

CLIMATE FINANCING STRATEGIES AND STOCK MARKET RETURNS OF LISTED COMMERCIAL BANKS IN THE NAIROBI SECURITIES EXCHANGE, KENYA

Ivy Wambui Muriithi.

Postgraduate Student, Department of Accounting and Finance, School of Business Economics and Tourism, Kenyatta University, Kenya.

Dr. Francis Gitagia (Ph.D, CPA).

Lecturer, Department of Accounting and Finance, School of Business Economics and Tourism, Kenyatta University, Kenya.

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ABSTRACT

The study examined the effect of climate financing strategies on the stock market returns of banks listed on the Nairobi Securities Exchange (NSE), Kenya. The study was motivated by the slow adoption of climate financing initiatives among Kenyan banks despite increasing global emphasis on sustainable finance and the limited empirical evidence on how such strategies influence stock market performance. Specifically, the study investigated the effect of green lending practices, sustainable investment practices, climate risk management practices, and regulatory compliance practices on stock market returns. The study was anchored on Signalling Theory, Legitimacy Theory, Stakeholder Theory, Financial Sustainability Theory, and Institutional Theory. A mixed methods research design was adopted involving both quantitative and qualitative approaches. The target population comprised senior officers from the 11 banks listed on the NSE, including Chief Investment Officers, Chief Risk Officers, Chief Sustainability Officers, and Heads of Compliance, resulting in a census of 44 respondents. Primary data were collected using structured questionnaires, while secondary data were obtained through document review. Data analysis involved descriptive statistics, thematic analysis, diagnostic tests, correlation analysis, and Ordinary Least Squares (OLS) regression analysis using

SPSS Version 28. The findings revealed that green lending practices had a negative and statistically significant relationship with stock market returns, while sustainable investment practices, climate risk management practices, and regulatory compliance practices exhibited statistically insignificant relationships with stock market returns. The study concluded that among the climate financing strategies examined, only green lending practices significantly influenced stock market returns of banks listed on the NSE. The study recommends that listed banks strengthen investment in climate financing initiatives, enhance the integration of sustainability into lending and investment decisions, improve climate risk management frameworks, and ensure greater compliance with national and international sustainability regulations. The study further recommends that policymakers and regulators provide supportive frameworks that encourage wider adoption of climate financing practices to enhance investor confidence and long-term market performance.

Key words: Climate Financing Strategies, Stock Market Returns, Green Lending Practices, Sustainable Investment Practices, Climate Risk Management Practices, Regulatory Compliance Practices, Banks Listed on the Nairobi Securities Exchange.

INTRODUCTION

Climate change has emerged as one of the most significant global challenges, affecting economic systems, financial markets, and sustainable development. Financial institutions, particularly banks, have increasingly been recognized as key players in mobilizing financial resources towards climate change mitigation and adaptation through climate financing initiatives. Climate financing encompasses the provision of financial resources for environmentally sustainable projects and investments that promote climate resilience and low-carbon economic development (UNFCCC, 2025). Globally, banks have expanded climate-related financing through green lending, sustainable investments, climate risk management, and compliance with environmental regulations to support the transition towards sustainable economies (OECD, 2025; World Bank Group, 2025).

Climate financing strategies refer to the policies, practices, and financial mechanisms adopted by institutions to integrate environmental sustainability into their financing decisions and operations. In this study, climate financing strategies were conceptualized using four dimensions: green lending practices, sustainable investment practices, climate risk management practices, and regulatory compliance practices. Green lending practices were measured through the extent of financing directed towards environmentally sustainable projects, sustainable investment practices through investments in ESG-compliant assets and green financial instruments, climate risk management practices through integration of climate risks into institutional risk management frameworks, and regulatory compliance practices through adherence to climate-related financial regulations and sustainability disclosure requirements (OECD, 2025; World Bank Group, 2025). Stock market returns were proxied using the returns earned by investors from holding shares of listed banks, reflecting market valuation and investor confidence in the institutions.

In Kenya, climate financing has increasingly gained prominence following the introduction of sustainability reporting requirements and regulatory initiatives by the Central Bank of Kenya and the Capital Markets Authority. Banks listed on the Nairobi Securities Exchange have progressively introduced green loan products, financed renewable energy projects, strengthened climate risk governance, and aligned their operations with national and international sustainability frameworks. Despite these developments, empirical evidence on whether climate financing strategies translate into improved stock market performance remains limited. This study therefore examined the effect of climate financing strategies on the stock market returns of banks listed on the Nairobi Securities Exchange by focusing on green lending practices, sustainable investment practices, climate risk management practices, and regulatory compliance practices using data collected from the listed banking institutions.

