PRODUCT DIVERSIFICATION AND PROFITABILITY OF LISTED COMMERCIAL BANKS IN KENYA

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ABSTRACT

The general purpose of this research was to determine the effect of product diversification on profitability of listed commercial banks in Kenya. Product diversity is a strategy used by commercial banks and other financial institutions to increase overall profitability. However, not all of the items in their portfolios are successful, due to the risk inherent in each of the products that make up their portfolio. This research is crucial because it will contribute to the current body of knowledge and assist policymakers, investors, and banks in making sound investment diversification decisions. The main goal of having a diverse product was to ensure that maximum profits were made based on the returns. As a result, there was still a knowledge vacuum over whether banking product diversification improves the profitability of listed commercial banks in Kenya or not, necessitating the necessity for this research. As a result, the goal of this study was to look at how portfolio diversification, as represented by bancassurance, financial securities, real estate, and trade finance, affected the profitability of commercial banks listed on the Nairobi Securities Exchange (NSE). Modern Portfolio Theory, Agency Theory, and the Diversification Strategy Model drove this research. The study used a descriptive research methodology using a census approach to examine Kenya's 11 publicly traded commercial banks. To determine the link between the studied variables, the study relied on secondary data acquired from financial reports of the aforementioned institutions. The data on the listed banks' profitability was gathered using data collecting sheets. Diagnostic tests were carried out to see if the collected data was suitable for analysis and drawing conclusions from. The study shows that product diversity, as measured by factors such as bancassurance, financial securities, real estate, and trade finance, and profitability, as measured by ROA for commercial banks listed on the Nairobi stock market, have a substantial link. The research factors have a significant influence on the listed banks' profitability. As a result, increased product variety in banks resulted in increased profitability. Bancassurance, financial securities, real estate, and trade finance are all study factors that have a positive significant link with the profitability of Kenya's publicly traded commercial banks. The beta coefficients back this idea as well. Because the beta coefficients are positive, each 1-unit rise in bancassurance, real estate, financial security, and trade finance will result in an increase in profit of 0.317, 0.292, 0.153, and 0.167 units, respectively. To boost their profitability, listed commercial enterprises should engage in bancassurance, financial securities, real estate, and trade finance, according to the report.

Keywords: Product diversification, profitability, bancassurance, real estate financing, mobile banking, trade finance.

INTRODUCTION

Banking is critical to global economic progress. It is the economy's primary source of funding. Li, Strahan and Zhang (2020) noted that banks play an important role in counseling consumers and businesses on financial concerns as well as offering financial services. However, difficulties such as market rules have put banks in Kenya's strong performance in jeopardy, prompting them to pursue diversification as a strategy for improving their financial performance as indicated by Alengo, Okello, and Malenya (2019). Despite the fact that many banks have adopted this method, their performance has not improved significantly (Gertler, Kiyotaki & Prestipino, 2020). Li et al., (2020) allude that the banking business has been undergoing turbulence across the world as a result of deregulation of financial markets, more competition, expanded application of technology in the banking sector, and lower trade barriers, necessitating sector diversification to secure banks' survival. Furthermore, banks must comply with a number of rules, some of which are conflicting (Gertler et al., 2020). Capital and leverage levels, asset risk levels, branching and asset investment are all examined by the legislation.

Ahnert, Anand, Gai and Chapman (2019) indicated that these restrictions require banks to diversify their investments in order to comply with the rules and enhance their performance. Commercial banks must maintain a certain amount of cash flow to fulfill depositor needs (Kapan & Minoiu, 2018). However, as indicated by Thamae and Odhiambo (2021) the majority of research has been done in the United States and other affluent nations, whereas less has been done in underdeveloped countries to establish the impact of diversity on banks profitability. Product diversification has a wide range of effects on a bank's financial performance. According to Schommer, Richter and Karna (2019), this is based on findings from research in developed markets such as the United States and Europe. It increases the risk-return trade-off in the United States, whereas it improves it in European banks. When it comes to diversifying their goods, commercial banks in the United States confront a tougher risk-return trade-off.

For European banks, product variety enhances the risk-return trade-off. Diversification helps banks generate more income while reducing profit volatility (Arte & Larimo, 2022). As indicated by Chiao, Yu, Li and Chen (2018), diversification reduces the needed risk premiums on uninsured debt and other contingent claims, such as derivative contracts, and reduces the risk of diversification if it happens. In Vietnam, Ho, Phuong and Jamshid (2019) reported that financial institutions may have greater average revenues if they use part of the diversification advantages to pursue higher-risk investments. South Asia has the world's fastest economic growth rate, according to a 2016 World Bank report. The banking industry is the backbone of modern economies, and a varied, lucrative, and stable banking system is required for strong and thriving economies (Thirathon & Supawat, 2019).

