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Innovative Factors That Affect Financial Inclusion In Banking Industry. (A Case Study Of Equity Bank Mombasa County, Kenya).

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Abstract

The general objective of the study was to analyze the innovative factors that affect financial inclusion specifically focusing on perceived risk on innovated channels, trust and confidence on innovated delivery channels, user friendliness of innovated delivery channel and anti-money laundering requirement on the innovated delivery channels in Mombasa County. The study utilized the descriptive survey research design with quantitative and qualitative approaches. The target population for the study was 20,585 equity customers operating in 5 branches within Mombasa County. The sample size for the study was 2000 customers. To ensure validity of the data collected, effort was made to ensure that the items in the instruments adequately address all the objectives of the study. The questionnaire were pilot-tested on 20 customers who were not part of the actual sample and the data obtained was used to determine the reliability of the questionnaire, after checking the collected data for completeness, quantitative data was coded and analyzed using Statistical Package for Social Scientists (SPSS). Descriptive statistics and correlation analysis were applied in data analysis and findings were presented using frequency distributions, graphs and pie charts. The study found that innovated channels of distribution are generally underutilized, the banks that roll out new channels of distribution such as Agency banking, E-Banking and M-banking are still experiencing influx long queues inside their banking halls especially at enquiry and customer service counters despite these innovated channels.

Keywords:Innovative channels; Perceived risk; Perceived trust; Anti-money laundering; Ease of use.

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1.0 Introduction

1.1 Background

Innovation in banking industry relates to new ways of doing financial business including online banking (E-Banking), phone banking (M-Banking), Agency Banking. Non-interest income is net income derived from fee-based banking services, such as E-Banking and Agency banking. Inclusion is defined as the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society while trust is the subjective probability with which consumers believe that a particular transaction will occur in a manner consistent with their confident expectations and from worries or problems. Risk is the potential that a chosen action /event or activity will lead to a loss or an undesirable outcome further used to describe negative deviations from the planned outcome. User friendliness refers to the ability of the user to interact with the system without help or difficulties, employing an easy-to-use software tool that does not require user to possess a great deal of specialized knowledge nor training to produce the end product.

A bank has been classified as a financial intermediary and has the role of channeling funds from savers to borrowers [45]. It offers loans to borrowers and accepts deposits from savers it further provides payment services. By carrying out this intermediation function banks collect surplus funds from the savers and allocates them to those with a deficit of funds (the intermediation function),thus channeling funds from savers to borrowers thereby increasing economic efficiency by promoting a better allocation of resources.

[15] Formally committed to focus on improving access to financial services for the poor, recognizing that “over two billion adults around the world do not have access to formal or even semi-formal financial services, most residing in Africa, Latin America, Asia, and the Middle East.” In many regions of the world, lack of access to financial services among the poor is being addressed through new channels and technologies, including Agent outlets, M-banking and E-Money hence through these and other developments, increasing numbers of small and low-income depositors are gaining access to financial services in emerging economies. [15] in a convention converged in Switzerland to discuss the innovative financial inclusion in Africa which further sort to discuss sustainability of the service.

According to [10] the market orientation has changed to customer centric view after the financial institutions realized the importance of simultaneous use of various channels of banking.[40]further said financial institutions are now paying attention to E-banking,M-banking and agency banking to maintain customer relations as well as reaching the unbanked

Largely financial services are engineered by Commercial banks and micro finance institutions; particularly in Kenya the banking sector was initially driven by the local operations of foreign institutions (Barclays and Standard Chartered) which dates back 1911.in the endeavor of bringing banking close to Kenyans the government acquired Kenya commercial bank (1970).currently we have fully pledged indigenous commercial banks (Equity bank, Jamii Bora, Family Bank among others)

Financial Strength coupled with extensive local and international resources have positioned Equity Bank group which is one of the leading multinational banks in Kenya, established an extensive network the bank has with 148 branches in Kenya, 38 in Uganda, 9 in Rwanda, 8 in Tanzania and 6 in South Sudan (Equity Newsletter 2012), in an effort to reach the unbanked and deepen financial inclusion the bank rolled out a module dubbed (FIKA) Financial Knowledge for Africa (2010) training sought to educate the illiterate in society on financial literacy; the finalists had a chance to receive a certificate after completing the course.