Statement of the Problem

Banks play a central role in the financial system by mobilizing savings, allocating capital,

facilitating payments, and supporting economic growth through financial intermediation (Murrar, Asfour, & Paz, 2024). Increasingly, banks are also expected to contribute to environmental sustainability by adopting climate financing strategies that promote climate change mitigation and adaptation while supporting sustainable development. This is particularly important because effective climate financing enhances institutional resilience, strengthens stakeholder confidence, and signals long-term sustainability to investors, thereby potentially influencing stock market returns (Grijalvo & Garcia-Wang, 2023). This concern is also aligned with Kenya's commitment to sustainable finance and the growing emphasis by financial regulators and the Kenya Bankers Association on integrating climate-related considerations into banking operations (KBA, 2024). Evidence from the market indicates that the adoption of climate financing strategies among banks remains uneven, particularly in emerging and developing economies. A World Bank (2024) report indicates that 28% of banks in these economies provide no climate financing, while approximately 60% allocate only 5% of their portfolios to climate-related projects. Although banks listed on the Nairobi Securities Exchange have progressively introduced climate-related financing initiatives, including green lending products and sustainability reporting practices, there remains limited empirical evidence regarding whether these initiatives positively influence stock market returns (Agutu & Githira, 2023). The absence of such evidence creates uncertainty for investors, regulators, and policymakers who increasingly consider sustainability performance when making investment and policy decisions (Elarabi & Khalifa, 2025).

The current empirical literature has yet to fully address the conceptual and methodological relationship between climate financing strategies and stock market returns. Most previous studies have examined climate financing from the perspective of general financial performance or organizational outcomes rather than stock market returns as a direct measure of investor response (Megeid, 2024). Other studies have relied on isolated indicators of climate financing and have not comprehensively evaluated the combined influence of green lending practices, sustainable investment practices, climate risk management practices, and regulatory compliance practices on market performance (Tamez, Weenink, & Yoshinaga, 2024). Furthermore, many existing studies have concentrated on short-term outcomes and therefore do not adequately capture the long-term implications of climate financing strategies on stock market returns. This study therefore seeks to address these conceptual and methodological gaps by examining the direct influence of the four dimensions of climate financing strategies on stock market returns among banks listed on the Nairobi Securities Exchange.

Contextual and geographical limitations are also evident in the literature because the majority of available evidence has been generated from developed economies characterized by mature financial markets, advanced sustainability frameworks, and robust regulatory systems, making the findings less applicable to developing countries such as Kenya. Other studies conducted in emerging economies have focused on broad sustainability indicators or overall financial performance without specifically evaluating climate financing strategies in relation to stock market

returns. Similarly, studies undertaken in Kenya have largely concentrated on sustainable finance adoption, banking performance, or regulatory compliance rather than the direct effect of climate financing strategies on the stock market performance of listed banks (Mungai & Aluoch, 2025; Agutu & Githira, 2023). This study was therefore specific to banks listed on the Nairobi Securities Exchange and examined the direct influence of green lending practices, sustainable investment practices, climate risk management practices, and regulatory compliance practices on stock market returns, thereby providing context-specific evidence for Kenya's banking sector.

Objectives of the Study

The study was guided by the following objectives:

Overall objective

The general objective of this study was to evaluate the effect of climate financing strategies on stock market returns of banks traded on the NSE, Kenya.

Specific Objectives

- i. To examine the effect of green lending practices on stock market returns of banks traded on the NSE, Kenya
- ii. To analyse the influence of sustainable investment practices on stock market returns of banks traded on the NSE, Kenya.
- iii. To establish the effect of climate risk management practices on stock market returns of banks traded on the NSE, Kenya.
- iv. To assess the effect of regulatory compliance practices on stock market returns of banks traded on the NSE, Kenya.