According to Duho and Onumah (2019), venturing in an unconnected endeavor boosts a company's prospects of doing better and earning greater profits. According to Ada and Cross

(2020), who studied product-market diversity and its influence on business growth and financial performance in Nigeria, connected diversification had a considerable impact on company performance, but unlinked diversity had a negligible impact. According to Abuzayed, Al-Fayoumi and Molyneux (2018), setting together an investment portfolio is an important procedure since it allows a company to reduce its risks while also increasing its profits.

In Kenya, the banking sector is constantly confronted with fierce competition from microfinance and non-bank financial firms, as well as shifting rules (Makau, & Ambrose, 2018). Commercial banks are also obligated to publish several disclosures in their financial filings, implying that business plans are not secret. The Banking Amendment Act was signed into law in August 2016, establishing interest rate regulations in Kenya.

These unique characteristics of the banking business, taken together, make it difficult for local banks to attain optimal economic gains (Central Bank of Kenya, 2021). Profitability of banks is of particular significance since poor monetary performances may contribute to liquidity issues for commercial banks, which can cause depositor panic and ultimately lead to bank failure. The consequences of a single bank collapse are severe, and they can influence a wide range of businesses, resulting in a negative impact on economic growth (Njuguna, Kwasira & Orwa, 2018). Banks are particularly important in developing nations like Kenya since they are key financial intermediaries, providers of funding, and primary depositors of savings (Alengo, Okello, & Malenya, 2019).

As a result, the banking industry has become a prominent priority in most strategic plans, such as Kenya Vision 2030, since it allows for higher savings. Ahmed and Simba (2019) added that this is also accomplished through investments, which provide monetary stability while simultaneously propelling the economy forward. It is necessary for commercial banks to regularly examine their business dynamics in order to grow (Buigut and Soi, 2018). The diversification techniques that Kenyan banks employ are the source of their competitiveness. Banks that deal with commerce the Nairobi Securities Exchange in Kenya is where the stock is traded. The Nairobi Securities Exchange (NSE), situated in Kenya, is a significant African exchange. The NSE offers both equity and debt securities and provides local and international investors with world-class trading facilities. The exchanges remains critical to Kenya's economic progress since it encourages investments and savings while also increasing access to low-cost financing. An entity must meet certain rules and restrictions in order to be listed on the exchange. Only 11 commercial banks are listed on the Nairobi Securities Exchange, out of the 40 licensed commercial banks functioning in Kenya's financial industry.

STATEMENT OF THE PROBLEM

The financial industry in Kenya has expanded slowly, with listed banks reporting 4.4 percent earnings per share (EPS) growth in 2016, comparing to 2.8 percent the year before and a 5-year average of 13.9 percent (CBK, 2020). Despite this expansion, the banking industry's overall financial performance is still behind the 14.6 percent predicted growth rate. In 2020, the sector's income growth was muted, as banks boosted provisioning levels by 48.0 percent to cover possible bad loans. Due to higher provisioning levels, the sector's profit before tax (PBT) fell 19.2 percent to Kshs 23.6 billion in the third quarter of 2020, down from Kshs 29.2 billion in the previous quarter (CBK, 2021).

As a consequence, total profitability for listed banks fell in 2020 compared to 2019. Non-Funded Income climbed by 6.4 percent weighted average in the financial year 2020, compared to 17.4 percent in the previous year. The banking sector's Non-Funded Income to Operating Income ratio also dropped, from 37.4 percent in 2019 to 35.4 percent in 2020, resulting to lower profits growth across the board (Cytonn, 2021). Despite the studies that have been undertaken, Kenya's banking sector has shown little development or growth in recent years. Financial reports suggest that the sector's overall financial performance has been below industry projections since 2015, with certain banks closing and others combining.

The average growth rate over the last five years was 13.9 percent, which was lower than the predicted growth rate of 14.6 percent. Furthermore, the banks' gross loans and deposits grew at a modest pace (CBK, 2021). Despite efforts to diversify assets and activities, this has remained the case. Given this situation, there is still a knowledge vacuum about how diversity affects commercial bank performance. As a result, doing this investigation was necessary.

OBJECTIVES OF THE STUDY

The general purpose of this research was to determine the effect of product diversification on profitability of listed commercial banks in Kenya.

