INVESTIGATING THE IMPACT OF CREDIT/DEBIT CARDS IN ENHANCING CUSTOMER SATISFACTION AMONGST COMMERCIAL BANKS IN KENYA

BY

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A RESEARCH REPORT SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF MASTERS IN BUSINESS ADMINISTRATION (MBA) MARKETING IN THE SCHOOL OF BUSINESS OF KENYATTA UNIVERSITY

NAIROBI

AUGUST 2005
DECLARATION

This research report is my original work and has not been presented for a degree in any other University.

SIGNATURE .................................. DATE ...........................................

I confirm that the work reported in this thesis was carried out by the candidate under my supervision.

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DEDICATION

This project is dedicated to my mother, Ruth Wanjiru for instilling in me the virtue of working hard when I was small. God bless you Mum.
ACKNOWLEDGEMENT

I most sincerely wish to thank the almighty God who has blessed me with gift of life that I have lived to see the fulfillment of this project.

My special appreciation goes to my husband Mburu and children Shiku, Shiru and Victor who were a constant source of encouragement despite denying them attention while undertaking this project.

I am also particularly grateful to my supervisor Dr Kerre whose guidance and encouragement was invaluable.

My gratitude is also due to my colleagues for their understanding and support when I had to be away working on this project. Last but not least I thank all my friends in the MBA class with whom we struggled and encouraged each other to trudge on.
DEFINITION OF TERMS

**Credit card** - A plastic card the production of which enables the holder to draw cash or services.

**Debit card** - A plastic card that enables the user to pay for goods or services while drawing money from their savings/current account.

**VISA/MasterCard** - International franchising organizations. They issue licenses to banks to issue their brand of cards.

**Cardholder** - A holder of the debit or credit card

**Merchant** - Any outlet the card holder can obtain cash or services from.

**ATM** - Automated Teller Machines-twenty four hour cash services offered by most banks.

**SPSS** - Abbreviation for Statistical Package for Social Sciences.

**Stored Value cards** - Issued by various stores/organizations. They entitle one to certain benefits from the issuer.

**EFTPOS** - Electronic Funds Transfer at the Point of Sale

**KCDCA** - Kenya Credit and Debit Card Association

**SATISFACTION** - Gratification arising from the use of the debit or credit cards

**CUSTOMER** - A holder of the debit or credit card or an account in the bank

**COMMERCIAL BANK** - A financial institution issuing the debit or credit cards

**CARD PRODUCTS** - Refers to both the credit and debit cards.

**CARDS** - Refers to both debit and credit cards.
ABSTRACT

This study aims at raising awareness about the Credit and debit cards in the market. The credit card business has been around for the last fifty years though the same is relatively new in Kenya. Though some studies have been undertaken in this area, none has attempted to demystify these products. As a result, very few Kenyans understand the workings of the debit and credit cards and as a result, tend to shy away from them. The study will therefore look at the history behind these products, their development here in Kenya and what impact they have had on the Kenyan consumer. Chapter one will look at the historical developments of banks and credit cards in the world and indeed here in Kenya. Chapter two contains the Literature review while chapter three will outline the methodology that was used in the analysis and presentation of data. In order to carry out this study, a sample of five banks and one hundred customers were selected from across the banks. Purposive and random sampling was used to select the customers. The data was analyzed using Microsoft (Excel) Statistical Package for data analysis and finally recommendations from the findings of the study were given in chapter 5.
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1.0 Introduction

1.1 Background to the study.

The development of the credit card is probably one of the most significant phenomenon of the modern banking scene. It embodies two essential aspects of the banking function—the transmission of payments and the granting of credit. Hanson, (1985).

The first Credit card was issued in Assyria, Babylon and Egypt 3000 years ago. The bill of exchange—the forerunner of bank notes was established in the 14th century. Debts were settled by one third cash and two thirds bill of exchange. Paper money followed only in the 17th century. Christopher Thornton, who offered furniture that could be paid off weekly, placed the first advertisement for credit in 1730.

From the 18th century until the early part of the 20th, tallymen sold clothes in return for small weekly payments. They were called 'tallymen' because they kept a record or tally of what people had bought on a wooden stick. One side of the stick was marked with notches to represent the amount of debt and the other side was a record of payments. In the 1920s a shopper's plate—a 'buy now, pay later' system—was introduced in the USA. It could only be used in the shops which issued it. (www.Did you know?)

In Britain the first credit card of a kind was introduced by the Provident clothing group in the 1880s. It was the earliest 'check trading' scheme-customers were issued with vouchers which they could use at shops on the approved list and payments for the vouchers was made on a weekly installment basis to the Provident clothing.
representative who called at the customer's home. It was the forerunner of credit cards in two respects, in that payment was made by a voucher and the customer enjoyed the benefit of revolving credit.

It was however in the United States of America that the credit card as we know it today was developed. In the early days of the century some of the American department stores issued credit coins or tokens which enabled customers to pay for goods and the oil companies introduced 'courtesy cards' to be honored at their gasoline.

In 1950, The Diners Club started to issue their cards, Jones, (1989). Frank McNamara who was embarrassed after having dinner only to find he had forgotten his money somewhere else founded the Diners club card. He invented a card that diners would use to avoid such embarrassment. This card was used to pay restaurant bills only. American Express followed in 1958. Bank of America issued the Bank Americard (Now Visa), the first bank credit card later in 1958. Diners club cards were first promoted to travelling salesmen (more common in that era) for use on the road. By the early 1960's, more companies offered credit cards, advertising them as a time saving device rather than a form of credit. American express and MasterCard became huge successes overnight, and by the 1970's congress had to start to regulate the credit card industry by banning such practices as the mass mailing of active cards to those who had not requested them. The various social changes occurring after the Second World War provided the perfect setting for an increase in buying on credit. The 'buy now pay later' mentality of the twentieth century has fuelled the growth of this particular industry. Report on the Consumer credit in 1997 (Report of the committee on
consumer Credit CMND 4596) Gordon,(1971). The orthodoxy is best expressed, as 'everyone should be free to obtain as much credit as he can get on the easiest terms and available on the market' rather than the assertion that everyone is entitled to credit (The credit Society : its benefits and burdens).

The credit cards have totally changed the world with over two billion cards in circulation today.

Kelly, (1989) notes that the credit card involves three relationships: A contract of supply between the supplier of goods or services and the cardholder, a contract between the supplier and the company which issued the card under which the card company undertakes to honor the use of the card, and lastly, a contract between the card company and the cardholder under which the latter undertakes to reimburse the company for payment it makes to the supplier as a consequence of the cardholder's use of the card.

In Kenya the first card company was senator cards which was introduced in 1976 by Diners Club into the Kenyan Market. Royal Credit, Senator cards soon followed by launching their local credit cards. Barclays Bank launched their MasterCard in 1992. The National Bank of Kenya launched its Visa credit cards in 1993. The market was silent for a while until 1995 when three banks launched their Visa Credit cards into the market within months of each other. The banks were Co-operative Bank of Kenya, Kenya Post office Bank, the defunct Kenya Finance Bank and the Kenya commercial bank. Barclays Bank launched their Visa credit card products around the same time. In 1999, Commercial Bank of Africa also launched its Visa credit cards. After 1999, there
have been recent entrants namely, Imperial Bank (2004), Prime bank (2005), Fidelity bank (2003), I& M (in the process of issuing) and Fina Bank, Prime bank and NIC.

**Figure 1.**

Credit and debit card issuing banks in Kenya as at 30th June 2005.