There are numerous innovations in place but for the sake of this study we shall concentrate on branchless banking (provision of financial services by a bank through any channel other than a branch). Agent/correspondent banking and mobile banking are examples of branchless banking.

Agent banking is a partnership between bank and others channels often retails outlets, provision of services through non branch physical channels, M-banking is the use of cellular technology to provide financial services’-money is electronically recorded funds that can be moved electronically and used and accepted by a third person as payment, Prepaid Cards/Smart Cards: A card on which value is stored, and for which the holder has paid the issuer in advance.

1.1.1 Importance of Financial Inclusion

Financial inclusion will help the entire nation by greater inclusion, through higher savings pooled from the vast segment of the bottom of the pyramid of population by providing access to formal savings arrangement resulting in expansion in credit and investment by banks as well as saving mobilization when the weaker sections are provided with the facility of banking services. Secondly Social Objectives of poverty eradication is considered to be the main objective of the financial inclusion scheme since they bridge up the gap between the weaker section of society and the sources of livelihood and the means of income which can be generated for them if they get loans and advances which in turn leads to sustainable Livelihood because weaker section of society got some money in loan which they can start up their own business or they can support their education. Financial inclusion is important for improving the living conditions of poor farmers, rural non-farm enterprises and other vulnerable groups.

1.1.2 Risk reduction

Innovation on the channels of distribution leads to risk reduction as the bank enters into different markets thus risk of depending on a single market is diminished. [5], who simulated portfolios of banking and branchless subsidiaries during the 1970s,combining bank and branchless activities allows for some diversification benefits increasing profitability for moderated risk levels.

1.1.3 Improved performance

Banks may develop key areas of expertise over time, which is distinctive to that bank and critical to its long-term growth These areas of expertise may be in any area but are most likely to develop in the critical, central areas of the bank where most value is added to its products and service delivery.

1.1.4 Competitive Advantage

A study conducted by [3], shows that firms that have developed multiple products which ride on existing internal resources or capabilities of the firm will benefit from economies of scale thus earn higher returns. Competitive advantage has been identified as one of the benefits that accrue to a bank due to its innovative strategies [3], [38] such advantages could come in the form of superior profits and market leadership.

1.1.5 Banks with innovation.

Innovation is a grand strategy, which takes an organization away from its current markets or competencies. It can occur either at the business unit or at the corporate level. At business unit it is most likely to expand into a new segment of an industry in which the business is. Corporate level is basically entering a promising business outside of the scope of the existing business unit

[41] and [44] also had a proposition that internet has had a significant impact on financial institutions, allowing consumers to access many bank facilities 24 hours a day, while allowing banks to significantly cut their costs. Research has shown that online banking is the cheapest delivery channel for many banking services. While (Wilcox, 2009a) had a proposition that banks were at the forefront of the services sectors that sought to migrate customers from face-to-face transactions to computer-mediated transactions. With the development of m-commerce, similar expectations have been held out that much banking activity that is currently carried out online through fixed line internet terminals will migrate to mobile devices. M-banking enables customers to access their bank accounts through mobile devices to check their balance or to conduct financial transactions. The range of services that can be undertaken while mobile is likely to increase, and mobile phones are likely to evolve as ubiquitous payment devices, he also predicted that by the end of 2011 more than 150 million subscribers worldwide would have used their

mobile phone not only for banking information services, but also for transactional m-banking services[19] estimated that a number of consumers using m-banking were to reach 816 million by 2011, which is a tenfold increase on the number using these services in 2007.

Equity bank has had a rich innovation which is encrypted as one of the critical success factor 2 “market led, innovative and customer-focused” (Equity bank intranet) whose stretch goals are:-

- Growth and support for agency banking
- Promotion of alternate business channels and grow M-banking and E-banking

The bank successfully rolled out agency banking, mobile banking using both safaricom and orange platform and internet banking which has seen the bank contribute enormously in reaching the unbanked.

1.2 Statement of the Problem

There have been many challenges in financial inclusion such as bridging the gap between the sections of society that are financially excluded within the realm of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms.

