International Journal of

Finance

(IJF)

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CARI Journals

International Journal of Finance
ISSN 2520-0852 (Online)
Vol. 6, Issue No. 1, pp 70 - 85, 2021
www.carijournals.org

Influence of Islamic Auto Financing Instruments on Financial Performance of Commercial Banks in Isiolo County Kenya

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ABSTRACT

Purpose: The purpose of the study was to explore the influence of Islamic auto financing instruments on financial performance of commercial banks in Isiolo County Kenya.

Methodology: This study used descriptive research design. The respondents were customer service officers and loan officers in the ten commercial banks in Isiolo County. They were be selected using census method. Data collection was done using closed-ended questionnaires and secondary data collected through analysis of report from 2017 to 2020. To ensure validity and reliability, pre-testing of questionnaires was done at Kenya Commercial Bank in Meru town. Coded data in SPSS 24.0 computer program analyzed quantitative and qualitative data using the descriptive statistics such as mean, percentage and standard deviation. Multiple regression was used to test hypothesis of the study. Tables, graphs and detailed explanations were used to present the final results of the study.

Results: Options had a statistically significant relationship with financial performance. The respondents agreed that the lending terms of Islamic automobile financing have attracted diverse clients (mean of 4.78). However, in comparison with other statements, the respondents did not tally that having sharia committee in disbursing car loans had enabled clients have confidence with the automobile loans (mean of 3.83). The R value was 0.862 and R-square of 0.743. This indicated that Islamic auto financing instruments' level of contribution towards financial performance was 74.3%. The Durbin- Watson value was 1.969. This value lied between 0 and 2 hence indicating that there was a positive correlation between auto financing instruments and financial performance. The significance value was 0.000 which was below 0.05 hence Islamic Auto financing instruments had a significant influence of financial performance. In addition, the respondents did not tally that having sharia committee in disbursing car loans had enabled clients have confidence with the automobile loans. This proved that the confidence that clients had on auto financing, was not purely on the nature and process of administration of the financing but also due to reliability.

Unique contribution to theory, policy and practice: The study recommends that auto financing should be provided reliably by ensuring all client concerned are amicably handled by the banking staff. The various car loan officer should be trained on good customer service to as to ensure they sell well their products without necessarily losing new clients. The bank management should also diversify auto financing to cater for all categories of vehicles for expansion of their client base.

Keywords: *Islamic Auto Financing Instruments, Financial Performance, Commercial Banks, Isiolo County Kenya*

1.0 INTRODUCTION

Naz, Ijaz, & Naqvi (2016) defined financial performance as how efficiently an entity used the resources available to it to exploit owner's capital and productivity. Financial performance of commercial banks in a country supports the wellbeing state of an economy. It is therefore necessary to always give it priority from time to time so as to ensure that any challenges cropping up were solved as early as possible. However, commercial banks have continued to experience diverse issues related to performance. Globally, commercial banks in America have experienced challenges such as very low profits, insufficient assessment of bank's records, liquidity risks; European banks have been struggling with low growth of loan portfolios issues, non-full disclosure of final reports, low interest rates, shadow banks menace; Asian banks has liquidity risks, uncertainty on behaviors of investors and frail capital foundation comparing to risk-weighted assets (Acharya & Steffen, 2014; Center for American Progress [CAP], 2019; Deloitte, 2019). It is very expensive to operate a banking business in north African nations like Egypt and Morocco; system breakdowns and low market share issues in western African nations such as Ghana; presence of many non-regulated financial institutions in South African banks; poor loan portfolio growth and liquidity issues in East African countries like Rwanda and Tanzania (Mbonigaba, 2019; Price Waterhouse Cooper [PWC], 2019). In Kenya, banks have faced with cybercrimes, poor marketing structures, unfavorable government policies, loopholes in Islamic banking regulations and stiff competition from non-banking lenders (KBA, 2017; Nzasiyenga, 2017).