The specific objectives of the study were:

i. To determine the influence of the bancassurance services on profitability of listed commercial banks' in Kenya.
ii. To establish the significance of financial securities on the profitability of listed commercial banks in Kenya.
iii. To assess the significance of real estate on profitability of listed commercial banks in Kenya.
iv. To examine the significance of trade finance on profitability of listed commercial banks in Kenya.

THEORETICAL REVIEW

Modern Portfolio Theory (MPT)

Harry Markowitz formulated this hypothesis in 1952. The theory aims to maximize the anticipated return of a given portfolio risk, or reduce the risk of a given portfolio at a particular level of expected return. Investors make decisions depending on their willingness to take risks, according to proponents of this view (Markowitz, 1952). Most investors, on the other hand, are risk averse and choose portfolios with minimal risk but greater returns. Regardless of this inclination, risk is inherent in business, and the bigger the risk, the larger the projected rewards (Khan & Hildreth, 2002). This means that investors will always pick a portfolio that is less risky but has a greater projected return.

As a result, the theory seeks to maximize a portfolio's anticipated return at a given level of risk, or vice versa; minimize a portfolio's risk by carefully selecting the assets to be included in it (Fabozzi, Gupta, & Markowitz, 2002). This indicates that banks can mix several investment alternatives with no positive link in predicted returns. As a result, MPT is critical in decreasing the overall variance of the expected return from a particular portfolio decision while assuming rational investors and efficient markets. To lower portfolio risk, investors should make asset pairings that aren't perfectly positive correlated. Theory is important in math since it helps to construct the diversification notion in investing, which means that the investments will have lower risk than if they were explored separately.

Following portfolio diversification, current portfolio theory is critical in describing investment possibilities while considering the underlying risks and projected returns. It also aids in the allocation of resources to alternative investment possibilities, as well as the reconciliation of risks and returns and the measurement of a company's success. Despite the theory's theoretical usefulness in calculating inherent risk and the link between it and expected return, opponents challenge the theory's ideality in identifying the best investment decision. This uncertainty stems from a lack of financial realities.

In this theory, the risk-return correlation measurements are based on predicted values, which means they mathematically describe what is expected in the future. This suggests that the theory does not account for the present. In the actual world, investors should be able to replace projected values with historical asset returns and volatility measurements. According to this theory, you should select the point on the frontier that maximizes anticipated utility, which is a calculation that expresses your preference for risk against reward. As a result, additional evidence should be gathered before drawing any generalizations.

Innovation Theory of Profits

Joseph Schumpeter established the profit-innovation theory. According to this view, earnings are generated through the entrepreneurs' inventions. Portfolio diversification methods or new ideas to reduce costs and improve demand for the items might be examples of such breakthroughs. There are two different types of innovations. There are many that try to keep their manufacturing costs as low as possible. For instance, introducing new technology, utilizing a new supply of raw materials, or employing a lower-cost manufacturing process. Methods to enhance product demand are the second example. Superior advertising strategies, the introduction of substitutes, and the creation of a new market are all examples of this.

If an invention lowers the cost of manufacturing while also increasing demand for a product, it is considered successful. An entrepreneur who invents a new product or service has a monopolistic position at first, allowing him or her to reap extraordinary profits. Profits steadily decline as competitors become aware of the situation. When a law grants patent protection to such developments, however, the entrepreneur might gain a significant advantage. Bill Gates, for example, created the Windows operating system and MS-office suites of computer software and became a millionaire as a result of his ideas.

Similarly, Xerox Corporation profited handsomely on the development and marketing of improved copying technology (Nipun, 2017). Portfolio diversification is a type of innovation that helps businesses save costs and raise capital. According to this thesis, entrepreneurs should have a pool of inventions because the discovery of any breakthrough is unlikely to enjoy a monopoly owing to competition adoption. This theory has various flaws, including the fact that it ignores the element of uncertainty and the possibility of other profit-generating approaches.

Diversification Strategy Model

Diversification is one of the four marketing strategies created by Igor Ansoff in 1957 as part of the product matrix's four strategies. Market penetration, according to the notion, comprises the marketing of a company's current items in an existing market. Product development is the process of creating a new product that will be sold in an existing market. The sale of current items in a new market is referred to as market development. Diversification is the matrix's fourth and final strategy, in which a company enters a new market with a new product. Diversification can be utilized instead of the other three techniques to help a firm expand (Hussain, Khattak, Rizwan, & Latif, 2013).