[42] Clearly stated, in order to grow consumer internet banking adoption, banks must make key improvements that address consumer concerns. Initially the banks focused on local markets but on recent days have extended its range in terms of markets and services to a national, multinational, and even global reach; Such dynamism of the environment has forced banks to redesign their strategies and redefine their business priorities to focus on delivery channels differentiation, Failure to constantly redesign strategies that adapt the bank to its environment may lead to a strategic mismatch between what an organization offers and what markets demand. However, owing to bank charges many low-income consumers who want to retain close control over their finances often find it difficult to manage bank account. Roughly 1 in 20 households still lacks a formal bank account.

[25] said that despite of the rapid rollout of mobile services over the past decade, mobile transactions, including mobile banking and payments, have not been used as much as expected as well as internet banking while [13], [17]; [28] said Perceived risk and trust are interlinked concepts and have been frequently identified as key barriers to adopting online and mobile services

The delivery of banking services through technology calls for intensive information security especially from experience security related issues result in frauds that has potential to undermine public confidence in the use of electronic payment products though strong security measures such as second factor Authentication which is mandatory for all cards not present transactions in addition present cards transactions are currently using chip and personal identification number over a defined time period and SMS mandatory for all card transaction which can bring disharmony in many families ie Equity bank online SMSes go through at midnight which has a potential of breaking weak founded marriages .

The ease and efficiency in operations for the customers is very crucial, frequent system failures would deter customers from using the delivery channels like M-Kesho product for Equity bank and Safaricom which has failed. The geographical peculiarities and infrastructure availabilities might lead to challenges such as integration with current systems, support issues and people at the operating level may not fully apprehend all the products and technologies. Agency banking solutions lacks of support from Bank.

2.0 Literature Review

2.1 Introduction

There has been a general trend towards change of roles by banks especially in a bid to keep up with competition from other financial institutions. [43] from their study on 40 Canadian banks developed the theory that brokerage activities that banks are recently engaging in allow them to have a greater discretion in choosing syndicate partners and together are able to provide access to timely and non-redundant financial services.

[29] in their assessment of the risk implications of the changing structure of the European banking industry proposes that it has shifted away from traditional intermediation activities (deposit funded loans) towards activities generating non-interest income(wireless banking).

Another major factor is the pressure of globalization and a difficult domestic economic environment. [24] did a study on Japanese banks and establish that some of these banks appear to have shifted their operational focus from developing growth-enabling core competencies to reducing organizational costs. Most Japanese banks experienced extensive Mergers & Acquisitions activity at earlier points in their corporate histories. The recent flurry of Mergers &Acquisitions in the banking sector is nothing new, but rather a resurgence of past practices in a bid to allow rapid downsizing and increased scale economies while avoiding massive layoffs. However the main reason that has pushed banks towards innovations on its products and services delivery channels in the context of developing countries like India where the banking services on mobile channel were launched few years ago yet the usage of such services has not reached the desired level, it becomes more important to look for the factors operating on consumer's side.

2.2 Theoretical Review

These changing roles that banks have adopted can broadly be described as an exploitation of growth strategies available to them in the market and effectively incorporating such strategies in enabling them to grow and expand in terms of market share while at the same time ensuring financial inclusion hence economic growth. Innovation can be classified along several dimensions, including uniqueness or newness and can be classified by whether it is directed towards the product, production process, market segment or business system [22] According to [10], previous studies have emphasized the importance of distinguishing between different types of innovation because it helps in identifying the determinants of innovation.

The relationship between innovation and financial performance has a long history [46],[47]. Thus, a large body of research regarding this relationship exists and has found that innovation is a key component for long-term firm success. In addition, several scholars argue that innovative businesses are more successful than others [8] However, research has also shown that innovation can be risky and that failure is the most likely outcome of, for example, product innovations [9] Furthermore, [50] argued that the benefits of innovation vary and may not accrue at all.

2.3 Growth Strategies

Ansoff has explored the various growth strategies in depth with the product market grid, which has proven to be very useful in business unit strategy processes that determine business growth opportunities. Ansoff’s product/market growth matrix suggests that a business’ attempts to grow depend on whether it new or existing products in new or existing markets. It has two main dimensions: products and markets.