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Number of credit cards</th>
<th>Number of debit cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays Bank of Kenya</td>
<td>44,000</td>
<td>Nil</td>
</tr>
<tr>
<td>Kenya Commercial Bank</td>
<td>12,700</td>
<td>Just started issuing</td>
</tr>
<tr>
<td>Senator Cards</td>
<td>5,000</td>
<td>Nil</td>
</tr>
<tr>
<td>Commercial Bank of Africa</td>
<td>5000</td>
<td>18,000</td>
</tr>
<tr>
<td>Cooperative Bank of Kenya</td>
<td>5000</td>
<td>400,000</td>
</tr>
<tr>
<td>National Bank of Kenya</td>
<td>3000</td>
<td>Nil</td>
</tr>
<tr>
<td>Kenya Post office savings Bank</td>
<td>2000</td>
<td>Nil</td>
</tr>
<tr>
<td>Prime Bank</td>
<td>450</td>
<td>Nil</td>
</tr>
<tr>
<td>Fidelity commercial Bank</td>
<td>400</td>
<td>Nil</td>
</tr>
<tr>
<td>Imperial Bank</td>
<td>300</td>
<td>Nil</td>
</tr>
<tr>
<td>Nic Bank</td>
<td>150</td>
<td>Nil</td>
</tr>
<tr>
<td>Standard Chartered Bank</td>
<td>200,000</td>
<td></td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>80,000</strong></td>
<td><strong>618,000</strong></td>
</tr>
</tbody>
</table>

Source: Kenya Credit and Debit Card Association.

The credit and debit card business has not thrived in the Kenyan economy like other overseas markets. The economy for one, did not spare the pioneers of the Credit card business in Kenya. The Giant card issuer Diners Club closed its doors in 1993 after i
supporting bank, Diners Finance was placed under liquidation. Kenya Finance Bank closed its doors in 1996. In 1997 Royal Credit Limited which had been dogged by liquidity problems followed suit while Merchant Cards also wound up in 1995.

The Kenya Credit and Debit Cards Association (KCDCA)

Sunday Nation 21st August 2005

The KCDCA is the umbrella body which brings together organizations that handle debit and credit cards. The association was formed in 1992 as Kenya Credit and Debit Cards Association. In 2003, it changed its name to Kenya Credit and Debit Cards Association (KCDCA) to embrace issuers of debit cards, whose usage is also on the increase. Organizations eligible to join KCDCA are banks and other institutions issuing paying cards such as a credit, debit and pre-paid card products.


1.2 Problem statement

Various players in the banking sector have realized that they ought to be more in control of the information technology agenda and to use IT to introduce products, which will impact on their profitability. Banks have as a result come up with technology that has facilitated issuance of high tech products like the credit and debit
cards. Information this has seen the dawn of the 'cash less' form of banking through the 'plastic' money.

Kenya has lagged behind in terms of banking innovations. For instance the first credit card was first issued in Kenya in 1976, 26 years after the first credit card was issued in America. Up till now, the growth of the product has been slow to due to customer's lack of awareness on the products. The Kenyan banks have not done enough to promote the use of credit/debit cards as alternatives to cash. The electronic (plastic) money is the way of the future and Kenya can not afford to be left behind. Many Kenyan bank customers have tended to look at the credit card as a cheap and easy of obtaining credit (Daily Nation 5th June 2005) and quickly end up in bad debts. The study has endeavored to create awareness by highlighting the impact the credit/debit cards have had on customer satisfaction. By creating this awareness; the study has demystified the products. Lack of awareness is the greatest contributory factor to poor growth of these products in Kenya.

1.3 Objectives of the study

The general objective of the study is to:

Determine how the use of the debit/credit cards has enhanced the satisfaction of customers in the Kenyan banking industry.

1.4. Specific objectives

- Show the benefits of using 'plastic money' as opposed to cash
- Examine to what extent banks have succeeded in creating awareness about the products.
- Assess the impact of the credit/debit cards on customer satisfaction
1.5 Research questions

• To what extent have the debit/credit cards impacted on customer satisfaction?
• What are the benefits of using credit/debit cards?
• To what extent have the banks created awareness about the products?

1.6 Justification of the study.

Though some studies have been undertaken in this area, none so far to assessed the impact of the credit/debit cards on the Kenyan consumer. The globalization of markets has facilitated trade across borders and the credit and debit cards have been some of the most important drivers of the same. The 'plastic' money which will eventually give rise to the electronic purses otherwise known as chip cards are the ways of the future. Visa International, the world's leading credit/debit franchise has given deadlines by which all Visa issuing banks should have migrated to the chip cards. (Visa Member Banks bulletin third quarter 2003)

Such a move may not be possible if banks do not to speed up the process in creating awareness. The study highlighted the benefits of the credit and debit cards to the following stakeholders: The cardholder, the outlets otherwise known as Merchants, the Banks, and also the Licensing bodies (Visa, MasterCard etc).

The study will assist the Kenyan commercial banks currently issuing the products in their awareness campaigns. For those banks that are not yet issuing the products, the report, by highlighting the benefits of these products to the consumer and other stakeholders, will be a reference manual that could assist them to make a decision.
The Central bank of Kenya may use the report to capture the growth of this products in the market. Credit cards have been a contributor to NPLS (non-performing loans) which Central bank of Kenya seeks to contain.

1.7 Scope and limitations of the study

The study focused on the customers drawn from selected banks in Nairobi. It did not include customers outside the banking industry. The City of Nairobi is the host to the majority of the credit and debit card holders and as a result information was easily accessible.

The study had four major limitations.

- The first one is time. As a full time working employee, there was hardly enough time to carry out an extensive and exhaustive research given the short time remaining to collect the data and give useful recommendations.

- Financial constraints

- The third one was even bigger and this one hinges on the 'confidential' nature of banks who are very reluctant to give out any information. The Central Bank of Kenya Library which had been a free for all place has now become a no go zone making it much harder to get any information relating to banks.

- The fourth limitation was the unavailability of written materials on the subject forcing the researcher to rely on very few sources. Locally published literature is not easy to come by save for a few theses.

To deal with these limitations, samples were drawn from each of the selected banks and purposive sampling was used to save on time. Financial resources available were utilized efficiently. The researcher tried as much as possible to assure respondents that
the research was purely for academic purposes and that confidentiality would be observed. The researcher tried to gather as much information as possible using the limited resources and give areas needing further exploration in the future.
CHAPTER 2

2.0 LITERATURE REVIEW

2.1 Introduction

Historical development of the banking sector

Banking as an institution is as old as authentic history. It is evidenced in ancient Greece, ancient Rome and as far back as 2000 BC, Davies, (2002)

During the early Period, although private individuals mostly did the business, many countries established public banks either for the purpose of facilities commerce or to serve the government. The Bank of Venice established in 1157 is supposed to be the most ancient Bank. Originally it was not a bank in the modern sense, being simply an office for the transfer of public debt.

The drapers of Barcelona were by 1349 carrying on banking business, in fact already subjected to government official regulation, Davies, (2002) This bank used to exchange money, receive deposits, and discount bills of exchange both for the citizens and for the foreigners. However most of the European banks now in existence were modeled on the bank of Amsterdam, founded in 1609. (Encyclopaedia Britannica) English bankers in particular by 17th century had begun to develop a deposit banking business, and techniques they evolved were to prove influential the world over. This was heavily attributed to the London Goldsmiths, who used to receive their customer's valuables and funds for safe custody and issue receipts acknowledging the same.
In addition they dealt in bullion and foreign exchange, acquiring and sorting coin for profit. Banking in those days largely meant money lending, and they did not know the complicated mechanism of modern banking. It was found that when money was deposited by a number of people with a goldsmith or a scrivener a fund of deposits came to be maintained at a fairly steady level. The result was a fund of idle cash that could be lent out at interest to other parties. About the same time, a practice grew up whereby a customer could arrange for the transfer of part of his credit balance to another party by addressing an order to the banker. This was the origin of the modern day check. Alongside this development, the London goldsmiths were busy coming up with the use of bank notes. The first bank to issue bank notes was actually the bank of Stockholm in 1661, Shekhar (1986).