These challenges have led to stagnation on growth of commercial banks making some of them to even close down like Chase bank that was closed in 2015 (Abdirashid, 2017). Banks have adopted financial instruments that enabled faster and efficient use of banking facilities with convenience. These include mobile banking, Automatic Teller Machines [ATM] banking, WhatsApp banking, internet banking and asset securitization (Kinyua, 2018; Mbugua, 2014; Muita, 2015) Regardless of these improvements, financial instruments practices that followed Islam norms and values documented in sharia laws were misinterpreted and not common in Kenyan banks (Mutua, 2017).

Commencement of Islamic banking on large scope has brought about more sophisticated Islamic financial instrument practices in the market. This has been done through daily practice of Islamic banking developing Islamic financial instrument practices into diversities to fit in different Islamic markets and nature of businesses being undertaken by the banks. Fluctuation in both internal and external environments has been forcing banks to shift their thinking. Any fluctuation in the environment has brought about threats and opportunities to banks.

1.2 Statement of the Problem

Islamic Banking has become ever popular in the last three decades, not only in Arab and Islamic world but also in other parts of the World (Fatai, 2012). The main purpose of introducing Islamic banks was to work in harmony with the Islamic law and principles towards economic development. Due to its profit-risk sharing principles, Islamic banks, compared to non-Islamic banks, sought for a just and an equitable distribution of resources (Siddiqui, 1985). This was the reason why non-Muslims were also adopting Islamic banking in different parts of the world (IFSB, 2019). However, despite over four decades of experience of Islamic banking and finance, the industry had its critics, both Muslim and non-Muslims (African Development Bank [AFB], 2011). According to Nguena, (2014) Islamic finance products and services were often accused of mimicking those of the conventional financial system, while some criticisms considered the Islamic financial system as window dressing.

Therefore, the main problem of the study was that there had been low market share rate of Islam banking in Kenya as compared to conventional banks (Central Bank of Kenya [CBK], 2017). CBK (2017), reported that Islamic banking market share rate in Kenya was 2 6.10 percent comparing to that of conventional banks that had 52.94 percent market share. The Islamic banks in Kenya had reported declining profits with First Community Bank's [FCB] net profit plunging by nearly half and Gulf African Bank [GAB] reporting slower growth in earnings in 2013, reversing a trend where they recorded triple digit growth in 2012. FCB saw its full-year after-tax profit dip 45.2 per cent to Sh132.2 million from Sh241.3 million in 2012 (Herbling, 2014).

The 200,000 number of Muslim customers at Islamic banks and Islamic windows did not match with the huge population of 4.3 million Muslim community in Kenya (KBA, 2015; Mutua, 2017). The challenge of low market share rate had greatly affected Islamic banking where Islamic financial instruments practices were highly misunderstood to mean they were terrorism related instruments, they were meant for Muslims only, riskier and more expensive than conventional banking (Shabir & Rehman, 2019). Uneven market share proportion whereby conventional banking system had way higher market share value compared to Islamic banking system, would lead to inflation in a country's banking sector products (Deloitte, 2019). This effect eventually would be impacted on Kenyan population who relied on banks for their financial transactions affecting the overall economy of the nation.

Studies done had generally argued that market share rate had been relatively low based on different aspects such as rates of default, effectiveness of operation rates, the returns from profit sharing, and overall level of interest rates from conventional banks (Amina et al., 2019; Bashir et al., 2011; Imam & Kpodar, 2015; Obeid & Kaabachi, 2016; Su'un et al., 2018). Other literature such as Tabash and Dhankar, (2014) carried on the role of Islamic banking on Economic growth of several countries including Qatar, Bahrain and other Middle East and Northern African countries. However, the studies were carried in countries that had embraced Islamic banking for many years making it impossible to generalize the results to the Kenyan context which adopted Islamic banking ten years ago.