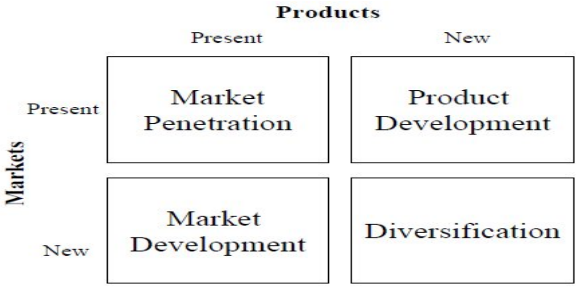

Figure 1: The Ansoff Matrix. Source [2]

The Ansoff Matrix was first published in the Harvard Business Review in 1957, and has given generations of marketers and business leaders a quick and simple way of thinking about growth.Sometimes called the Product/Market Expansion Grid, the matrix (see Fig. 1) shows four ways that businesses can grow, and helps people think about the risks associated with each option. The four growth strategies based on existing and new markets and products. [2], [23] elaborates four growth strategies from these two dimensions.

2.3.1 Market Penetration

Market penetration is a growth strategy where the business focuses on selling existing products into existing markets. The strategy adopted is often meant to achieve economies of scale through more efficient service delivery, distribution and overhead sharing.Market penetration seeks to achieve the following objectives:

Maintain or increase the market share of current products – this can be achieved by a combination of competitive pricing strategies, advertising, sales promotion etc

Secure dominance of growth markets.

Restructure a mature market by driving out competitors; this would require a much more aggressive promotion campaign, supported by a pricing strategy designed to make the market unattractive for competitors.

2.3.2 Market Development

Market development is a strategy where the business seeks to sell its existing products into new markets. The strategies basically aim in enticing clients away from competitors or introduce existing products in foreign market or introduce new brand names of existing product in a market.Ways of approaching this strategy are:

- New geographical markets; for example exporting the product in remote areas
- New product dimensions or packaging.
- New distribution channels.
- Different pricing policies to attract different customers or create new market segments

2.3.3 Product Development

Product development is the name given to a growth strategy where a business aims to introduce new products into existing markets. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets this strategy aims at selling other products to regular clients through accessories, completely new product, or even add-ons.A strategy of product development is particularly suitable for a business where the product needs to be differentiated in order to remain competitive. A successful product development strategy places the innovation emphasis on:

2.3.4 Diversification

Diversification is the name given to the growth strategy where a business markets new products in new markets. This is an inherently more risk strategy because the business is moving into markets in which it has little or no experience. For a business to adopt a diversification strategy, therefore, it must have a clear idea about what it expects to gain from the strategy and an honest assessment of the risks. However, for the right balance between risk and reward, a marketing strategy of diversification can be highly rewarding. Often there is a credibility focus in the communication to explain why the company enters new markets with new products. In this study, we shall narrow down on the innovation of service delivery channels strategies.

2.4 Innovated Service Delivery Channels

In the application of new delivery channels such as E-banking,M-banking and agency banking strategies, a good opportunity can be found outside the present businesses [27].described a good opportunity to be one in which the industry is highly attractive and the company has the mix of business strengths to be successful. Ansoff in his market grid noted that new competencies which compel institution to modified products which can appeal to existing markets, this strategy aims at selling other products to regular clients through accessories, completely new product, or even add-ons strategies can also increase financial inclusion.

[29] in support of the relationship between risk and innovations did a study on product broadening in the European banking industry. It shows that banks expanding into non-interest income activities present higher risk than banks which mainly supply loans. Whereas previous studies (mainly on U.S. banks) focused on portfolio expansion effects, they explore risk implications of cross-selling determinants of loan pricing as an alternative explanation. Their results show that higher income from other activities is associated with lower lending rates which suggest that banks may actually use loans as a loss leader, altering default screening and monitoring activities and consequently risk pricing. Another thread of the literature reports that there is no innovation benefits or still increase risk when combined with traditional and non-interest income activities. According to [5] expansion by banks into branchless activities during the seventies tended to Increase the risk of failure of banks during the less stringent policy period.

[29] concluded that banks, which have expanded its operations into non-interest income activities, present a higher level of risk than banks, which mainly perform traditional intermediation activities. A closer investigation shows that risk is mainly positively correlated with the share of fee-based activities. This result also holds when we consider the link between risk changes and high expansions within our sample period.