When it comes to diversification, there are two forms of diversification: diversification techniques and diversification types. Diversification techniques include acquiring a company, generating new goods, forming partnerships, and coming up with new technology and licensing them. Vertical, horizontal, concentric, and conglomerate diversification are the four forms of diversification identified by Pearce, Robinson, and Mital (2008). Vertical diversification occurs when a company moves forward in its manufacturing cycle to reach new phases.

This occurs when a corporation manufactures its raw materials or distributes its finished goods. This form of diversification helps a company to lower its investment risks by lowering the danger of its products not finding a market. Horizontal diversification, on the other hand, occurs when a company introduces new items that are aimed at current clients. This type of diversification allows a company to grow its output without having to hire new employees or learn new skills (Hussain, et al., 2013). Conglomerate diversification refers to when a company creates new items utilizing existing technology and marketing processes in order to expand and diversify its product line.

The firm is able to produce higher profits while spending a modest expense to diversify because of the intimate relationship between the current and new enterprises. Diversification of a conglomerate may also occur when new items are developed utilizing new technology and supplied through new channels. It exposes a company to new options that have the ability to boost profits through successful initiatives (Pearce, Robinson and Mital, 2008). Given that banks diversify their operations by employing a variety of unrelated goods and enterprises, this theory will aid in identifying diversification techniques and how they assist listed companies stay profitable.

CONCEPTUAL FRAMEWORK

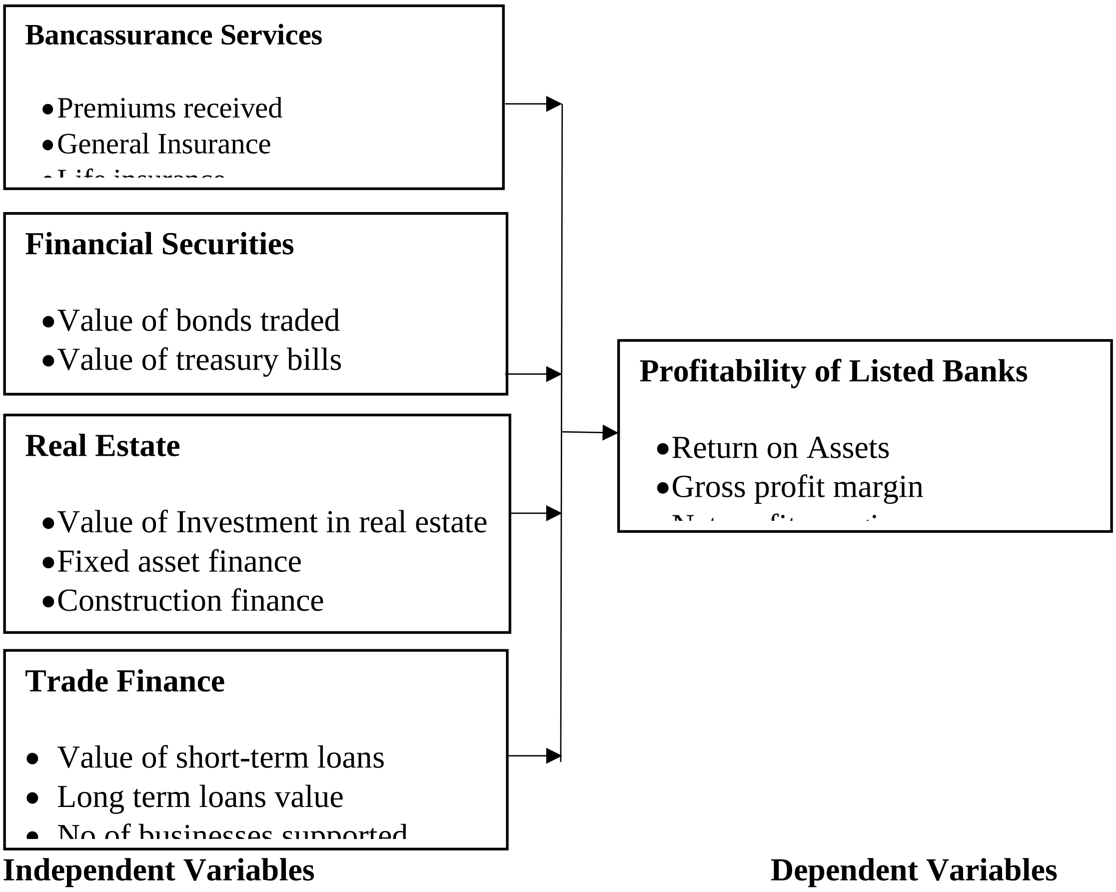

Figure 1: Conceptual Framework

Bancassurance and Financial Performance

Bancassurance is the combining of banking and insurance services that are sold as a single package by the same organization. Abiyyu, Najib and Asmara (2020) describes bancassurance as a procedure in which an insurance company sells its products through the bank's customer network. The bank and the insurance business benefit from this arrangement since it allows the bank to generate risk-free revenue while the insurance company expands its network and capacity by obtaining new clients from the bank's network. Bancassurance, according to Deepa & Rafi (2020), allows banks and insurance businesses to work jointly in the financial sector.