In Kenya, most studies had examined different aspects of Islamic banking. For instance, Kinyanjui (2013) investigated the challenges facing the development of Islamic banking in Kenya. Talam (2014) also investigated the effect of Islamic banking on financial performance of commercial banks in Kenya. Abubakar (2014) examined the effect of Islamic banking on investment financing in Islamic banks in Kenya. Mustafa (2013) explored the effects of Islamic banks on financial deepening amongst Kenyan Muslims. However, in Kenya, very few studies had been done on the relationship between Islamic Auto instruments and financial performance of banks in Isiolo County. Therefore, this created a gap and a reason for undertaking this study.

1.3 Purpose of the Study

The purpose of the study was to explore the influence of Islamic auto financing instruments on financial performance of commercial banks in Isiolo County Kenya.

1.4 Hypothesis

H_0: There was no significant relationship between auto-financing instruments and financial performance of commercial banks in Isiolo County Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

Solow Swan class growth theory guided the automobile financing instrument variable of the study. The theory was developed by Solow (1956) and it argued that capital deposit, labor progress, and intensifications in production, normally called technological development in an investment happened when the asset surpassed depreciation expenses. As an assurance of investment development, an asset could always lead to increase in capital.

This theory was used in the study because an upsurge in automobile instrument's income promoted growth of Islamic banking's capital leading to improvement of financial performance in commercial banks. Hence the more customers were able to access automobile financing instruments, the more the bank was able to have high net income after depreciation expenses of the vehicles issued. This theory agreed that capital development was inversely proportional to client's base growth meaning that customer's attraction in a commercial bank issuing Islamic financing instruments were anchored on the diversity of those instruments to meet their needs.

The theory was criticized by a study done by Ellman (1989). Ellman (1989) indicated that there was a difference between human and physical capital. Physical capital included apparatuses, machines and buildings amongst others that were used by people in production. Differing, human capital comprised of talent assimilated through education, practice, and interactions.

2.2 Empirical Review

An Islamic automobile financing instrument was a financing backing issued by a bank to facilitate payments of acquiring a vehicle (Deloitte, 2019). The contract to pay in a set of time involved the financing amount plus a fee. That is, you had to prove that you were a buying a car from a car selling company for the bank to finance the purchase. The types of automobile financing instruments and that were measured in this study were Ijarah (automobile rental/ lease), Bai' al 'inah (automobile sale contract), Murabaha (automobile cost plus financing), Wakalah (automobile contract of agency) and Tawarruq (automobile overdraft) (Ab Aziz, 2013; Khan, 2019). Al Ijarah was a type of Islamic auto financing likened to car loans where the bank bought a car on behalf of a client (Ab Aziz, 2013; Khan,2019). The banks then gave the car to the client to utilize while repaying the instalments which were interest free.

However, there was need to know that the client paid a minimum deposit of 20 percent to a maximum of 50 percent at the commencement of the contract. The ownership of the car remains with the bank till the client paid back full installments. If the client defaulted or paid late the installments, the bank could not charge compound interest. Bai' al 'inah was a financing contract where a customer vended a vehicle to the bank on a cash base and in future purchased it back on a deferred payment basis where the value was higher than the cash value. Murabaha contracts were practiced when the bank purchased a vehicle at the appeal of a client and marked up the price of that vehicle when selling it to the client who would be re-paying on instalments. Tawarruq was an Islamic financing done where the bank bought a vehicle on cash then sold it to a client on installments basis.

The indicators of Islamic automobile financing instruments were issued volumes, outstanding volumes and fully paid-up volumes (Islamic Development Bank Group [IDBG], 2016). Issued volumes were the numbers of each Islamic automobile financing distributed to clients (IDBG, 2016). Outstanding volumes were the numbers of each Islamic automobile financing that had been defaulted or payments delayed (IDBG, 2016). Fully paid-up volumes were numbers of each Islamic automobile financing whose payments had been done on time and in full (IDBG, 2016). An effective Islamic automobile financing product were sharia acquiescent and at the same time welcoming and cost efficient (IDBG, 2016).

