for some banks for instance, Barclays Bank, Kenya Commercial Bank, Cooperative Bank , Equity Bank , Bank of Africa , Diamond Trust Bank ,and Eco. bank was below the average mean while other banks like National Bank, I & M Bank and Kenya Women Finance Trust had mean that was above the average mean hence, there were more profitabale as opppsed to others.

Inferential Statistics

Correlation Analysis

The study carried out correlation analysis to determine the nature of relationship that exits betwixt independent variables(loan application, loan approval, loan monitoring) depended Variable (Financial performance). The findings of the study were presented below.

Table 4: Correlation analysis

		Loan Application	Loan Approval	Loan Monitoring	Financial Performance (ROA)
Loan application	Pearson Correlation	1	-.006	-.084	.415**
	Sig. (2-tailed)		.954	.403	.000
	N	101	101	101	101
Financial performance (ROA)	Pearson Correlation	.415**	-.244*	-.547**	1
	Sig. (2-tailed)	.000	.014	.000	
	N	101	101	101	101

Source: Field data 2023

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

The findings of the study in the table above revealed that, loan application procedures had weak positive and significant correlation with financial performance of commercial banks in Kisii county r=.415 (**), P=.000<0.01. Therefore, any changes in loan application procedures had led to a significant improvement in financial performance of commercial banks in Kisii county.

Thse findings disagreed with (Czura, Karlan and Mullainathan,2011) who established a negative relationship between flexibility and loan repayment in their analysis on the extent of structured flexible repayment schedules on borrowers' investment level in Rural India. The study revealed that higher flexibility resulted in worse loan repayment performance and that the probability of default increased from 54% to 87% as a result of increased flexibility.

Simple Regression

The study conducted a simple regression analysis between loan application procedures and financial performance of commercial banks in Kisii county.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.415[a]	.172	.164	.89061

Source: Field data 2023

a. Predictors: (Constant), loan application procedures

b. Dependent Variable: financial performance (ROA)

The result showed that R = 0.416 and therefore, loan application procedure had a positive signicant relationships to financial performance. Further, the study indicated that R model square was 0.172. This showed that change in loan application procedures resulted to 17.20% changes financial performance. The results showed that Raphael Chemitei (2016) which established that showed that credit scoring information decreases perfoming loans and non-performing loan applications. The study showed that loan applicant share information from lending procedures, appraisal of loans, loan advance of borrowers control digital technology on defaults and reduce loan loss costs.

Table 6: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	16.366	1	16.366	20.633	.000[b]
	Residual	78.526	99	.793		
	Total	94.892	100			

Source; field data 2023

a. Dependent Variable: financial performance (ROA)
b. Predictors: (Constant), loan application procedures

The study identified that F test for the variable was 20.633, P=. 000<0.05. Accordingly, the overall regression model was fit for the study. In addition, the study identified that loan application procedures significant effect on financial performance of commercial banks in Kisii county.

Table 7: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.614	1.675		-3.667	.000
	loan application procedures	.167	.368	.415	4.542	.000

Source: Field data 2023

a. Dependent Variable: financial performance (ROA)

Taking other indicators constant at zero, loan application procedures led to 61.44 % change in financial performance of commercial banks in Kenya. The study further, found out that, loan application procedures had appositive and significant effect on financial performance of commercial Banks in Kisii county. B= .167, t=4.542, P=.000< 0.05. Additionally the study established that, variation in loan application procedures led to 16.7% increase in financial performance of commercial Banks in Kisii county. The study concurred with Mwangi & Shem (2012) who analyzed the effects of loan application procedures on financial performance in Kiambu commercial banks. The correlation analysis indicated that credit information affect financial accessibility in the commercial bank. The credit risk were worth to be used by most digita lending procedures with willing borrowers depending on the interest rate applied. The study indicatedthat loan informations affect lending rates with applicable collateral assets following loan application.

$Y= \beta_0+\beta_1X_1+\mathcal{E}$

$Y=.614 +.167\ X_1$

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that, Credit lenders sought borrowers personal information as part of the loan application procedures. Hence, seeking personal informal help lenders gather crucial information that can help them reach loanees and recover their money in case of default. Thus, financial performance is enhanced as cases of default is minimized.

The study findings showed that loan application procedure had a positive significant relationship with performance. The study indicated the changes in loan application procedure had a significant effect on performance.

Further, the study study showed that loan application procedure had positive significant effects on performance. The variations in loan applications procedures coudel lead to improvement in financial performance of kisii county commercial banks.

It was concluded that, business registration process is very easy. This has made it easier for   banks to set up more new branches in Kisii county hustle free. Opening more branches increases revenues generation and hence, increased financial performance for banks in Kenya

The study recommended that Mobile-based loans approved on mobile ought to be regulated by relevant authorities like central bank. Regulations would ensure smooth running of Mobile-based loans. Unregulated lenders employ dubious means to collect money from borrowers. This has led to slow adoptions and usage of Mobile-based loans

The study further recommended that, loan application procedures commercial banks ought to introduce an elaborative and yet concise loan application procedures. This would make loan application exercise not be tedious and tiresome. Additionally, the study recommended that, commercial banks should embrace modern technology in loan application proceses.This would reduce time and cost customers must incur to apply for a loan. This would enhance financial performance. More study studies should be carried out on the effect of E-marketing on financial performance of registered digital lenders in Kenya.

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