According to Grazy and Ganesan (2018), bancassurance emerged in Europe as a strategy for increasing mortgage and consumer credit development as well as financial sector deregulation. According to Guru and Yadav (2020), non-life insurance has the greatest market share in Europe, with Turkey (9.7%), Portugal (9.3%), the United Kingdom (9.9%), France (9.0%), the Netherlands (8%), and Spain (8%). (7.9 percent). With a product called Barclays life, Barclays bank was the first to engage into bancassurance in 1965 (Rauch, 2020).

Bancassurance has extended to other parts of the world since then (Tomislava, Miletic & Pavic, 2019). The central bank of Kenya launched Bancassurance with laws that helped manage its expansion in Kenyan banks. By entering the insurance industry, banks are broadening their offerings. This aids them in adapting to and dealing with the growing competition in the financial markets. In recent years, the majority of Kenya's listed banks have delved into bancassurance, which has helped them increase their competitiveness and profitability (Chukwuma & Nebo, 2019). Devi (2020) investigated how bancassurance affects bank profitability and efficiency in Taiwan.

The study's goals were to determine the influence of bancassurance on bank performance as well as the impact of a bancassurance-based diversification strategy on bank performance. According to Devi (2020), the Taiwan Insurance Institute provided the researchers with bank data on bancassurance from 2004 to 2012. The study of this data revealed that the commission revenue as well as the value of the company's stock had increased. Furthermore, it was shown that banks that seek bancassurance earn a higher risk-adjusted return, resulting in enhanced bank efficiency and higher shareholder returns.

Financial Securities and Financial Performance

Earnings from company investments result in improved working performance, which boosts the firm's competitiveness (Castaldi & Giarratana, 2018). Furthermore, according to Schommer, Richter and Karna (2019), tying investment profits to firm-specific criteria such as the structure and size of the organization has the potential to help banks make better investment decisions.

Mawdsley (2019) outlined that one of the current tactics utilized by financial organizations throughout the world is portfolio management. It assists institutions in rebalancing their loan asset portfolio by allowing them to fully utilize the credit market's functionalities. In some circumstances, institutions do a risk assessment of their credit concertation risk. This aids businesses in risk management by allowing them to monitor the loan approval process. Asset allocation, diversification, and risk management are some of the tactics that banks might employ to manage their portfolio (Habiburrochman et al., 2019).

Disparities in risk-taking capabilities for banks in various tiers, as well as discrepancies in goods provided, contribute to the differences. Diversification may be utilized to manage a portfolio as well. By combining unrelated investments, the investor hopes to lessen portfolio risk and volatility (Derek, 2015). Dimitriou (2020) also discusses portfolio management, which involves grouping assets that are unrelated in order to reduce risk. It requires categorizing the portfolio into equity, fixed income, cash equivalents, and other asset types. Furthermore, diversifying assets allows them to be dispersed throughout other markets and countries, reducing the danger of having them all in the same area and market.

Bank managers seek for assets that are within a reasonable risk range and may produce satisfactory returns (Iranban et al., 2019). As a result, they create a list of the anticipated holdings. Despite the fact that corporations and investors want high profits with low risks, the reality is that there are inconsistent results, and fewer risks typically lead to poorer returns. As a result, diversity is used to blend assets from various classes and groupings, resulting in a less hazardous portfolio. This aids banks and other businesses in avoiding bad performance that might jeopardize the company's overall profits.

Real Estate Finance and Financial Performance

Banks have discovered a new niche in house financing as a method of diversifying their services and investments as a result of these developments in the real estate business. According to Ahnert et al., (2019), real estate finance comprises the providing of cash for housing developments or even acquisition. Commercial banks give mortgage loans to real estate investors. Other organizations that specialize on real estate, such as savings and loan cooperatives, mortgage institutions, insurance companies, parastatals, pension funds, trusts, and other corporations, also contribute funding for housing developments.