Theoretical Review

The study was guided by the following theories:

Signalling Theory

Signalling Theory was developed by Michael Spence in 1973 to explain how informed parties communicate credible information to uninformed parties to reduce information asymmetry in the market. The theory posits that organizations deliberately send signals through strategic actions and disclosures to demonstrate their quality, credibility, and future prospects to investors and other stakeholders (Spence, 1973). Empirical studies by Choudhury (2024), Connelly et al. (2024), and Grijalvo and Garcia-Wang (2023) indicate that firms providing credible sustainability disclosures and climate-related initiatives are more likely to attract investor confidence and improve market valuation. However, the theory has been criticized because some organizations may engage in symbolic signalling or greenwashing by portraying themselves as environmentally responsible without corresponding operational commitment. The theory was adopted as the anchor theory for this study because climate financing strategies such as green lending practices, sustainable

investment practices, climate risk management practices, and regulatory compliance practices serve as positive signals of environmental responsibility and long-term sustainability that may influence stock market returns.

Legitimacy Theory

Legitimacy Theory was proposed by John Dowling and Jeffrey Pfeffer in 1975 and argues that organizations seek to operate within the norms, values, and expectations of society in order to obtain legitimacy and ensure long-term survival. According to the theory, firms adopt socially acceptable practices and disclose their sustainability initiatives to maintain public trust and stakeholder support (Dowling & Pfeffer, 1975). Empirical evidence from Gulluscio (2020), Martens, Ngoc, and Bui (2023), and D’Orazio (2021) demonstrates that environmental reporting and responsible corporate practices strengthen organizational legitimacy and stakeholder confidence. Nevertheless, the theory has been criticized because organizations may undertake symbolic sustainability activities merely to appear legitimate without implementing substantive environmental changes. In this study, the theory supports climate risk management practices because effective identification, management, and disclosure of climate-related risks enable banks to maintain legitimacy among regulators, investors, and society, thereby influencing stock market returns.

Stakeholder Theory

Stakeholder Theory was introduced by Edward Freeman in 1984 and emphasizes that organizations should create value for all stakeholders rather than focusing exclusively on shareholders. The theory argues that addressing the interests of customers, employees, regulators, suppliers, investors, and society contributes to long-term organizational success and sustainability (Freeman, 2010). Empirical studies by Bridoux (2022), Harrison, Freeman, and Abreu (2015), and Al Zaabi and Nobanee (2021) indicate that organizations responding effectively to stakeholder expectations through responsible governance and sustainability initiatives enhance their reputation and financial performance. However, the theory has been criticized because conflicting stakeholder interests may complicate managerial decision-making and reduce accountability. The theory was adopted in this study to support regulatory compliance practices because compliance with climate-related regulations and sustainability reporting standards reflects responsiveness to stakeholder expectations and may enhance investor confidence and stock market returns.

Financial Sustainability Theory

Financial Sustainability Theory was developed by Kate Sheeran and Robin Hahnel in 2009 and explains how organizations maintain long-term economic viability while adapting to changing environmental, social, and economic conditions. The theory suggests that sustainable performance depends not only on profitability but also on resilience, effective resource allocation, and alignment with environmental, social, and governance principles (Hahnel & Sheeran, 2009). Empirical studies by Al Zaabi and Nobanee (2021), D’Orazio (2021), and Pillay et al. (2025)

demonstrate that organizations integrating sustainability into their strategic decisions are better positioned to manage emerging risks and maintain long-term competitiveness. The theory has been criticized because financial sustainability is multidimensional and difficult to measure consistently across institutions and regulatory environments. In this study, the theory supports the dependent variable, stock market returns, by explaining that banks implementing effective climate financing strategies are more likely to enhance financial sustainability, strengthen investor confidence, and achieve improved market performance.

Institutional Theory

Institutional Theory was developed by John Meyer and Brian Rowan in 1977 and explains that organizations adopt structures, policies, and practices in response to external pressures from governments, regulators, professional bodies, competitors, and society rather than purely for economic efficiency. The theory posits that organizations conform to institutional expectations to gain legitimacy, stability, and long-term survival within their operating environment (Meyer & Rowan, 1977). Empirical evidence by Berthod (2018), Munir (2020), and Mohamed (2017) suggests that institutional pressures significantly influence organizational adoption of sustainability initiatives and regulatory compliance practices. However, the theory has been criticized for placing excessive emphasis on external influences while giving limited attention to managerial discretion and organizational innovation. The theory was adopted in this study because it explains why banks listed on the Nairobi Securities Exchange increasingly implement green lending practices, sustainable investment practices, climate risk management practices, and regulatory compliance practices in response to regulatory requirements and industry expectations, thereby influencing stock market returns.

