

A STUDY ON THE RELATIONSHIP BETWEEN MORAL HAZARDS AND
FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN MAKUENI
COUNTY: CASE OF EQUITY BANK - WOTE BRANCH

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Abstract

Moral hazards are known for creating a situation whereby only the rich can access credit services from the commercial banks hence reduced opportunities for the poor to grow and develop economically through the financial institutions. Consequently, the microfinance institutions have emerged to fill this gap by designing ways to mitigate the problems of commercial banks to reach the poor (Hollis, 1998). However, some financial institutions have also joined the microfinance institutions in taking care of the poor population by designing credit terms and conditions favourable to and manageable by the poor members of the population. Such commercial banks include the Equity Bank of Kenya, the case used in this study. To understand the effect of moral hazards on financial performance of the commercial banks, the researcher used a survey design to investigate how the lending terms and conditions for the Equity Bank of Kenya have changed over the past one year and how that has affected the financial performance of the bank. The findings suggested that the terms and conditions for accessing credit services from Equity Bank were revised in 2014 so as to target the middle and the lower class population which had previously been locked out by the commercial banks in accessing credit facilities. Although a very risky move as it is always argued by the other commercial banks, the step has seen a steady growth in the profits a significant amount of which generated from the interest on loans offered to the new market. Therefore, reduction of moral hazards within commercial banks suggests increased financial performance of the implementing commercial banks.