One of the most important factors in the development of banking in England was the early legal recognition of negotiability of credit instruments. Use of checks was a much later invention.

Before the advent of organized financial institutions in Africa, traditional credit and mutual aid schemes as well as investment organizations existed in some forms. Traditional financial intermediaries included women's associations, men's associations and associations of friends, Harvey (1999).

Modern banking was progressed faster in Kenya than in most other countries in sub Saharan Africa. In Kenya, the first banking institution was the Kenya Commercial Bank (KCB) then known as Grind lays bank which opened its doors in 1906.
Since 1906 the banking industry in Kenya has witnessed an enviable growth. In fact the modest growth of the Kenyan economy has gone hand in hand with the expansion and diversification of the financial sector since independence.

Although banking is as old as authentic history, the institution has since been revolutionized in character, content and practice. They have developed from a few simple operations involving the satisfaction of a few individuals wants to the complicated mechanisms of modern banking system involving the satisfaction of a whole community.

Technology and more precisely Information Technology has been the driving force behind bank innovations and has had a lasting impact on the way banks are doing business. The work place is being revamped; there is large scale integration in data processing and the evolution of impressive databases, use of wider band data transmission which completely transforming routine operations.

Information Technology has altered the world of customers and competition with its relentless and expensive march providing the very lifeblood of commerce.

The banking industry is in a critical phase of its development. To a great extent it is clear to the banking industry today that the emerging technology sets the pace in competition and determines the very survival of banks.

What is still a puzzle is how the banks can use this technology to give a good return to the shareholders. Technology plays a very important role in business development as a tool of enhancing efficiency and effectiveness.

The banking industry in Kenya has grown tremendously in the last decade. Currently, there are 43 commercial banks.(www.centralbank.go.ke).
By 1995, only Standard chartered Bank in Kenya was issuing ATM cards which were later on converted to debit cards. Barclays bank followed suit in 1996 with their ATM card. Kenya commercial bank installed their first ATMS in year 2001 with Cooperative bank following closely behind in 2002. Since 2003, even the smallest bank have installed ATMS by outsourcing the services from Independent Providers e.g Paynet or Kenswitch.

Though the Kenyan Credit and Debit Card industry is still very undeveloped, it is however fast growing. According to the Visa International forecast, these numbers can grow up to 2 million virtually to cover every employed Kenyan.

The banks in Kenya have not created the awareness needed to speed up the growth of the credit cards. As a result, the Kenyan bank customer has not yet fully grasped the concept behind the 'plastic' money. Ogony (1999)'Factors affecting use or non use of plastic money and the attitudes towards plastic money: A case of Standard Chartered Bank' highlighted back then that lack of awareness was a big hindrance to the popularization of these products in Kenya as customers will not take up a product they hardly understand. Mbagi ,(1998)IN 'An investigation of the characteristics of Credit Card users and non users in Nairobi Kenya, looked at the common characteristics amongst credit card holders. No study has so far been undertaken to assess the impact of the credit/debit cards on the consumer's satisfaction in the industry.

This study therefore looked at the impact of the credit/debit cards on customer satisfaction. This study will not only create awareness but will also demystify the credit and debit cards, which the Kenyan commercial bank customer has very little information about.
Innovations in the last decade:

- In the last decade, the following changes have taken place in the banking industry:
  - Installations of the ATMS (Automated teller machines). Installed on banking walls, they facilitate for 24 hour cash service. As Prager , (1982) notes new technology of computerized banking has brought the question of ATM to fore
  machines located outside the banking offices can now perform may banking functions . These machines  dubbed as ATMS can accept deposits and dispense cash without the assistance of the teller.
  - Use of electronic money transfer like SWIFT, Money Gram, Western Union. Unlike before where a customer waited for weeks to get money, these days money transmission takes minutes locally and hours across the globe.
  - Use of automated systems for banking. Long gone are the days when a customer had to wait for the bank teller to go through a huge print out to check their names and balances . Information about a customer is available at the click of a button.
  - IT has facilitated the use of the Credit and Debit cards, which every Bank in Kenya is competing to issue.
  - Development of mobile banking. With this innovation which is hardly one year old, customers can access their balances, receive salary alerts, buy airtime and transfer balance through their mobile phones.

2.2 High Technology for survival

A credit card can be defined as a piece of plastic the production of which to a relevant supplier will constitute payment for purchases and possibly enable the
user to obtain cash, service or goods. In Kenya unlike in the Western world, a credit card holder is likely to be in the middle to high income bracket.

When a person applies for a credit card notes Hanson (1985), he will be asked to supply details of his financial circumstances and, subject to satisfactory references, he will be given a card with an appropriate credit limit. Many credit card applicants look for the convenience of a card as a method of payment as an alternative to cash or cheques. The bills are settled by the bank directly to the supplier of the goods otherwise known as the 'merchant'. The bank will in turn give several days of credit to the customer and later send a statement to the cardholder showing all the transactions the customer has incurred in that particular month. The customer will have a chance to pay off everything by the due date or just a percentage of it. If the customer chooses the latter, the balance remaining will be 'rolled over' to the next period but will be charged interest.

A debit card, similarly is a piece of plastic that enables for acquisition of goods and services from various outlets called 'merchants'. The debit card withdraws money directly from a customer's current or savings account. Therefore their usage is purely subject to the availability of funds in the customer's account.

The charge card is similar to the credit card in usage only in this case, the customer pays off the entire bill spent during the period without an option of 'rolling over' the balance.

This charge card however has been overshadowed by the introduction and development of the credit cards.
With more credit cards in circulation, there is increased competition. There are currently over 1 billion credit cards in circulation today. Clearly the credit cards are a major business today.

Gandy A & Chapman (1996) state that technology is rapidly changing the nature of the interaction between the bank and its customers. It is also having a profound effect on the nature of the commodity which is being transacted, money itself. For thousands of years, money was a physical commodity represented by coinage and paper. Banks led to the introduction of cheques, which have been used by commerce and wealthy individuals for hundreds of years. This slow migration has now accelerated. Since the 1960s, the world has seen the introduction of the credit cards, checks, debit cards and recently, electronic wallets and electronic money. In recent years the increasing number of payments have been made using direct debits and standing orders and by plastic cards especially credit and recently debit cards. The introduction of these cards has changed the transmission of money payments with the introduction of card settlement schemes. Cheque payments are handled and cleared by banks and clearing houses mutually owned by the banks. The clearing and issuing of debit cards is dominated by banks though even non banks have entered the market.

The entry of the credit and debit cards in the Kenyan market has speeded up the process of automating financial services.
Fig 2: Four parties to every credit/debit card transaction

Source: Grandy & Chapman: The Electronic Bank

As can be seen above, the structure of the debit and credit card clearing system is complex with a number of different organizations involved. Technology has enabled for the transmission of money payments and clearing electronically. The credit and debit card technology enables the transfer being passed automatically to the acquirer and then to the card issuer, reducing the back office costs of both the retailer and the merchant acquirer. Automatic authorization reduces fraud, thanks to the online artificial intelligence and a hot list of stolen card. Both debit and credit cards use magnetic strip technology. A magnetically-encoded strip on the back of the card tells the EFTPOS system what the card is, and who should confirm the payment. Details of the card and the transaction are then sent to the acquirer and issuer for authorization. The majority of on-line systems offer automatic authorization.
Livy (1981) notes that there is no way the bank could have introduced the credit cards without the Information technology, which has also automated other bank functions. The credit/debit card processes are 98% automated.

In his book 'Strategic planning for electronic banking' Chorofas (1987) notes that the bank is a service industry, but services too are evolving. They change in content. They are repackaged and they increase in their content of automation. A bank lives, operates and survives within a very competitive environment and constantly it is asking itself, what do we do to improve our services? How well are we reaching the markets we want? How well are we standing against the competition? Is the competition taking away our market share?