[49] Notes that there are key lessons to be learnt, especially for emerging markets, such as those in the Middle East. In the main, what these reviews show is that, although the road to maturity can be both challenging and quick the underlying problem is that without constant re-invention and broadening the product, the outlook can quickly become stale.

2.5 The Categories of Innovated Service Delivery Channels

Innovated Service delivery channels in a bank are broadly classified into related delivery (different lines of services are linked) or unrelated delivery (no links between service delivery).

2.5.1 Related Service Delivery

Related service delivery is entering into a process those posses some kind of ‘strategic fit’. Strategic fit exists when businesses have sufficiently related value chains that give rise to important opportunities for example, transferring skills and expertise from one activity to another. It involves developing beyond one’s product process but still within the confines of the industry [23] also defines it as the innovation to a new activity in a different industry that is related to a company’s existing business activity(s) by commonalities between one or more components of each activity’s value chain. These commonalities are mainly marketing or technological. Gains arise from the transferring and leveraging of competencies and from the sharing of resources [21]ie agency banking

[18] suggest that product expansion may also achieve competitive advantage for banks through economies of scale and other synergies from using the banks resources and capabilities across different product lines ie macro insurance services. [39]; [31] propose that such synergies from product expansion are more likely to be realized when firms expand into related lines of business or industries. Normally related expansion may take various forms i.e vertical integration, horizontal integration, or concentric expansion.

2.5.1.1 Vertical Integration

When main strategy of a firm encompasses the acquisition of businesses that either supply input or serves as an agent for the firm’s outputs, vertical integration is involved [37];[33] states that banking is consolidating at a rapid pace, with integration of related financial services (agency banking, insurance, credit card) along with input services (check clearing payments, electronic funds transfer, online banking) into the parent companies. Vertical integration can forward integration where the bank develop into activities concerned with a firm’s output, which is further forward into the value chain like distribution and marketing activities [37].

2.5.1.2 Horizontal Integration

When the long-term strategy of a firm is based on growth through the acquisition of one or more similar businesses operating at the same stage of the production-marketing chain, its grand strategy is called horizontal integration [37] Such acquisitions provide access to new markets for the acquiring firm and eliminate competitors. It is the process of acquiring (using capital resources to purchase another firm) or merging(agreeing with an equal to pool their operations to create a new entity) with industry competitors in an effort to achieve the competitive advantages that come with large scale and scope [21]I.e. Equity limited which controls a significant stake in Housing finance.

2.5.1.3 Concentric

When expansion involves the addition of a business related to the firm in terms of technology, markets, or products, it is concentric .With this type of grand strategy, the new businesses selected possess a high degree of compatibility with the current businesses. The ideal concentric expansion occurs when the combined company profits increase strengths and opportunities, as well as decrease weaknesses and exposure to risk. Thus, the acquiring company searches for new businesses with products, markets, distribution channels, technologies and resource requirements that are familiar but not identical, synergistic but not wholly interdependent [37].).This diversification means seeking new products that have technological or marketing synergies with existing product lines, even though the products themselves appeal to a different group of customers [23];[6] propose that concentric expansions, as a strategy, may be more logical for service firms than for product firms. The reason is that many offerings of new core services by a firm are not compatible with the existing line or existing market segments e.g. equity bank limited controls some stake at Britam insurance.

2.5.2 Unrelated service delivery

This strategy, also known as conglomerate diversification, is based on entry into industries that have no obvious connection to any of a company’s value chain activities in the present industry. The chief focus is to increase profitability by exploiting general organization’s competencies. However, it is difficult to transfer or leverage competencies and to realize economies of scope [21].Occasionally a firm, particularly a very large one, plans to acquire a business because it represents the most promising investment opportunity available. The principal and often sole concern of the acquiring firm is the profit pattern of the venture. There is little concern given to creating product/ market synergy with existing businesses, unlike the approach taken in concentric diversification. For example, a company may seek a balance in their portfolios between current businesses with cyclical sales and acquired businesses with counter-cyclical sales, between high-cash/low-opportunity and low-cash/high-opportunity businesses, or between debt-free and highly leveraged businesses [37].

Unrelated diversification means seeking new businesses that have no relationship to its current technology, products, or markets [23] i.e. equity bank limited entered into a partnership with MasterCard foundation to support needy and marginalized, Equity and hussgas contract for sale of gas cylinders and equity bank limited contract with roto to sell roto tanks.