Empirical Review

This section summarizes empirical research on climate financing strategies and stock market returns of banks, focusing on green lending practices, sustainable investment practices, climate risk management practices, and regulatory compliance practices. The review examines how previous studies have conceptualized and measured these variables, the research methodologies employed, and the key findings reported across different contexts. It further identifies the conceptual, methodological, and contextual gaps in the existing literature that the current study seeks to address.

Green Lending Practices and Stock Market Returns of Banks

Empirical research demonstrates that green lending practices play an important role in enhancing sustainable banking and influencing market performance. Mansour (2025) established that green credit positively affects the income levels of Chinese commercial banks in the short term, while Umar et al. (2024) found that green lending improves interest rate spreads but may expose banks to higher default risk under certain conditions. Similarly, Mirza et al. (2023) reported that green lending contributes positively to banks' net interest margins although increased default risks may

weaken these benefits, whereas Mangwa and Jagongo (2022) identified positive associations between green financing initiatives and financial success among Kenyan listed banks. Most of the available studies, however, have focused on profitability, net interest margins, or general financial performance rather than stock market returns as a direct measure of investor response. Furthermore, many studies have not examined green lending practices within the context of listed banks in Kenya using both primary and secondary data. The current study seeks to address these gaps by operationalizing green lending practices and examining their influence on stock market returns of banks listed on the Nairobi Securities Exchange between 2020 and 2025.

Sustainable Investment Practices and Stock Market Returns of Banks

Empirical evidence suggests that sustainable investment practices contribute significantly to market valuation and investor confidence among banking institutions. Herenia and Wibowo (2023) found that banks actively pursuing sustainable investments experienced improvements in market value across Southeast Asia, while Bauer, Broeders, and Ool (2023) reported positive investor reactions to sustainability disclosures among Dutch banks. Likewise, Adebajo and Wisdom (2024) concluded that sustainability-linked investments enhance brand reputation and investor trust in Nigerian financial institutions, and Mwangi (2021) identified a weak but positive relationship between ESG-aligned investments and financial performance among Kenyan listed banks. Despite these findings, most studies have relied on ESG ratings or sustainability disclosures without comprehensively evaluating sustainable investment practices as strategic organizational decisions affecting stock market returns. Furthermore, many studies have employed cross-sectional designs that fail to capture long-term sustainability trends. The current study aims to bridge these gaps by examining sustainable investment practices and their influence on stock market returns among banks listed on the Nairobi Securities Exchange using longitudinal data covering the period 2020–2025.

Climate Risk Management Practices and Stock Market Returns of Banks

Empirical studies indicate that effective climate risk management practices enhance financial resilience and improve organizational performance in the banking sector. Ewim et al. (2023) found that integrating climate risk frameworks into banking strategies strengthens financial resilience and promotes sustainable investment decisions, while Wen et al. (2020) established that banks with robust climate risk management systems experience lower volatility and more stable financial returns. Similarly, Lawrence and Doorasam (2021) observed that climate risk disclosures improve investor confidence among South African banks, whereas Odongo et al. (2023) reported that increasing climate-related risks negatively affect bank stability and increase credit risks within Kenyan commercial banks. Nevertheless, most previous studies have concentrated on financial stability, profitability, or climate exposure without directly examining stock market returns as an outcome variable. In addition, many studies have not incorporated institutional and governance dimensions of climate risk management. The current study therefore addresses these gaps by

operationalizing climate risk management practices and assessing their effect on stock market returns among banks listed on the Nairobi Securities Exchange during the period 2020–2025.