These are no academic questions to be answered for the sake of answering them. They are the key ingredients for the Banks' survival. No matter how local the bank is, it is now part of an increasingly unified multinational business and its management has to think global. Technology has changed the way of banking.

To a very great extent, it is clear to the banking industry today what the emerging technology will be. What is still a puzzle is how should we use this technology to give us profits? The new technologies have made feasible flexible structures and plural communications increasing the customer's capability a great deal. Customers can use their credit cards to shop from the comfort of their homes or offices from right across the globe using their PCS.

Technology has been the driving force behind the new banking concepts, bringing about a steady proliferation of helpful, sophisticated financial services. With the
satellites and communications, banking is no longer geography-bound. A customer from Kenya may pay for goods in UK to be purchased from America.

In the 'Bank strategies for the 1990's' by The Institute of Bankers Cambridge Seminar 1986 pg 15, Technology has been cited as being central to the operations of the financial system, and technical change, bringing in its train greater speed, easier access, improved services and economies of both scale and scope, is at the root of many of the changes which are taking place in Britain's financial sector.

Real evolution in the credit card business in Kenya happened with the entry of Diners Club in Kenya in 1976. Since then the card issuing banks in Kenya have grown tremendously with over 80,000 credit cards and 618,000 debit cards in circulation in the market today.

2.3 Impact of credit/debit on customer satisfaction

Benefits to the Cardholders

- The holder of the credit card is able to purchase goods and services without any prior savings. The credit card has a pre-authorized 'limit' which the holder should stick to. The card's limit is likely to have an appropriate credit limit for that particular individual. Any expenditure in excess of the limit attracts penalty charges and persistent abuse may lead to cancellation of the facility.

- The card is therefore an easy way of accessing credit, involving no formalities and no 'headmaster' type meeting with the bank manager owing to the revolving nature of the credit, the customer can take advantage of it as and when he pleases within, of course, the overall limit.
• The credit card is an aid to budgeting, Hanson (1985) because the cardholder can pay a fixed amount each month according to his circumstances, and plan accordingly.

• The credit and debit card transactions are 98% automated. The transaction is therefore carried out within a very short time. (The Visa International Quarterly Handbook 20003) sets the standard as two minutes otherwise it could take seconds.

• With the credit card, the cardholder is able to spread the repayments over a period of time. Unlike a fixed loan with rigid repayment schedules, this gives the holder greater flexibility and enables him to arrange his affairs more conveniently. As long as the cardholder makes the minimum payment required of him under the credit card agreement the payment of the outstanding balance can be postponed indefinitely. This facility to choose short, medium or long term repayment period to suit individual needs is particularly useful to the cardholder in respect of costly items such as cars, and expenditure during holidays such as Christmas, Grindley (2001).

• The bank issued credit/debit cards are global. The acceptability of the leading cards in so many countries of the world is an aid to business and holiday travel.

• The credit/debit cards are an extremely convenient method of payment as an alternative to cash or cheques. It is simple to operate, convenient to carry and reasonably immune to financial loss compared with losing cash or cheque book. They are often more convenient than cash and cheques and are universally accepted. The card can be used to obtain goods, services and cash anywhere in the world. Cash especially is available 24 hours from the ATM machines all over the world. Other products may be a phone call away. The customer does not have to be present physically to produce the card. A cardholder can purchase over the telephone and all
they will have to do is quote their card number in case of mail order services. The telephone sales facility is especially useful in the sale of theatre and concert tickets. The retailer in turn is guaranteed of that sale even if the holder does not turn up to pick the tickets.

- The credit cards are a great way to establish one's credit worthiness, which in some countries is an asset when it comes to borrowing.

- The interest free period: The cardholder is charged interest on the transactions after a long credit period sometimes of up to eight weeks notes. Jones S (1989) In the Law relating to Credit Cards. If the holder chooses to use the card as a monthly account card there will be no interest charged at all. There is no such grace period with other bank credit(loan) facilities.

- In order to obtain a bank credit card, a person needs not be a member of that issuing bank or any bank. All that an applicant needs is proof that they can pay be it from a pay slip of from other sources. The arrangement is quite independent from any current bank account.

- The cardholder will receive an itemized statement from the bank showing the due date by which they must pay. The monthly statements in narrative form are a great help to domestic and even business housekeeping. This becomes a very convenient mode of payment for companies that would otherwise have to use many forms to facilitate for the same.
Benefits to the Merchants (shopping or service outlets)

- By accepting a credit/debit card the merchant has a guarantee of payment and his account is immediately credited with the cleared funds upon transmission of his vouchers to the bank. There are approximately 20 Million outlets all over the world where credit and debit cards can be used.

- The merchant can use the card system as an alternative to other means of allowing credit and thus avoid bad debts. The merchant will therefore offer this facility of taking credit without involving himself with the expense, administration or risk of setting up his own credit arrangements.

- The merchant is able to expand his business to include overseas visitors.

- The merchant also enjoys joint advertising with the card companies and other promotional activities.

- For the Merchant, The credit Card record of purchases is a convenience for bookkeeping.

- The acceptance of cards in lieu of cash reduces the security risk.

- The Merchant is in business to make a profit. The credit cards enabled him to make big turnovers. The credit cards have been known to promote impulsive buying patterns much to the advantage of the supplier. The supplier is also able to compete with other players in the market.

- The bank gives the merchant a floor limit up to which he may accept customers' cards at his own discretion and beyond which he must call for 'authorization' from the bank. The banks usually have a 24 hour service to confirm whether or not a card may be accepted for a particular service.
Benefits to the Bank/Financial Institution

- The Bank is in the card business to make good profits. The creditor derives his profit from two sources, the cardholder and the supplier. From the cardholder, the creditor earns income from annual fees, interest, and late payment charges. If all cardholders paid their bills on time, there would be very little profit to the card company. The credit card companies therefore encourage customers to revolve their credit i.e make part payments and roll over the balance at a fee. From the supplier, he makes income from the commissions the supplier pays which is pre-agreed and is a percentage of his total turn over.

Benefits to the Licensing Bodies-Visa/MasterCard

- These franchise holders benefit from the perpetration of their brand names. Visa is currently taking the lead with about 50% of all credit and debit cards issued in the world.

- They also benefit from License fees paid by the issuing banks which are usually very high. Apart from the initial huge payment, there are annual fees paid the banks issuing the cards.

- When all is said and done, the credit card has been a contributor to the growth of non performing loans in the Banking Industry, a phenomenon that the Central Bank of Kenya wishes to keep under check(Central bank of Kenya Bank supervision report July 2004)

The credit card is not risky to carry around like cash. The banks offer services where a cardholder can call directly to report the loss of a credit/debit card and stoppage of the
same is effected immediately on-line. The card is subsequently listed in a ‘warning bulletin’ making it impossible for anyone to use.

2.4 Strategies employed by Kenyan Banks to compete in the Market place.

Kotler (2003) notes that 'poor firms ignore their competitors; average firms copy their competitors; winning firms lead their competitors.

Who is the competition.

The Kenyan banks have been competing against each other for a niche in the market.