Islamic banking was slowly gaining market share over the conventional banking (Oracle Financial Services [OFS], 2017). Ersnt and Young's World Islamic Banking Competitiveness Report (2016) agreed that Islamic banking assets with commercial banks worldwide grew to US $1.8trillion by 2020 from US $920 billion in 2015. The utmost noteworthy parties continued to be nations such as Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman, which had huge Islamic Banking assets. According to a report by OFS (2017), the most common types of Islamic instruments used to finance automobile globally were murabaha and Ijarah. European nations such as Turkey, United Kingdom and France, were viewed a low dissemination of retail Islamic banking equated to the comparatively huge number of probable Muslim retail clients. Since sukuk was the major Islamic instrument selling most in Europe, there was need to know the major Islamic instrument selling most in Kenya when relationship between Islamic financial instruments and financial performance of commercial banks in Kenya was known.

Vehicle financing had a growth of 2.5% in a developed country such as Malaysia which was the third largest Islamic market globally (Financial Stability and Payment Systems [FSPS], 2017). FSPS (2017) titled as Islamic finance development report shed light that a profit of R.M 6.7 billion was achieved due to different forms of financing in which vehicle financing was a part of. With robust regulatory structures, sharia committees, talent growth opportunities, automation of Islamic banking, local and global connections were some of the measures that Malaysia used to ensure this notable growth in Islamic banking. There was therefore need to ascertain on the performance state of Islamic banking products in Kenya through the current study.

Khan (2019) on the study termed as Shariah governance in theory and practice affirmed that various commercial banks such as Meezan bank in Pakistan, Kuwait Finance House in Kuwait and Al Barakah bank in Bahraini used ijarah instrument to finance automobiles; Dubai Islamic bank in Dubai used ijarah muntahia bittamleek a type of ijarah to also finance automobiles; Al Barakah bank in Bahraini alternatively used taqseet which was a type of murabaha and musharakah to finance automobiles. There was therefore need to know the kind of Islamic automobile financing that was present in commercial banks located in Isiolo county Kenya.

Ab Aziz (2013) did a review on the relationship between service quality factors and customer satisfaction of auto financing in Maybank Berhad and Bank Islam Malaysia Berhad. While considering two automobile instruments such as Ijarah and Bai Bithaman Ajil of May bank and Bank Islam Malaysia Berhad respectively, the study established that customer satisfaction was derived most when service quality factors were improved. Ab Aziz (2013) had sixteen hypothesis which was not realistic in a normal study hence the study could be biased. In the current study, more automobile instruments were considered and there were only four hypotheses to guide the study on the relationship between Islamic financing instruments and financial performance of commercial banks in Isiolo county Kenya.

A report by the committee for economic and commercial cooperation of the organization of Islamic corporation [COMCEC] (2017) gave an analysis of an African nation like Nigeria. COMCEC (2017), found out that utmost of the elementary Islamic financial pacts that were issued by the Islamic financial organizations were Qard Hasan, Mudarabah, Murabahah and Ijarah. The report confirmed that insufficient Islamic finance architecture jeopardized its progress and expansion; underdeveloped legal and regulatory systems; and few talents and skills to develop the instruments at a more advanced level. This gave this current study a gap to know what kind of challenges were faced on Islamic financial instruments in Isiolo county Kenya.

3.0 RESEARCH METHODOLOGY

This study used descriptive research design. The respondents were customer service officers and loan officers in the ten commercial banks in Isiolo County. They were be selected using census method. Data collection was done using closed-ended questionnaires and secondary data collected through analysis of report from 2017 to 2020. To ensure validity and reliability, pre-testing of questionnaires was done at Kenya Commercial Bank in Meru town. Coded data in SPSS 24.0 computer program analyzed quantitative and qualitative data using the descriptive statistics such as mean, percentage and standard deviation. Multiple regression was used to test hypothesis of the study. Tables, graphs and detailed explanations were used to present the final results of the study.