Regulatory Compliance Practices and Stock Market Returns of Banks

Empirical research has demonstrated that regulatory compliance practices contribute to transparency, investor confidence, and improved market valuation among financial institutions. ElAlfy et al. (2025) established that stronger sustainability regulations and institutional frameworks enhance ESG performance across firms in the Gulf Cooperation Council countries, while Haile, Jayamohan, and Mulugeta (2025) found that effective regulatory compliance positively influences firm valuation across African economies. Likewise, Nyamongo (2019) observed increasing adoption of sustainability regulations among Kenyan commercial banks, although implementation remained uneven, and Gitau (2024) concluded that alignment with sustainability-reporting guidelines improves transparency and market perception among banks listed on the Nairobi Securities Exchange. Within the broader Kenyan listed-firm context, Yator and Gitagia (2023) found that equity financing influenced the financial performance of manufacturing firms listed on the Nairobi Securities Exchange. Although their study did not examine regulatory compliance or stock market returns, it provides relevant evidence that firm-level financing and institutional practices can shape the performance of NSE-listed companies. Despite these findings, most previous studies have focused on sustainability reporting, corporate governance, firm valuation or accounting-based financial performance without directly linking regulatory compliance practices to stock market returns. Furthermore, many studies have adopted qualitative approaches, resulting in limited quantitative evidence on this relationship. The present study seeks to address these gaps by operationalizing regulatory compliance practices and examining their influence on stock market returns among banks listed on the Nairobi Securities Exchange using quantitative and qualitative evidence collected between 2020 and 2025.

Conceptual framework

The conceptual framework illustrates the relationship between climate financing strategies and stock market returns of listed commercial banks in the Nairobi securities exchange, Kenya