During the financial crisis of 2007, Kapan and Minoiu (2018) conducted research on the impact of mortgage-backed securities and the effectiveness of restrictions in the United States. The goal was to see how the performance of banks that provide mortgages was affected by the financial crisis. A regression analysis was carried out between the variables of bank performance and a number of other factors that contributed to the crisis. According to the Ada and Cross (2020) findings, mortgage-backed securities have a significant influence on financial instruments, producing a significant impact on the financial market. Furthermore, the investigation discovered that several banks in the United States exploited mortgage-backed securities to boost their expansion throughout the financial crisis. However, because the study focused primarily on the American setting and crisis, the findings can only be applied to that context.

Castaldi, and Giarratana (2018) conducted a comparison study on the performance of real estate against financial assets as mortgage security. The goal was to see if the switch to financial assets could be justified. Makau and Ambrose (2018) conducted a study in Kenya to investigate the influence of investment diversification on bank financial performance. They conducted their investigation in an exploratory manner. Their goal was to establish the influence of insurance investments on banks ’ financial performance, the impact of government securities on bank financial performance, and the impact of real estate investment and stock purchases on bank financial performance in Kenya.

Trade Finance and Financial Performance

Effective trade credit management is critical in corporate finance plans since it has a significant impact on risks and firm performance. Benz and Hoang (2018) investigated the impact of trade credit control in affecting the profitability of businesses. The outcomes of these investigations indicated that the variables had a linear connection. The linearity of the link, on the other hand, separates the researchers into two opposing factions. One school of thought is that increasing trade credit investments will boost a company's profitability. According to Jha et al., (2021) the opposing side believes that a high level of trade credit investment is associated with significant risk, which can result in revenue loss or a high cost of financing, lowering a company's profitability. As a result of these contrasting viewpoints, trade credit is likely to have a non-linear connection with a business's success.

If this is the case, then there is a level of trade credit at which corporate earnings are at their highest. Some research (Chiao et al., 2018) support the idea that there is no linear relationship between company investment and profitability. Trade finance refers to the funding of trade activity, which includes both domestic and international trade transactions. A buyer and a seller are required to conduct a trade transaction. In the middle of this interaction, there are intermediaries who help the transaction go smoothly. As per Ahnert et al., (2019) banks and other financial institutions are among these middlemen, and they can also fund the trade. Banks provide trade financing solutions that have been created to mitigate the risk associated with business activities. This makes it easier for commerce to take place. To gain a competitive edge in the international trade market, banks must discover ways to reduce the buyer's costs while also ensuring that the seller's offer is optimized. They also need to figure out how to manage political, financial, and currency risks from both the buyer and seller's perspectives.

Motanya (2019) investigated the effects of trade finance on the profitability of Kenyan petroleum companies. In the study, he points out that when clients negotiate credit conditions with suppliers, they invariably receive reductions. As a result, suppliers should have a mechanism in place to encourage customers to make regular payments. This will aid suppliers in avoiding liquidity problems. Furthermore, if a company's procurement process is poor, other elements of the company are likely to suffer. The research examined here is restricted in that it focuses on working capital management rather than particular areas of working capital such as trade credit receivables and payables. The importance of comprehending the role of these components cannot be overstated.

RESEARCH METHODOLOGY

A descriptive research design was adopted in this study. The Nairobi Securities Exchange's listed banks were the study's target population (NSE). Kenya has 11 listed banks, according to the NSE data.Because of the small target population of 11 NSE listed banks, the study used a census technique in which all of the banks were included. Census was also picked because of the banks' accessibility and modest quantity. As a result, a realistic picture of how product diversity affects the profitability of these publicly traded banks was provided. Secondary data was acquired from the Central Bank of Kenya and Baking Survey reports spanning the years 2011 to 2020 for this study. To verify the trustworthiness, reliability, and validity of this secondary data, the study will collect secondary data using the review guide. To guarantee that the research adheres to research norms and standards, the researchers obtained a license from NACOSTI, which allows them to be held accountable for the study's research procedure.

The pilot test in this study used financial data from Equity Bank. EViews software was used to analyze the pilot data. Multicollinearity, heteroscedasticity, and normality tests were performed as diagnostic tests. The acquired information was first examined for completeness and readability. Using the SPSS spreadsheet, the data was coded and tallied. The data was analyzed using descriptive and inferential statistics. The examined data was evaluated in order to convey the study's results and conclusions. The study adopted panel data regression model. The equation was as follows; $Yi=\alpha+\beta_1X_1i_t+\beta_2X_{2i}t+\beta_3X_{3it}+\beta_4X_{4it}+\varepsilon$
Where: α represent constant Y_i represent Commercial Banks profitability.
B_1,B2,B3 and B4 represent βetas for each factor. X_1-X_4 are the factors influencing profitability. They include:

X_1 represents Bancassurance
X_2 represents Financial Services
X_3 represents Real Estate
X_4 represents Trade Finance
i represent the number of listed commercial banks (from the first to the eleventh) t represent Time period in years (2011-2020) ε represent Error term with a significance level of 5%.

