

TITLE: An investigation of the influence of alternative financial delivery channels on the performance of commercial banks in Kenya

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Abstract

Banking sector reforms have changed the traditional way of doing banking business. Technology, being the springboard of banking reforms has brought about a complete paradigm shift in the functioning of banks and delivery of banking financial services. Gone are the days when every banking transaction required a visit to the bank branch. Under the conservative banking regime, all bank transactions took place within a central structure, and a banking institution had to physically branch-out for widened visibility. Today, most of the transactions can be done from the comforts of one's home and customers need not visit the bank branch for anything. Banking technology is no longer an enabler, but a business driver. Subsequently, customer satisfaction is now the focus as satisfaction of customer is the main aim of the banks. With the introduction of new products and services, competition has grown up among the banks. Only those banks will survive who face the competition with the effective ways of adopting technology such as the use of Alternative Financial Delivery Channels targeting especially the formally unbanked. In this study, the intent was to investigate the influence of Alternative Financial Delivery Channels on the financial performance of the 43 commercial banks in Kenya. Specifically, the study sought to establish the influence of mobile banking, internet banking, ATMs, and agency banking on the financial performance of commercial banks. Towards attaining this, the study adopted a descriptive research design targeting 86 heads of department in charge of ADC sections. Due to the manageable number of target participants, a census was conducted. Data was collected using pretested questionnaires, processed and analyzed using descriptive statistics. The study found that M-banking was easily embraced due to easy access to mobile phones and non-complicated applications. The most significant services on offer were money transfers, payment of bills, withdrawals, and loan repayment. Though a substantial portion of customers used internet banking, there were barriers that kept potential users at bay.

These barriers included inaccessibility to internet, lack of customer confidence, knowhow, and security concerns. The agency banking showed growth potential and was an important segment in the industry. Through the platform, people who were formally unbanked were reached and presented a chance to start banking. Finally, the ATM banking was established as the widely accepted and used ADC. This was partly explained by its operational stability despite challenges such as fraud, usage knowledge, vandalism, additional costs, system failure, and having to travel to cash points. Notably however, there was no one best financial service delivery channel that a bank would use to maximally benefit from the ever-changing individual demand. The most appropriate approach, therefore, would be to incorporate all these options into a convenient mix that optimizes returns from specific clientele. The study recommends apt management of associated risks to enhance customer confidence, ensuring accessibility to target consumers, incorporation of wide range of services, provision of consumer knowledge, and internal efficiency mechanisms to dealing with security concerns.