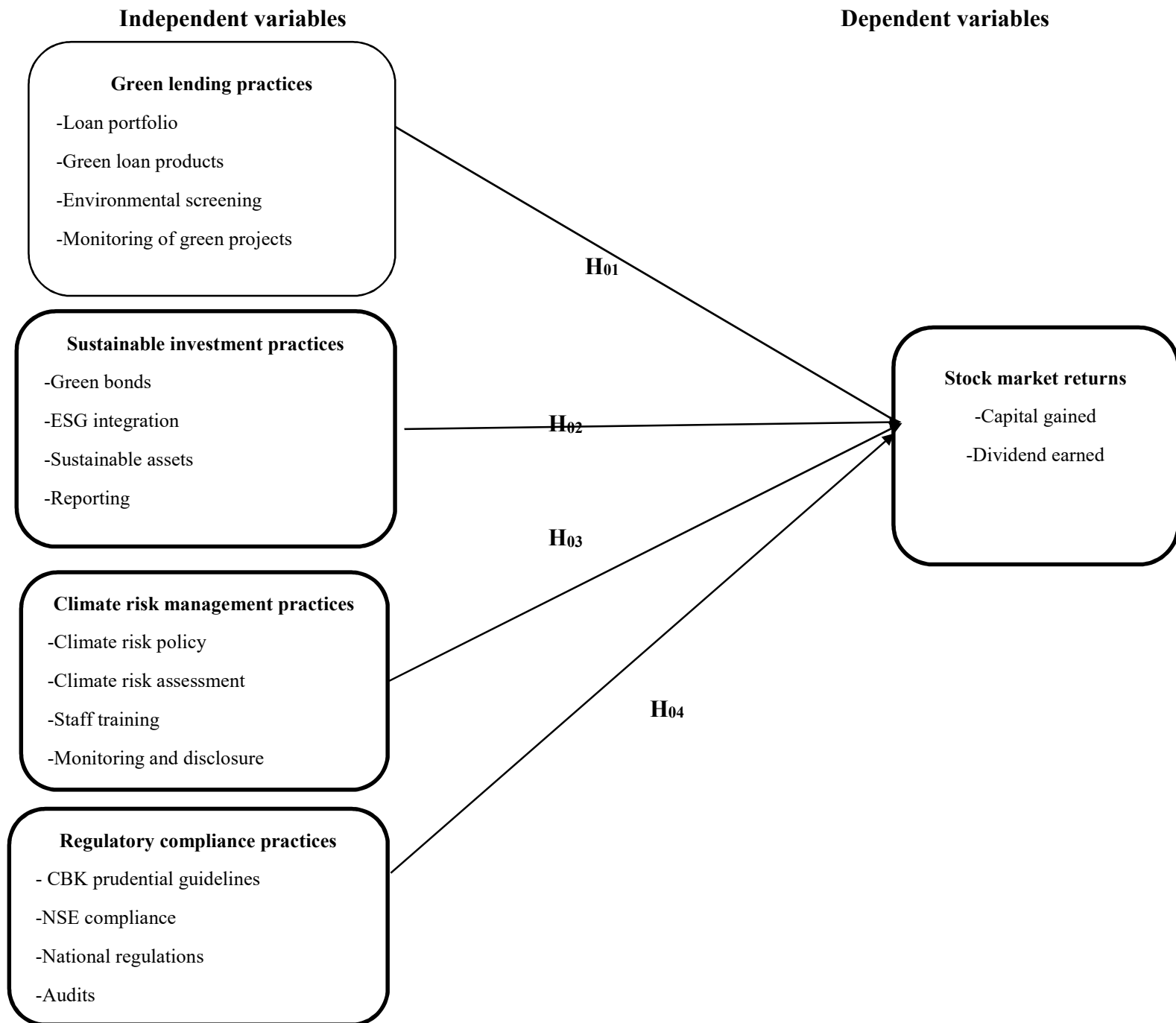


Figure 2.1 Conceptual Framework
Source: Researcher, 2026

RESEARCH METHODOLOGY

The study adopted the positivist research philosophy because it sought to objectively examine the relationship between climate financing strategies and stock market returns using measurable and quantifiable data obtained from respondents and documentary sources. The positivist paradigm

was appropriate since the study tested hypotheses and established causal relationships through statistical analysis, thereby providing empirical evidence on the influence of green lending practices, sustainable investment practices, climate risk management practices, and regulatory compliance practices on stock market returns (Saunders, Lewis, & Thornhill, 2019; Creswell & Creswell, 2021). The study further employed a mixed methods research design to integrate qualitative and quantitative approaches, enabling a comprehensive understanding of climate financing strategies and their influence on stock market returns of banks listed on the Nairobi Securities Exchange.

The target population comprised all the 11 banks listed on the Nairobi Securities Exchange as of 2025. A census approach was adopted in which four key officers from each bank, namely the Chief Investment Officer, Chief Risk Officer, Chief Sustainability Officer, and Head of Compliance, were selected, resulting in a total of 44 respondents. The census approach was appropriate because the target population was manageable and each respondent possessed specialized knowledge relating to the implementation of climate financing strategies (Nairobi Securities Exchange, 2025; Field, 2022). Both primary and secondary data were utilized in the study. Primary data were collected through structured questionnaires, while secondary data were obtained through document review of annual reports and sustainability disclosures covering the period 2020–2025. Stock market returns constituted the dependent variable and were measured using capital gains and dividend returns, while the independent variables comprised green lending practices, sustainable investment practices, climate risk management practices, and regulatory compliance practices.

Primary data were collected using structured questionnaires based on a five-point Likert scale, while secondary information was extracted using a document review guide developed to standardize data collection across the banks and reporting periods. Data analysis was undertaken using SPSS Version 28 through descriptive statistics, thematic analysis, correlation analysis, and Ordinary Least Squares (OLS) regression analysis. To ensure the validity and reliability of statistical inference, diagnostic tests including multicollinearity, normality, and heteroskedasticity tests were conducted before estimating the regression model (Greene, 2020; Cameron & Trivedi, 2022). Ethical principles were observed by obtaining institutional approval and research authorization, seeking informed consent from respondents, ensuring confidentiality and anonymity, and acknowledging all secondary data sources through appropriate citations and referencing in accordance with accepted academic research standards (Sekaran & Bougie, 2020; Creswell & Creswell, 2021).

RESEARCH FINDINGS AND DISCUSSION

Regression Analysis

A multiple linear regression model was estimated to determine the effect of climate financing strategies on stock market returns of banks listed on the Nairobi Securities Exchange. Prior to estimation of the regression model, diagnostic tests confirmed that the assumptions required for ordinary least squares regression analysis were satisfied. The analysis was conducted using data collected from 32 respondents drawn from banks listed on the Nairobi Securities Exchange covering the period 2020–2025.

Table 4.8: Model Summary

Model	R	R ²	Adjusted R ²	Std. Error of the Estimate
1	0.5558	0.3089	0.2065	0.1917

Source: Research Data, 2026

The findings in Table 4.8 indicate that the explanatory variables jointly explained a considerable proportion of the variation in stock market returns among banks listed on the Nairobi Securities Exchange. Specifically, the coefficient of determination ($R^2 = 0.3089$) demonstrates that green lending practices, sustainable investment practices, climate risk management practices, and regulatory compliance practices explained 30.9 percent of the changes in stock market returns. The adjusted R^2 value of 0.2065 further confirms that the model retained reasonable explanatory power after adjusting for the number of predictors included in the regression model. In addition, the correlation coefficient ($R = 0.5558$) indicates a moderate positive relationship between climate financing strategies and stock market returns.