RESEARCH RESULTS

Secondary data was gathered for this study from financial records, the library, the corporate website, journals, and publications relevant to the NSE-listed commercial.

Effects of Bancassurance on Profitability of the NSE-Listed Banks

The study found that bancassurance has a favorable and statistically significant relationship with commercial bank profitability. This conclusion is consistent with that of Osindi (2018), who discovered in their study that bancassurance had a significant positive association with commercial bank financial performance. Mwangi, Makau, and Kosimbei (2014) discovered comparable results in their research. The purpose of this research was to investigate into the link between bond investments and the financial performance of non-financial companies listed on the NSE. The information was taken from the Nairobi Securities Exchange handbooks from 2006 to 2012.

Effects of Real Estate on Profitability of the NSE-Listed Banks

The study established that real estate has a statistically significant impact on commercial bank profitability. According to the regression study, real estate investing provides financial diversification advantages to a mixed-asset portfolio. As indicated by the value of R2, the model explained 59 percent of the variance in financial performance. The study found that real estate investment had a beneficial impact on the financial performance of commercial banks listed on the NSE. The conclusions of Morsink (2019), who performed a research from 2010 to 2014 to establish the link between real estate investments and profitability of 49 Kenyan insurance businesses. The study revealed that the ratio of real estate investments to total assets and profitability as evaluated by ROE had a favorable link. This conclusion matched that of Schommer et al., (2019), who looked at the implications of real estate investment in a portfolio from the standpoint of financial performance in Norway from 2000 to 2006.

Effects of Financial Securities on Profitability of the NSE-Listed Banks

The study reveals that financial securities have a positive significant link with the profitability of Kenya's listed commercial banks, according to the data. the amount of bonds traded grew over time, from a low of Kshs. 58.573 billions in 2011 to a high of Kshs. 69.183 billions in 2013. Kshs. 63.878 billions was the average yearly average. The lowest value of Treasury notes was recorded in 2015, and the highest was 690,267 millions in 2020, during a ten-year period. Between 2011 and 2012, the value of Treasury notes progressively increased, followed by a general dip between 2012 and 2015, and then a gradual increase between 2015 and 2020. Treasury notes had an average value of Kshs. 563 billions. The findings are consistent with those of Goetzmann and Kumar (2018), who discovered a substantial positive association between financial securities investment and business financial performance. Investment in financial securities is a significant source of portfolio returns and has a favorable association with company profitability.

Effects of Trade Finance on Profitability of the Commercial Banks

The study ascertained that xxx. short-term loans increased gradually, long-term loans were stable but declined, and the number of firms backed by banks increased gradually. The minimum short-term loans long-term loans number of enterprises supported in 2012, 2011, and 2012 were Kshs. 22.173 billion, Kshs. 25.226 billion, and 586,114 firms, respectively. Because banks are significant actors in foreign currency transactions, the findings were consistent with Nyokabi's (2018) findings that changes in the foreign exchange markets have an influence on bank profitability. The findings backed with Kirimi's (2012) conclusions that commissions and fees are a low-cost way for banks to create more revenue and resources. Because it has less risks than loan lending, this is a favoured source of revenue.

Inferential Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.876[a]	.767	.761	.03358

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.323	3	.079	83.652	.000[b]
Residual	.034	36	.001		
Total	.277	39			

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.011	.007		151.249	.000
Bancassurance (X1)	.235	.026	.317	1.852	.002
Real Estate (X2)	.322	.019	.292	7.954	.000
Financial Security (X3)	.121	.014	.153	1.803	.001
Trade finance (X4)	.112	.015	.167	1.803	.001

		ROA	Bancassurance	Real Estate	Financial Securities	Trade Finance
ROA	Pearson Correlation	1				
	Sig. (2-tailed)					
Bancassurance	Pearson Correlation	.586**	1			
	Sig. (2-tailed)	.000				
Real Estate	Pearson Correlation	.349*	.037	1		
	Sig. (2-tailed)	.000	.603			
Financial Securities	Pearson Correlation	.447*	.389**	.117	1	
	Sig. (2-tailed)	.001	.000	.095		
Trade Finance	Pearson Correlation	.530**	.172*	.032	.138*	1
	Sig. (2-tailed)	.000	.013	.644	.048	

The R square value is 0.768, suggesting that bancassurance, real estate, financial securities, and trade finance account for 76.8% of NSE-listed banks' profitability in Kenya. Other factors that aren't in the model account for 23.2 percent of the variance.