The current membership in the Kenya Credit Card Association is as follows:

**Fig 3.** Current players in the Credit/debit card industry in Kenya today

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Debit cards issued</th>
<th>Credit cards issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Chartered Bank</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Barclays Bank of Kenya</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Kenya commercial Bank</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Cooperative Bank</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Investments &amp; Mortgages</td>
<td>No</td>
<td>In the process</td>
</tr>
<tr>
<td>Prime bank</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Imperial bank</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Fidelity commercial bank</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Southern credit bank</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Paramount bank</td>
<td>No</td>
<td>In the process</td>
</tr>
<tr>
<td>National bank of Kenya</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Kenya Post office savings bank | No | Yes
---|---|---
Commercial bank of Africa | Yes | Yes
NIC bank | No | Yes
Fina bank | No | In the process

Source : Study

Non-bank stored value cards in the market

Nakumatt shopping cards
Kenya wildlife service smart card
Tamarind card-For entertainment
Fuel cards e.g Total
Medical cards-(AAR, MEDEX)

Although the credit card phenomena is relatively new in Kenya, the banks are stiffly competing for the few 'eligible' customers in the market. Up till year 2003, only 6 giant banks were key players in the credit/debit card business namely Standard Chartered, Cooperative bank, Kenya post office savings bank, National bank of Kenya and southern credit and Commercial Bank of Africa. Over the last three years 6 other players, relatively small banks have also entered the market. These are Fina Bank, Prime bank, Fidelity commercial bank, Prime bank, I& M bank, and Imperial bank.
2.5 Factors that have contributed to this growth.

Michael Porter has identified five forces that determine intrinsic long run attractiveness of a market or market segment: Industry competitors, potential entrants, substitutes, buyers and suppliers.

![Fig 4. forces determining segment structural attractiveness](image)

<table>
<thead>
<tr>
<th>Potential entrants (Threat of mobility)</th>
<th>Supplier (Supplier power)</th>
<th>Industry Industry competitors (segment rivalry)</th>
<th>buyers (Buyers power)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substitutes (threat Of substitutes)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Michael E Porter, competitive advantage: Creating and sustaining Superior performance.

**Threat of intense rivalry:**

The segment is still very attractive. As seen from figure 1, only 11 banks out of the current 51 commercial banks and 4 Non bank financial institutions are currently involved in the issuance of credit and debits cards. All banks are capable of entering the rat race and it is a matter of time.

**Threat of new entrants.**

The Kenyan commercial banks have not done well to create awareness of the credit cards.
Instead of exploring new lands, the new entrants seem to want to 'poach' the already existing customers in other banks. The effects of this have been that many customers have ended up having too many cards creating payment problems and eventually, bad debts in the concerned banks. Entry barriers seem to be high like the cost of setting up a credit card is quite astronomical. It is no wonder that the growth of the sector has been slow.

**Threat of substitute products**

There are no substitutes for the product. The banks are therefore offering the product but using strategies to get market share. The substitutes in the market could be called the 'stored value products'. The Nakumatt card encourages frequent usage where bonus points are loaded every time the card is used. The points once accumulated will enable the customer to join in a raffle or get a gift from the Nakumatt stores. The Kenya wildlife card stores the paid up value. The holder can access various facilities within Kenya Wildlife services equivalent to the value of the card. Once the value is exhausted, the holder can only recharge or leave the precincts altogether. The Medical cards like the AAR cards entitle the holder to certain contractual benefits from the service provider.

**Threat of buyers bargaining power.**

The Kenyan economy which has been on a recession has denied many would be customers the chance to own the credit cards. Debit cards are on the rise since this only access what is in the customer's account. All that one needs is an account with any bank. The credit cards however assess the customer's net worth through the use of a credit scoring system and which 'cuts off' those that do not qualify.
Threat of suppliers growing bargaining power

Banks use multiple suppliers for their bigger banking needs. These suppliers are not limited to local boundaries. With liberalization, banks can source far and wide to get their money's worth. The current threat with the banks right now are the increasing labor costs where the unionisable staff are awarded huge payments by the courts.

2.6 Common Strategies used to retain and attract new customers

Pricing strategy;

This is the commonest in the Kenyan market. Since the debit/credit cards are highly undifferentiated, customers are price sensitive. When Barclays bank of Kenya Ltd lowered the interest charged on the cards from 4% to 3% many customers in other banks switched over to take advantage of this.

Free introductory periods

Imperial and Prime banks who are the latest entrants have given 'free introductory periods during which time joining fees are waived to enable as many customers to join.

Bonus point module: (Sunday Nation August 21, 2005)

'why it pays to pay with a card'

Early this year, the Kenya Credit and Debit Card Association (KCDCA) in conjunction with member banks and Visa International conducted a campaign" it pays to pay with your Visa card to popularize the use of Visa Cards. The campaign which ran from March 1 to April 30 rewarded lucky cardholders. The promotion which cost the banks and Visa 10 Million exhorted cardholders to make a habit of using their Visa
Credit and debit cards to pay for shopping every time they Visited Uchumi or Nakumatt.

The bonus point module is being encourages to enhance loyalty amongst customers. As noted above, the Kenyan customer is price sensitive and any shift in pricing will cause them to move to the competition. The bonus points encourage customers to spend and stay in one place to reap the benefits of their loyalty. Cooperative bank has been giving away prices like household items to their 'big' spenders. Commercial bank of Africa has also been running a similar program where high spenders are entered in a draw.

**Promotional give- a ways.**

The credit card industry has been known to use this strategy to attract customers. It is not uncommon to find banks advertising for cards and a free wallet to put it in.

**Charity events/Golfing tournaments**

Credit card companies hold golf tournaments to attract high net worth customers. Charity events are to remind the public of their presence,

**Increase of credit Limits**

Banks choose to increase the customer's credit limits proactively to reward them. These are customers who have demonstrated that they are worth much more than they have been awarded. This appreciation creates loyalty with the customers.

**Customer Service**

Today, many companies are recognizing the importance of satisfying and retaining customers. Satisfied customers constitute the company's biggest source of profitability. The key to credit/debit card industry survival is customer service. This is
what distinguishes one service provider from the other. Customers in the credit card industry tend to be medium to high net worth and are sensitive to service. When the product is as undifferentiated as it is in our Kenyan banking industry, the only competitive tool left is good customer care. A customer will leave one bank for another because a query was not resolved to their satisfaction, or a card reported lost was not replaced on time. As Michael Porter (2003) puts it,

- Acquiring new customers can cost five times more
- The average company loses 10% of its customers every year
- A 5% reduction in the customer defection rate can increase profits by 25% to 85% depending on the industry.
- The customer profit rate tends to increase over the life of the retained customer.
- Therefore and indeed, banks have used high levels of customer service as customer retention strategies.

2.7 Conceptual framework

<table>
<thead>
<tr>
<th>Independent Variables(Input)</th>
<th>Intervening Variables</th>
<th>Dependent Variables(Output)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cards</td>
<td>Usage</td>
<td>Satisfaction</td>
</tr>
<tr>
<td></td>
<td>Awareness</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Income</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Purchasing power</td>
<td></td>
</tr>
</tbody>
</table>

The independent variables are the products—debit and credit cards as offered by banks. They are the inputs. The intervening variables are factors that cause the debit and
credit cards to become a source of customer satisfaction. The dependent variables are a result of the interaction between the inputs and the intervening variables. When the banks create awareness, more people take up the cards and hence more profitability for the bank. When the banks offer good customer service, the customers can use their cards much more effectively. This creates loyalty and as a result, the banks' market share grows. Use of appropriate technology enables for more transactions and thus higher profitability.

2.8: The future of credit and Debit Cards.
The 'plastic money is the way of the future. Visa International has given a deadline of 2006 by which time the credit and debit cards will have converted to the Chip technology.

There are over 1 billion users of these products in the world today (Visa International Business school, Bank Card Education 2004). The use of credit and debit card payments is the preferred method of payment for over 10% of customer transactions. The Bank credit and debit card business is very profitable for sizeable portion of the profits made. The business is a strong profitable one which brings the banks opportunities to develop relationships with their customers which can also lead to cross selling of other bank products.

With the concept of mobile banking and e-commerce rapidly changing the world, traditional barriers of doing business like geographical borders, time differences and currency differences will be a thing of the past. The credit and debit cards are thus the key drivers of eliminating these barriers. The credit card system will give rise to the
evolution into the 'card less' payment system and applications. Wireless devices will be used to make purchases at the point of sale and transactions posted to the accounts under similar arrangements to the bank cards.