4.0 RESULTS

4.1 Reliability Statistics

The study conducted a pre-test study in KCB located in Meru town. This bank offered various Islamic banking products and it was located in Meru town which was neighboring town to Isiolo county. In addition, Meru region had substantial number of Islam communities living in the region. This created a very conducive region to pre-test the questionnaires. The pre-test questionnaires were answered by 5 customer service officers and 10 loan officers. This was because according to Mugenda and Mugenda (2003), 10 percent of the main study respondents should be replicated in the pre-test study. Therefore, 10 percent of the targeted 45 customer service officers were approximately 5 respondents. Also, 10 percent of the targeted 95 loan officers were approximately 10 respondents. The results are shown on Table 1.

Table 1: Reliability Statistics

Instrument	Cronbach's Alpha	N of Items
Questionnaire	.815	15

According to Table 1, the Cronbach's Alpha Coefficients were 0.815. It had surpassed the minimum of 0.7 Cronbach's alpha which Cooper and Schindler (2011) indicated that the study's questionnaires are considered reliable to underpin the study's objectives.

4.2 Response Rate

There were currently 45 customer service officers and 96 loan officers in the ten commercial banks in Isiolo county selected through census method. The total included 141 respondents. When the study issued the questionnaires, 116 (82%) questionnaires were returned when fully filled. This was a very high return rate of the questionnaires. Mugenda and Mugenda (2003) also agreed that any results above 70% were considered to be excellent.

4.3 Background Information

The study inquired from the questionnaires the various respondent's background information. This information would be necessary to explain the various aspects as far as the financial performance of the 10 commercial banks in Isiolo county were concerned. The study inquired on the number of years that the customer service officers and loan officers had worked in the specific Isiolo bank branch. The study grouped the years of experience from less than 1, 1-2 years, 2-5 years, 5-10 years and above 10 years. The second question was related to the job position of the customer service officers and loan officers had worked in the specific Isiolo bank branch. The last question in this segment required the customer service officers and loan officers to indicate their academic qualifications. Table 2 gives the results.

International Journal of Finance
ISSN 2520-0852 (Online)
Vol. 6, Issue No. 1, pp 70 - 85, 2021
www.carijournals.org

Table 2: Background Information

Work experience in current bank branch	Frequency	Percent	Cumulative Percent
Less than 1 year	26	22	22
1-2 years	39	34	56
2-5 years	15	13	69
5-10 years	9	8	77
Above 10 years	27	23	100
Total	**116**	**100**	
Job position	**Frequency**	**Percent**	**Cumulative Percent**
Customer service officer	27	23	23
Loan officers	89	77	100
Total	**116**	**100**	
Academic qualification	**Frequency**	**Percent**	**Cumulative Percent**
Certificate	0	0	0
Diploma	34	29	29
Degree	57	49	78
Postgraduate	25	22	100
Total	**116**	**100**	

Table 2 indicates that 39(34%) officers had worked 1-2 years and the 9(8%) had interestingly worked between 5-10 years. These results indicated that banking staffs had hardly stayed at Isiolo work station for long. Most of them were relatively new in the branch which is confirmed with the few numbers of staffs 9(8%) who had stayed for 5-10 years. These results prove that there were very few staff who tolerated the harsh conditions of Isiolo county hence requesting for subsequent transfers. This left the banks with staffs who were less familiar with clientele portfolios of who had taken loans and their repayment structure of products so as to market other products such as Islamic financing instruments to them. Adan (2017) also indicated that the period that banking staff stayed in one particular Islamic bank was a factor that affected the development of client base in these banks

Table 2 also indicates that the specific officers who took part in the study included the customer service officers who were 27(23%) and loan officers who were 89(77%). These results indicated that customer service officers were very busy in providing customer services such as orientation and registration of customers to Islamic products. However, the high number of loan officers responding to the questionnaires as compared to customer service officers proved that the loan officers were more less engaged in their tasks on giving the clients loans. What this meant is that the clients did not understand the intricacies of Islamic banking products oriented with. Therefore, very few clients actually took loan facilities such as Islamic home loans, car loans, personal loans, and trading loans. Asian Development Bank Institute (2018) agreed that all departments in the banking sector need to work in harmony with each other to improve Islamic finance. Improved Islamic financne uptake was measured on the number of clients registred to have taken Isamic products and financing.