Table 4.9: Analysis of Variance

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.4432	4	0.1108	3.0168	0.0353
Residual	0.9918	27	0.0367		
Total	1.4350	31			

Source: Research Data, 2026

The ANOVA findings in Table 4.9 reveal that the overall regression model was statistically significant. The F-statistic of 3.0168 with a p-value less than 0.05 indicates that the combination of green lending practices, sustainable investment practices, climate risk management practices, and regulatory compliance practices significantly explained variations in stock market returns among banks listed on the Nairobi Securities Exchange. This implies that climate financing strategies collectively had a significant influence on stock market returns within the banking sector.

Table 4.10: Regression Coefficients (Dependent Variable: Stock Market Returns)

Variable	Coefficient	Std. Error	t-Statistic	p-value
Intercept (C)	5.3219	1.2122	4.3901	0.0002
Green Lending Practices (GLP)	-0.3715	0.1366	-2.7196	0.0113
Sustainable Investment Practices (SIP)	-0.1205	0.1564	-0.7706	0.4477
Climate Risk Management Practices (CRMP)	0.1937	0.1487	1.3025	0.2038
Regulatory Compliance Practices (RCP)	-0.1342	0.1473	-0.9115	0.3701

Source: Research Data, 2026

As shown in Table 4.10, not all dimensions of climate financing strategies were statistically significant in determining stock market returns of banks listed on the Nairobi Securities Exchange. The intercept coefficient was positive and statistically significant, suggesting that stock market returns remained positive even in the absence of changes in the explanatory variables.

Green lending practices recorded a negative and statistically significant coefficient, indicating that changes in green lending practices had a significant influence on stock market returns during the study period. This suggests that increased allocation of resources toward green lending initiatives was associated with changes in investors' perceptions and market performance among the sampled banks.

Sustainable investment practices recorded a negative but statistically insignificant coefficient, suggesting that participation in sustainable investments, ESG integration, allocation to sustainable assets, and sustainability reporting did not significantly influence stock market returns. The findings imply that sustainable investment initiatives had not yet generated measurable effects on investor returns during the period under review.

Climate risk management practices recorded a positive but statistically insignificant coefficient, indicating that strengthening climate risk policies, climate risk assessment frameworks, staff training, and climate-related disclosures did not significantly influence stock market returns. Although the relationship was positive, the effect was insufficient to produce statistically significant changes in market performance.

Regulatory compliance practices also recorded a negative and statistically insignificant coefficient, suggesting that adherence to prudential guidelines, sustainability disclosure requirements, green finance regulations, and compliance audits did not significantly affect stock market returns. This implies that while regulatory compliance remains important for governance and accountability, its direct contribution to stock market performance was not statistically evident within the sample.

Regression Model

$$SMR_i = 5.322 + -0.372GLP + -0.1201SIP + 0.1937CRMP + -0.1342RCP + \varepsilon$$

The regression model demonstrates that climate financing strategies collectively influenced stock market returns among banks listed on the Nairobi Securities Exchange. Among the predictors, green lending practices exhibited the strongest statistically significant influence on stock market returns, while sustainable investment practices, climate risk management practices, and regulatory compliance practices did not record statistically significant effects. The findings therefore imply that although climate financing strategies are increasingly being adopted within the Kenyan banking sector, their contribution to stock market returns remains limited, with only green lending practices exhibiting a significant relationship during the study period. Overall, the findings provide empirical evidence that climate financing strategies play a role in explaining stock market returns, although much of the observed variation is explained by factors outside the variables included in the present study.

CONCLUSIONS AND RECOMMENDATION

Conclusions

This study examined the effect of liquidity management practices on underwriting capacity among insurance companies in Kenya. The research findings presented in Chapter Four indicated that the capacity of an insurance company to underwrite is highly related to the robust and efficient practices in their liquidity management. The conclusions therefore are a summary of the effect of the different management areas of liquidity buffer management, operating cashflow management, premium collection management and claims payment liquidity management on capacity in underwriting insurance companies in Kenya.

As to first objective, a positive and statistically significant relationship between liquidity buffer management and underwriting capacity resulted in the Insurance companies with higher liquidity buffer positions being able to sustain their underwriting operations. By maintaining liquid assets as a percentage of total assets, liquidity buffer management enhances insurers' capacity to withstand operational shocks, meet obligations and provide underwriting continuity when uncertainty arises. It means adequate liquidity provision is still a critical factor of underwriting stability of insurance companies in Kenya.