In the Newsweek of 4th July 2005 'The Scary New world of Identity theft'. The following article cautions on the use of credit cards.

'Be careful, you may become a fraud victim. Millions of American now have a reason to dread the mailbox. You may become a victim of identity theft. Someone may have information of your credit card information, Social security number bank account and other details that may enable him or her to go on a permanent shopping spree leaving you to deal with the financial, legal and psychic bills. In the USA it is the largest growing crime. One can take your credit card number open accounts and take out loads in your name. Crooks rake up to $53 billion a year in ID theft.

Card users have got to be very careful with their cards. Any credit card information that lands in criminal’s hands could cost the cardholder untold suffering.
CHAPTER 3

3.1 METHODOLOGY

This section outlines the research design, the target population, the sample size and instruments used to collect primary data. It also defines the methods used to analyze the data.

3.2 Research design

This research study was exploratory. Both primary and secondary data were used guided by purposive and random sampling while the data collection used a survey in which questionnaires were the major tool of data collection. An introductory opening remark of the questionnaire introduced the interviewer to give an undertaking that the response would be confidential. This facilitated the respondents to give information freely and honestly.

3.3 Population and location of the Study

The Population included both holders and non holders of cards who are customers of commercial banks. The study was carried out in Nairobi which is a host to all the Commercial Banks in the country. Further more, most of the outlets where cards are used are situated in Nairobi and therefore information was easily accessible.
3.4 Sample design and Size

The study was done through a field survey of consumers in Nairobi using purposive and random sampling. The total sample comprised of 100 customers from the five selected banks namely Co-operative Bank, Post Office savings Bank, Prime Bank, National Bank of Kenya and Imperial Bank.

Fifty customers were drawn from holders of either the debit or credit cards while fifty were drawn from non card holders. This was done in order to give cardholders and non card holders’ equal chances. Twenty questionnaires were distributed to each of the named banks. Random sampling methods were used to capture the variations. The consumers (cardholders) had similar characteristics across the banks in their needs and hence responses and would give valid results.

<table>
<thead>
<tr>
<th>Banks</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-operative Bank</td>
<td>20</td>
</tr>
<tr>
<td>Prime Bank</td>
<td>20</td>
</tr>
<tr>
<td>National Bank of Kenya</td>
<td>20</td>
</tr>
<tr>
<td>Prime Bank</td>
<td>20</td>
</tr>
<tr>
<td>Kenya Post office saving</td>
<td>20</td>
</tr>
<tr>
<td>Bank</td>
<td></td>
</tr>
</tbody>
</table>
3.5 Data collection method

The primary research was collected from Cardholders, non-card holders by use of a semi-structured questionnaire. Research assistants administered the questionnaires and assisted the respondents to fill them.

The first five questions captured demographic data while the rest sought to get the customer’s attitude and perception towards the cards they hold. Standardized questions were used.

**Secondary research**: Extensive library and Internet research was carried out to build on more knowledge on the latest developments in the respective field.

Secondary data was obtained through literature review. Newspapers, journals, bank periodicals, KCDCA reports as well as the internet will be perused for latest information in the field under study.

3.6 Data analysis and presentation

Data obtained was subjected to both qualitative and quantitative analysis. Qualitative data was based on descriptive statistics using non-statistical techniques on subjective statements and explanations. Quantitative analysis was done using Microsoft (Excel) Statistical Package for data analysis. Bar charts, pie charts and tables provided a powerful tool of analysis to draw inference. The SPSS software was not available.
CHAPTER FOUR

4.1 DATA ANALYSIS AND PRESENTATION RESULTS

4.2 Introduction

This chapter summarizes the major findings from the respondents. Answers from the questionnaires are tabulated in Microsoft Excel spreadsheet.

The study relied on Microsoft (MS) Excel Statistical Package for data analysis.

The chapter summarizes the major findings from the respondents. The study has looked at the intervening variables in the conceptual framework as they relate to the dependent variable. Answers from the questionnaires were tabulated on Microsoft excel spreadsheet. To aid the quantitative analysis, charts both pie and bars were used. The unstructured questions from the questionnaire were relied on to draw qualitative inference.

4.3 Quantitative analysis

Number of Respondents

Out of the 100 questionnaires sent, 70 were returned: 38 from cardholders and 32 from non card holders. Table 4.2 below gives analytical and pictorial presentation of the same.

<table>
<thead>
<tr>
<th>Number of respondents</th>
<th>Issued</th>
<th>Returned</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardholders</td>
<td>50</td>
<td>38</td>
<td>54%</td>
</tr>
<tr>
<td>Non Card holders</td>
<td>50</td>
<td>32</td>
<td>46%</td>
</tr>
<tr>
<td>Percentages</td>
<td>100</td>
<td>70</td>
<td>100%</td>
</tr>
</tbody>
</table>

Cardholders accounted for 54% of the returned questionnaires, non cardholders 46%.
Employment

Out of the 70 respondents 58 were employed, 2 unemployed at the time while 10 were self employed. This means that the sample was quite representative.

Fig 4.3 Employment

Age.

Out of the 70 respondents, 8 fell in the 18-25 age bracket, 32 in the 26-35 age bracket, 24 in the 36-45 age bracket and 6 in the 45-55 age bracket. This showed that credit and debit card products are more attractive to the middle aged and the attraction dims as the ages go up.
Level of education

Out of the 70 respondents none had primary school level of education, 24 were secondary school leavers while 40 were university graduates. 6 held Post graduate qualifications and above. This shows that higher the level of education, the more the awareness about the debit and credit card products.

Table 4.5 Level of education

<table>
<thead>
<tr>
<th>Education</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>0</td>
</tr>
<tr>
<td>Secondary</td>
<td>24</td>
</tr>
<tr>
<td>University</td>
<td>40</td>
</tr>
<tr>
<td>Post University</td>
<td>6</td>
</tr>
</tbody>
</table>

Cards Held

Out of the 38 respondents, 14 held credit cards while 16 held debit cards. Respondents who held both the credit and debit cards were 6. Credit card applicants go through stringent vetting and that probably explain why the
number is lower that the debit card holders. Anyone with a bank account qualifies for a debit card.

Table 4.6  Cards held

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>14</td>
<td>37</td>
</tr>
<tr>
<td>Debit</td>
<td>16</td>
<td>42</td>
</tr>
<tr>
<td>Both</td>
<td>8</td>
<td>21</td>
</tr>
<tr>
<td>total</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

Fig 4.7  Credit limits.

Credit limits

Out of the 38 credit and debit card holders, 12 had limits of between ten and thirty, 20 between 31-50,000, 8 between 51-100,000, 2 between 101-200,000, 1 between 201-300,000. No respondents had a higher limit than 300,000. The higher limits tend to be issued to Corporate executives and much more stable customers who also happen to be successful businessmen. Majority of the respondents fell in the 26-35 age brackets which indicate that they are not very stable financially yet and hence the modest limits.
Fig 4.8 Awareness about the credit/debit

As depicted in the above diagram, 58% representing 22 respondents learnt about the credit and debit cards through their banks, 10.5% representing 4 respondents learnt through advertisements in the media while 31.5% representing 12 respondents learnt through other card holders which means that awareness programs by the banks have the best impact in attracting card customers.

Satisfaction

Out of the 38 respondents, 32 said that their greatest source of satisfaction was derived from the convenience of having the card products. They viewed the credit/debit cards as a great convenience tool and were very satisfied while 6 said that they were somehow satisfied. None was least satisfied.
Perception

Table 4.10 Perception of the credit cards

<table>
<thead>
<tr>
<th>Perception</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status symbol</td>
<td>12</td>
<td>32</td>
</tr>
<tr>
<td>Convenience tool</td>
<td>26</td>
<td>68</td>
</tr>
</tbody>
</table>

Out of the 38 respondents, 12 said that they viewed the card products as a status symbol whereas 26 viewed the products as a convenience tool. This showed that the popularity of the card products is mainly due to their convenience.
Fig 4.11 (above)

Cards as an alternative to banking

Out of the 38 respondents 20 said that they viewed the card products as an alternative to banking while 18 said it was not. This shows that the traditional role of banks as cash ‘givers’ is being challenged.