According to Table 2, 57(49%) officers were degree holders and 34(29%) officers had diploma. None of the officers had a certificate qualification. These results indicated that the banking staff were very equipped as long as educational qualifications were concerned. The fact that none of them had a certificate qualification indicated that the banks had restructured and implemented tough measures on employing graduates as their working staff. This meant that indeed the banking staff had mental capacity to understand and convince clients on the advantages of undertaking Islamic home financing instruments over conventional products. According to Deloitte (2019), one of the major transformation in the Kenyan banking sector was advancement of educational qualification. There were more graduates recruited more than any other period of time.

4.4 Descriptive Statistics of Islamic Auto Financing Instruments

This study had an objective of measuring the influence of auto financing instruments on financial performance of commercial banks in Isiolo County Kenya. Therefore, the study had asked questions inform of questionnaires related to auto financing. The study used a Likert Ordinal scale indicating; strongly disagree (1), disagree (2), neutral (3), agree (4) and strongly agree (5). Table 3 indicates the results.

Table 3: Descriptive Statistics of Islamic Auto Financing Instruments

Statements N=116	1	2	3	4	5	Mean	Std Dev
Attractive lending terms to clients	1(1%)	2(2%)	0(0%)	16(14%)	97(83%)	**4.78**	**0.62**
Sharia committee has boosted confidence on auto loans	0(0%)	25(22%)	0(0%)	61(53%)	30(25%)	**3.83**	**1.04**
Ijarah Bai' al 'inah, Murabaha, Wakalah, and Tawarruq are present	0(0%)	17(15%)	0(0%)	59(51%)	40(34%)	**4.05**	**0.97**
Improvement of service quality has boosted satisfaction	0(0%)	5(4%)	0(0%)	60(52%)	51(44%)	**4.35**	**0.70**
Provision of sufficient Islamic finance architecture	0(0%)	8(7%)	0(0%)	61(52%)	47(41%)	**4.27**	**0.78**

According to Table 3, the respondents agreed that the lending terms of Islamic automobile financing have attracted diverse clients (mean of 4.78). However, in comparison with other statements, the respondents did not tally that having sharia committee in disbursing car loans had enabled clients have confidence with the automobile loans (mean of 3.83). This proved that the confidence that clients had on auto financing, was not purely on the nature and process of administration of the financing but also due to reliability. Rahman (2018) confirmed that indeed it takes more than methods of Islamic financing products administration to guarantee its succession. However, having more reliable terms played a significant role in ensuring that clients subscribed to the said products.

4.5 Financial Performance of Commercial Banks

The study explored on various sub-variables on the financial performance of Isiolo commercial banks. These sub variables were ROA, GPR, ER, NIM and total sales for a period between 2017-2020. Table 4 gives the results.

Table 4: Financial Performance Indicators

Variable	N	Mean	Std Dev
ROA	10	4.7	0.41
GPR	10	4.9	0.34
ER	10	3.2	1.24
NIM	10	3.8	1.04
Total sales	10	2.1	1.94

According to Table 4 GPO and ROA stood out with highest means of 4.9 and 4.7 respectively. Nevertheless, Total sales had very low mean of 2.1 showing that the ten commercial banks in Isiolo did not do very well in selling various products such as Islamic products to its clients. This in fact affected greatly the equity ratio of the shareholders. In agreement, Mutua (2015) named poor sales as one of the most improtant elements that is paralysing the development of Islamic banking products in Kenya.