The regression model ($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4+\varepsilon$) therefore becomes.

$$Y=2.011 + 0.317X1 + 0.292X2 + 0.153X3 + 0.167X_4$$

According to the findings, a unit shift in bancassurance leads to a 0.317 rise in ROA. This was statistically significant at p 0.05 for the publicly traded investment businesses. Furthermore, the data demonstrate that a unit change in Real estate results in a 0.292 rise in ROA while the other variables, Bancassurance, Financial Securities, and Trade Finance, stay unchanged. This was statistically significant at p0.05 for the publicly traded investment businesses. An rise in ROA of 0.153 will result from a unit shift in financial securities. For the listed banks, this was statistically significant at p=0.05. A 0.167 rise in ROA might result from a unit shift in trade financing.

The findings indicate that bancassurance, real estate, financial securities, and trade finance have a favorable and substantial link, which leads to a rise in ROA, which leads to additional investment by investment businesses. According to the model, the profitability of NSE listed commercial banks in Kenya would be 2.011 if the predictor variables were held constant. According to the findings, every one unit rise in the bancassurance, real estate, financial securities, and trade finance sectors resulted in a commensurate positive growth in NSE listed commercial banks, as assessed by return on assets. This demonstrates that each facet of product diversity has a major impact on the profitability of Kenyan commercial banks listed on the Nairobi Stock Exchange.

The degree of link between commercial banks' financial performance and the independent variables in this study was determined using Pearson correlation (bancassurance, real estate, financial securities and trade finance). The study discovered that bancassurance, financial securities, real estate, and trade finance all had a positive and statistically significant association with commercial banks' financial performance, as shown in table 4.1 (r =.586, p =.000; r =.349, p =.000; r =.447, p =.001; r =.530, p =.000).

CONCLUSIONS

The study concludes that bancassurance has a major influence on the profitability of commercial banks listed on the NSE. Bancassurance has a favorable effect on the financial performance of publicly traded investment businesses. Furthermore, it was shown that real estate had a beneficial influence on commercial bank profitability. The businesses consider real estate to be an appealing investment asset, and they invest in it in order to get a complete real estate market return.

According to the research, real estate and profitability have a good and significant association. The price of residential real estate has been steadily rising. Increased job growth, money supply, inflation rate, and interest rate all contribute considerably to residential real estate values, according to the study.

The study revealed that there was a substantial association between financial securities and the profitability of NSE-listed commercial bank organizations when it came to financial securities and bank profitability. This means that banks should raise their investments in financial and equity securities on a regular basis in order to boost earnings and provide a favorable climate for businesses to develop faster. Financial securities have a favorable association with financial performance and contribute considerably to portfolio returns.
Finally, the research found that trade financing has a significant influence on bank profitability. The interest rates charged on loan products influence the lending rate to

borrowers and thus product accessibility; there is a link between unexpected changes in the long-term interest rate and inflation; and changes in the values of firms' interest rates contribute to changes in the financial performance of residential real estate customers.

RECOMMENDATIONS

From the findings, the report recommends that banks raise their insurance investments as a method to boost earnings. According to the report, there is a need to enhance real estate investments since they have a good impact on investment businesses' financial success. According to the survey, listed investment firms invest in real estate more than bond and equity instruments because real estate has a bigger impact on financial performance.
In addition, according to the report, investment listed banks should maintain their financial securities investments in order to improve their product variety, which would lead to higher profitability.

According to the report, the Central Bank of Kenya should set base lending rates that would allow NSE-listed commercial banks to keep their product pricing stable while without penalizing borrowers. This will aid the performance of Kenya's NSE-listed commercial banks and, as a result, the economy's development.

In overall, diversity management strategies have contributed immensely to the performance of national security institutions with special emphasis on enforcement productivity (arrests), number of crimes reported/solved, clearance rates and response times. As such, these Institutions could steer ultimately producing corporate cultures that have new perspectives, pioneering capabilities and fresh ideas necessary to survive. Creation of awareness and acceptance of all genders, sexual orientations, ethnic backgrounds, educational qualifications and corporate cultures would create diverse workplaces and enhanced organizational performance.

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