Fig 4.12 Greatest source of customer satisfaction

Greatest source of satisfaction

The greatest source of satisfaction for the card products emanates from the convenience of using the card products. One does not have to carry cash.

4.13 When customers mostly use the card products

Out of the 38 respondents, 8 said they used the cards during emergencies, 6 used the cards for regular shopping as a budgeting tool while 24 said that they mostly used their cards when out of cash. This means that the card is mostly
used to obtain easy credit when the cardholder does not have money. This means that the cardholder can get anything any time they want even if they do not have the cash

**Table 4.14 what customers want to see improved in the industry.**

What the customers want to see improved in the industry

As indicated in Fig.4.15, Out of the 38 respondents,10 said they wanted to see improved technology improved to avoid down times at the ATM,8 wanted to see friendlier customer service, wanted to see friendlier customer services,4 wanted to see a legislation enacted to punish fraudsters ,8 wanted to see cheaper interests 4 wanted to see higher credit limits while 2 wanted to see awareness campaigns stepped up.

**4.15 For non card holders**

Out of the 50 questionnaires issued,32 were returned.

**4.16 Bank account**

Out of the 32 respondents,27 said that they had bank accounts while 5 did not
4.17 Does your bank issue credit or debit cards?

Out of the 32 respondents, 25 said yes while seven said No. This means that majority of the non-holders came from banks that were issuing the products but had not taken them due to their own reasons.

4.18 Are you aware of the debit and credit cards?

Out of the 32 respondents, 23 said yes they were aware while 9 said they were not. This means 72% of the customers chose not to take the cards though they were aware of their existence. 28% were not aware of the existence of the products.
4.19 Do you intend to take them up?

Out of the 32 respondents, 22 (69%) said they would in the future while 10 said they would not. This shows that most of the customers who do not have the card products were contemplating taking them up in the future.

4.20 Qualitative Analysis

4.21 Length of time cardholders have had the cards.

Out of the 38 respondents, 12 said they had held the cards for between one and two years, 12 said they had held the cards for between three and five years while 14 said that they had held the cards for between five and ten years. This means that 46% of the respondents are old card holders who have a long experience with the cards. 64% is the total of those cardholders who have held the cards for five years and below. The card business in Kenya after the collapse of Diners club, Merchant and Royal cards is about 10 years old.

4.22 Limits

Out of the 38 respondents, 18 said that they had limits while 20 who had debit cards did not have. All credit cards have limits assigned by the card issuer but the debit cards do not have.
4.23 Incidents when cardholders have been let down by cards

Out of the 38 respondents, 12 representing 31.5% had had bad experiences at the ATM machine when it failed to work. 16 had been embarrassed at other outlets like supermarkets and fuel stations when their cards refused to work. 10 said that they had never been embarrassed at all. The cards are over reliant on technology and that in itself is a danger as technology can break down.

4.24 Describing how the cards have changed the cardholders banking life.

58% of the respondents cited convenience of having a tool they can use most of the time, 26% said that they did not have to have cash on them while 16% said that they did not have to go all the way to the bank to draw money. This indicates that the holders view the cards as a convenience tool.

4.25 Why have the non card holders not taken up the cards

Those that preferred cash were 8 out the 32 respondents, those that said that cards were expensive were 12 while those that said they were not interested were 12. No specific reasons were given for this.
CHAPTER FIVE

5.1 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.2 Introduction:
This study was conducted with the aim of achieving the objective of investigating the impact of credit/debit cards in enhancing customer satisfaction amongst commercial banks in Kenya. The objectives of the study were largely met

5.3 Summary of Major Findings.

Employment
The research found that 83% of the cardholders were employed. The banks have a bias towards the employed probably due to the fact that the salary is guaranteed and chances of default amongst this category of people is low.

Age.
The statutory age to enter into any contract is 18 years. Respondents ranged from 18 to over 65 years. 46% of the respondents who were the majority were in the 26-35 age bracket. This means that this group of people comprises young professionals who are settling in their careers and appreciate the conveniences of the cards more.

Level of education
The research found that there was a direct relationship between education and possession of the cards. 66% of the holders held a university degree and above while 34% had secondary school education. None had primary school education.
Card distribution and credit limits

Debit cards were higher than credit cards and this can be explained by the strict vetting procedures that a credit card applicant is subjected to. Any one holding an account automatically qualifies for a debit card. All credit cards have limits unlike debit cards that do not require any limit as money is drawn directly from a holders account.

Awareness about the card products

Out of the 38 holders of the cards, 22 (58%) respondents in the study said that they had learnt about the cards through their banks. 32% had learnt about the card products through the existing cardholders. This signifies that to some extent the banks have succeeded in creating awareness about the products. Only 4 (10.5%) indicated that they had learnt about the cards through advertisements.

How the debit /credit cards have impacted on customer satisfaction

The four intervening variables in the conceptual framework namely usage, awareness, income and purchasing power play a big role towards influencing customer satisfaction.

58% of the respondents cited convenience as the greatest source of their satisfaction when using the cards. 84% of the respondents said that they were actually very satisfied with the products.
What are the benefits of using the debit/credit cards?

The benefits of using the credit and debit are many and respondents seemed to be aware of them all.

68% of the respondents were happy with the convenience offered by the debit and credit cards. 26% enjoyed the fact that they do not have to carry cash. 42% of the respondents viewed the cards as easy source of credit. 63% of the respondents also said that they mostly used cards when out of cash while 21% mostly used the cards for emergencies.

Perception of the card products

32% of the respondents viewed the cards as a status symbol while 68% viewed it as a convenience tool. This signifies that the benefits that accrue from the use of the card far outweigh the mere holding of the card in one’s pocket.

Cards as an alternative to banking.

53% of the cardholders viewed the card as an alternative to banking. The traditional role of the banking hall is being challenged here. Customers do not have to go to the bank to draw cash when they can directly use their cards to pay for the goods and services they require.

Customers greatest source of satisfaction

Convenience ranked the highest amongst the other entire alternatives. 45% cited convenience of having a credit card while 42% were happy with easy access to credit when they were short of money.

When customers mostly use their cards.
24 out of the 38 respondents representing 63% used their cards when they were out of cash. 8 said that they used the cards during emergencies while 6 said that they used their cards for regular shopping. This demonstrates that the card facilitates for easy access to credit when the cardholder is out of cash and therefore a great convenience.

What the customers want to see improved in the industry

10 out of the 38 respondents said they would like to see technology improved to minimize downtimes while 8 said they wanted to see friendlier customer services. 4 would like to see legislation enacted that would punish fraudsters.

For Non Cardholders

Out of the 32 respondents, 32 had bank accounts while 5 did not have. 25 said that their banks issued cards while 7 came from banks that did not. 23 out of the 32 respondents were aware of the card products while 9 were not. 22 out of the 32 respondents (69%) said that they had intentions of taking up the products some time in the future.

5.4. Conclusions

The cards have had a positive impact on the commercial bank customers. Convenience ranks on top of the benefits that have greatly contributed to customer satisfaction.