In addition, the positive and statistically significant effect of operating cashflow management suggests that the underwriting capacity of insurers with higher internally generated operating cashflow increases over time. This will help insurers to manage their cashflow more effectively to adequately fund their operations, claims and underwriting without undue dependence on third-party financing. This is an example of the role that stable internally generated liquidity plays in enhancing underwriting continuity and operational flexibility of insurance companies.

As regards third objective, the results indicated that there is a negative and statistically significant relationship between premium collection management and underwriting capacity. More pressure from receivables as premium is converted later on delays insurer liquidity and leaves less flexibility for underwriting. Therefore, premium collection efficiency defined as premium receivables as a percentage of gross written premiums is one of the factors that is critical for underwriting sustainability as poor collection efficiency leads to poor operational liquidity and limits the ability of insurers to be able to sustain underwriting growth.

Finally, it was established that the liquidity management of claims had a negative and significant effect on the capacity of the insurance companies in Kenya. The more claims are settled, the more pressure is put on the liquidity of an insurance company and the less continuity in underwriting. The payment liquidity of claims (as the ratio of claims paid to the net earned premiums) is therefore an important measure of underwriting stability, given that the greater the claims paid relative to the net earned premiums, the less flexibility is available in the operations of the insurance company and the higher the liquidity pressure becomes.

Policy Implications and Recommendations of the Study

The recommendations of the study depend on the information gathered from the empirical research and are in line with the study objectives. The recommendations are aimed at insurance companies, the Insurance Regulatory Authority, Boards of Directors, policy makers and other stakeholders in the insurance industry in Kenya. As liquidity management practices were identified to have a significant impact on underwriting capacity, recommendations are concentrated on enhancing insurer liquidity stability and continuity of underwriting.

Regarding the first objective, the positive impact of liquidity buffer management on underwriting capacity supports the recommendation that insurance companies need to strengthen their internal liquidity buffer policy and ensure adequate liquid assets to support underwriting activities in cases of financial stress and an increase in claims obligations. Insurers should regularly review liquidity positions against underwriting exposure and factor in liquidity stress testing into risk management processes. It is also recommended that the Insurance Regulatory Authority increase the monitoring of the prudential monitoring of the liquidity reserve of insurers. More efficient liquidity reserve management would boost the continuity of underwriting, stability of operations and policyholder confidence in the insurance industry.

In relation to the second objective, the positive impact of operating cashflow management provides for the recommendation to the insurance companies to enhance operating cashflow planning and regular internal analysis of internally generated cashflow against underwriting liabilities and expected insurance claims exposure. Senior management staff should consider incorporating measures of operational cash flow into underwriting and financial planning decisions to enhance the liquidity stability. The regulators should also promote harmonisation of the reporting of operational cashflow resilience indicators by insurers. Improved operational cashflows would enhance the sustainability of underwriting and minimise liquidity-related operational disruptions for insurance companies.

In terms of the third objective, the negative impact of premium collection management reinforces the recommendation to improve premium collection by the insurance companies by tightening up their process of monitoring the premiums in arrears and applying the credit term. To further advance premium-to-cash conversion efficiency, insurance companies should also automate systems that track receivables and collect unpaid premiums and enhance follow-up systems for unpaid premiums. The Insurance Regulatory Authority should employ more measures to recover the liquidity situation of insurers that have been subjected to continuously high premium receivables pressure, such as corrective liquidity recovery measures. The enhanced premium collection efficiency would help insurers' liquidity stability and underwriting continuity.

Finally, the negative impact of claims payment liquidity management on the ratings reinforces the call for insurance companies to improve claims forecasting processes and to ensure they have sufficient claims settlement buffers to meet claims obligations when the claims burden rises. Adequacy of claims reserves and payout trends should be continually evaluated by boards of directors and audit committees to provide a financial cushion for insurers to keep underwriting operations going. Actuarial departments need to continue to enhance claims estimating models to decrease variance in claims and mitigate the impact on liquidity. The Insurance Regulatory Authority should also beef up its supervision of claims reserve adequacy and claims settlement practices to ameliorate liquidity stress in the insurance industry. Better claims reserve management would give a boost to the underwriting stability and build confidence in the insurance industry in Kenya.

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