4.6 Model Summary

The study assessed the level of contribution of auto financing instruments towards financial performance through model summary. Table 5 gives the results.

Table 5: Model Summary of Islamic Auto Financing Instruments

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.862[a]	.743	.735	2.164	1.969

a. Predictors: (Constant), Islamic Auto Financing

b. Dependent Variable: Financial performance

According to Table 5, the R value was 0.862 and R-square of 0.743. This indicated that Islamic auto financing instruments' level of contribution towards financial performance was 74.3%. The Durbin- Watson value was 1.969. This value lied between 0 and 2 hence indicating that there was a positive correlation between auto financing instruments and financial performance. These results meant that clients also significantly utilized automobile loans guided by sharia laws. Nawaz (2019) also found out that as long as Islamic banking products such as car loans were adequately covered under sharia laws, clients took the opportunity to try them out.

4.7 Analysis of Variance of Islamic Auto Financing Instruments

The study also explored on whether its hypothesis would hold or not. Auto financing instruments had a null hypothesis that there was no significant relationship between auto financing instruments and financial performance of commercial banks in Isiolo County Kenya. The study conducted an analysis of Variance (ANOVA) as indicated in Table 6.

Table 6: ANOVA of Islamic Auto Financing Instruments

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	88.830	1	88.830	18.963	.000[b]
	Residual	534.032	115	4.684		
	Total	622.862	116			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Islamic Auto Financing

According to Table 6, the significance value was 0.000 which was below 0.05. The study therefore rejected null hypothesis that there was no significant relationship between auto financing instruments and financial performance of commercial banks in Isiolo County Kenya.

4.8 Regression Coefficient

The study also analyzed regression coefficients of financing instruments and financial performance. It was discovered that auto instruments had a β=.0.216, P=0.006. The results are indicated in Table 7.

Table 7: Regression Coefficients of Islamic Auto Financing

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	5.797	2.022		2.867	.005
Islamic Auto Financing	.216	.112	.244	1.928	.006

a. Dependent Variable: Financial Performance

According to Table 7, the general model was Y= C+ β1A1. This is where Y was financial performance; C was constant; A1 was Islamic Auto Financing. When equated with the derived coefficient; Academic performance = 5.797C+0.216A2. The results indicated that by adding one unit of A1, financial performance was increased or decreased by 5.797+0.216 respectively. The overall results show that the model is valid and is statistically significant, but each construct becomes insignificant in a combined model as indicated by sig. values in the regression weights.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of the findings

This study had an objective of measuring the influence of auto financing instruments on financial performance of commercial banks in Isiolo County Kenya. The respondents agreed that the lending terms of Islamic automobile financing have attracted diverse clients (mean of 4.78). However, in comparison with other statements, the respondents did not tally that having sharia committee in disbursing car loans had enabled clients have confidence with the automobile loans (mean of 3.83). The R value was 0.862 and R-square of 0.743. This indicated that Islamic auto financing instruments' level of contribution towards financial performance was 74.3%. The Durbin- Watson value was 1.969. This value lied between 0 and 2 hence indicating that there was a positive correlation between auto financing instruments and financial performance. The significance value was 0.000 which was below 0.05.

5.2 Conclusion

The study discovered that they had a significant influence of financial performance. In addition, the respondents did not tally that having sharia committee in disbursing car loans had enabled clients have confidence with the automobile loans. This proved that the confidence that clients had on auto financing, was not purely on the nature and process of administration of the financing but also due to reliability.

5.3 Recommendations and Contributions of the Study

The study recommends that auto financing should be provided reliably by ensuring all client concerned are amicably handled by the banking staff. The various car loan officer should be trained on good customer service to as to ensure they sell well their products without necessarily losing new clients. The bank management should also diversify auto financing to cater for all categories of vehicles for expansion of their client base.

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