Awareness

From the study, It is apparent that even the non-holders are aware of the products but have not taken them due to various reasons. The study thus has clearly demonstrated that the banks have in this regard succeeded in creating
awareness about the card products. Majority of the card holders learnt about the cards through their banks while others through existing cardholders. It is the practice of most card issuing banks to ask existing cardholders to ‘bring in’ an applicant. The non cardholders need to hear more about the benefits of using the cards as opposed to cash

Benefits of the cards

According to the information received through the research, the benefits enjoyed by the customers through the use of the card have clearly been brought out and ranked according to their importance as follows:

- Convenience
- Easy access to credit
- Aid in budgeting
- For Emergencies
- When out of cash
- Risk free nature-one does not have to carry cash

Satisfaction

The study has found out that the card holders are very satisfied with the products. In the study no respondent said they were least satisfied. Satisfaction arose from the services they are able to obtain through the use of the card.
5.5 Recommendations

Banks

Commercial banks should embark on programs aimed at creating more awareness about the benefits accruing from the use of the card. Though bank customers know that the products exist, they do not know their benefits and as a result have misconceptions about the same. Awareness programs will communicate the benefits of the card and raise the awareness amongst the customers to motivate them to take up. The banking Industry should step up its awareness campaigns about the cards. The electronic banking is the way of the future and banks should join in this big agenda of making the world a ‘global village’ where boundaries are disregarded. The chip card invention is on the way and indeed some Countries in Europe and America have embraced the technology already. Visa International has given deadlines as to when all Visa issuing banks should have converted all their brands to ‘chip’ technology. The banks will have to intensify their campaigns for more cardholders in order to recoup their investments in the chip technology. The marketing departments of commercial banks should take up this challenge very seriously. Awareness campaigns should be targeted to account holders who do not have the cards.

The central Bank of Kenya

The Central Bank of Kenya should use the findings of this report to try and measure the contribution of the credit cards to the banking industry and to
the economy at large. The findings of this research indicate that the credit card industry is growing. Even the non card holders who responded said that they were contemplating taking the product in the future. As a result it would also be of interest to the Central Bank of Kenya to measure this growth and factor it in the economy growth indicators.

The central bank of Kenya should also monitor the performance of the credit cards with a view to ascertaining their contribution to Non Performing Loans in the Banks (NPLS).

**Research Institutes.**

The card products are still not well understood by the majority of the Kenyans who still view the products with suspicion. Research institutes should embark on further research to capture the growth of this product. It would be of interest to know why some people are so prone to defaulting on their card payments while others will not.

**Economists**

The study should stir the economists to delve deeper into the card operations and document their contribution to the growth of the economy.

5.6 **limitations of the study:**

- Locally available materials on the subject were hard to find. The researcher had to rely on old material some of which are outdated. The card industry is very dynamic and as a result information on the latest developments was not exhausted.
• Though the card holders are mostly concentrated in the urban regions, the researcher would have liked to investigate respondents from the rural areas.

• Time was a major constraint. It would have been possible to go into greater depth given more time.

5.7 Suggestions for further research

Studies could be carried out to find out:

1. Causes of bad debts amongst credit card customers.

2. What strategies banks are using to position their cards in the market.
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APPENDIX 1

SPECIMEN LETTER TO THE RESPONDENTS

Dear Respondent,

I am a student in the Department of Business Administration currently undertaking my research project. The aim of the research project is to assess the impact the credit/debit cards have had on the Cardholders in the Banking Industry.

The attached questionnaire is for gathering data, which will be useful in the mentioned research as a requirement for the Master of Business Administration Degree.

You have been selected as one of the respondents in this study. I therefore request you to kindly facilitate the collection of the required data by answering the questions herein.

Please note the information sought is purely for academic purposes and will be treated with utmost confidentiality.

Looking forward to your co-operation.

Yours faithfully,

Mburu P N
APPENDIX 2

QUESTIONNAIRE FOR CUSTOMERS

Kindly provide the following information.

1. Name (Optional) ........................................

2. Are you:
   Employed ( )
   Unemployed ( )
   Self employed ( )
   Others (Specify) .................................

3. Which age bracket do you fall in
   18-25 ( )
   26-35 ( )
   36-45 ( )
   46-55 ( )
   56-65 ( )
   >65 ( )

4. What is your level of education?
   Primary ( )
   Secondary ( )
   University ( )
   Others specify .......................................

FOR CREDIT/DEBIT CARD HOLDERS ONLY

5. For how long have you held the card? .................

6. Which card do you hold?
   Credit ( )
   Debit ( )
   Both ( )

7. Do you have a limit? Yes ( ) No ( )

8. What is your limit?
   10 -30,000 ( )
   31 - 50,000 ( )
   51- 100,000 ( )
   101-200,000 ( )
   201-300,000 ( )
   301-500,000 ( )
   501-1,000,000 ( )
8. How did you learn about the Credit/Debit Cards?

Through my bank ( )
Through advertisements ( )
Through a Cardholder ( )
Others (Specify) ( )

9. How do you rate convenience obtained from the use of the credit/debit cards?

Very satisfied ( )
Somehow satisfied ( )
Least Satisfied ( )

10. How do you perceive the credit card?

As a status symbol ( )
As a convenience tool ( )

11. Do you consider the debit/credit as an alternative to banking?

Yes ( )
No ( )

12. What can you say is the greatest source of your satisfaction

Efficient customer services ( )
Easy credit ( )
Universality of the brand ( )
Risk free nature ( )
Others (Specify) ....................................................

13. When do you mostly use your credit/debit card?

Emergency ( )
Regular Shopping ( )
When out of cash ( )

14. Describe an incident when your credit/debit card let you down?............

...................................................................................................................

15. What would you want to see improved in the industry?

Technology to avoid downtimes ( )
Friendlier customer services ( )
Legislation to punish fraudsters ( )
Others (Specify) .................................................................

16. Describe how the credit/debit card has changed your banking life?

...................................................................................................................

...................................................................................................................
FOR NON CARD HOLDERS ONLY

17. Do you have a bank account?
   Yes ( )  No ( )

18. Does your bank issue Credit or Debit Cards?
   Yes ( )  No ( )

19. Are you aware of the debit and Credit Cards?
   Yes ( )  No ( )

20. Why have you not taken up the products?

   ........................................................................................................
   ........................................................................................................
   ........................................................................................................

21. Do you intend to take up any of these products in the future?
   Yes ( )  No ( )
APPENDIX 3

LIST OF COMMERCIAL BANKS IN KENYA
1 African Banking Corporation Ltd
2 Akiba Bank Ltd.
3 Bank of Baroda Kenya Limited
4 Bank of India (K) Ltd.
5 Barclays Bank of Kenya Limited
6 Bank of Africa Ltd
7 CFC Bank Limited
8 Chase Bank (K) Limited
9 Citibank N.A.
10 Commercial Bank of Africa Ltd.
11 Consolidated Bank of Kenya Ltd.
12 Co-operative Bank of Kenya Ltd.
13 Credit Bank Limited
14 Development Bank of Kenya
15 Diamond Trust Bank of Kenya
16 Dubai Commercial Bank Ltd.
17 Equatorial Commercial Bank Ltd.
18 Fina Bank Limited
19 First American Bank of Kenya Ltd.
20 Giro Commercial Bank
21 Guardian Bank
22 Habib Bank A.G. Zurich
23 Habib Bank Limited
24 Imperial Bank Limited
25 Industrial Development Bank Ltd.
26 Investments & Mortgages Bank Ltd.
27 Kenya Commercial Bank Ltd.
28 Middle East Bank Kenya Ltd.
29 National Bank of Kenya
30 National Industrial Credit Bank
31 Oriental Commercial Bank
32 Paramount-Universal Bank
33 Prime Bank Limited
34 Stanbic Bank Kenya Ltd.
35 Trans-National Bank Ltd.
36 Victoria Commercial Bank Ltd.
37 Housing Finance Company of Kenya Ltd.
38 Prime Capital & Credit Finance Ltd.
39 Savings & Loan Kenya Ltd.
40 East African Building Society
41 Family Building Society Ltd.
42 Equity Bank Ltd

Source
http://www.centralbank.go.ke