2.6 Conceptual Framework

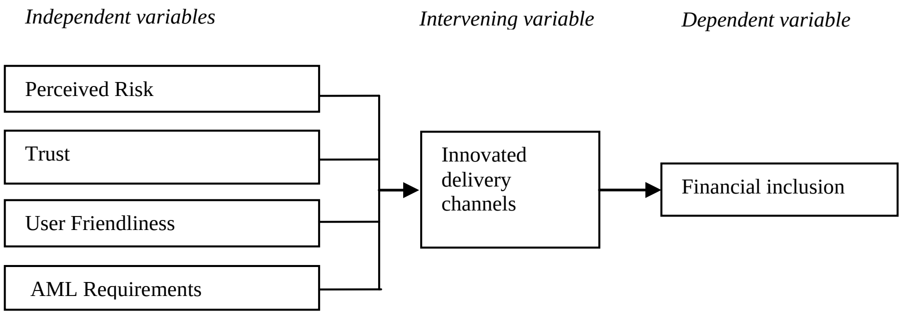

Figure 2: Conceptual Framework

- Independent variables

This represents factors that are considered very crucial in clear understanding of the diversification and innovations

- Dependent variables.

This represents the expected outcome after application of the independent variable. This will show the interrelationship between the above variables based on the subject under study. In order to understand the impact of financial inclusion we need to examine the benefits and the challenges faced by bank in its endeavor to scale up financial inclusion.

2.7 Challenges of Bank Innovations on Financial Inclusion

The success of bank product innovation technologies is not given. Many variations of these systems have failed and some have succeeded. Alternative innovations removes provider from recipient hence need for clear communication about how the product functions and what services it can or cannot offer is vital when designing and marketing this to consumers further• Client’s lack of trust in M-banking,E-banking and Agency banking which in most cases is due lack of knowledge of product and its relationship to a traditional bank. Mobile phones are shared making it hard to meet KYC requirements agents may not fully understand all features offered by mobile money providers. They may also not completely back the technology considering it as a threat to their livelihoods; Lack of vernacular language support in applications makes it difficult for the customer. Low transaction limits due to Anti money laundering requirements

2.7.1 Perceived Risk on Innovated Channels and Financial Inclusion.

A study by [52] indicated that perception about risk and costs were the variable which significantly affected user behavioral intent. As the technologies have changed with the time, the factors underlying the perception of risks have also changed. Initially they were associated with product-related attributes as the e-commerce came into picture the risk perception got distributed on product as well as internet-related characteristics. Relating to mobile banking the factors like bank balances, fraud related to tempering of financial data without the knowledge of customer and theft of pin numbers generated many concerns among the customers. Previous studies have demonstrated the effect of perceived risk on behavioral intent to use in context of online transactions [14]; [7].The concerns about one's privacy, risk of transaction failure along with the charges of connections were among prevalent inhibitors of mobile commerce and mobile internet adoption.

2.7.2 Trust an Innovated Channels and Financial Inclusion

The concepts of risk and trust have emerged together in mobile commerce adoption [52];[32]. The temporal separation of users with providers has rendered much importance to the trust between two parties. Users have to disclose their personal information such as telephone numbers, credit card details to the seller [4];[20]The domain of mobile and internet services trust can be defined as user's faiths on degree to which a specific wireless application can be regarded to have no security and privacy threats ([16]. [37] showed in their study that reliable and efficient self-service technologies may cause customers to trust and identify with banks. The study by [48] proposed a framework for customer trust in mobile commerce and postulated that both perceptions on bank technology are influential in trust formations.

2.7.3 Perceived Eases of Using Innovated Channels and Financial Inclusion.

literacy level of the rural population, availability of trained manpower in the villages to ensure that transactions are carried out in a user friendly manner in the local language and that the customers smoothly transit from assisted model to self-service model in using technology,e.g. use of Agency banking module, mobile banking and internet banking delivery channels. The public confidence has been eroded due to failures associated with information computers based technologies thus, need for quick address; Banks also have to ensure that the turn-around time between account opening and account operationalization has to be minimized so as to gain confidence of the customers in such models ie orange money. Behavioral intention is influenced by a user's attitudes towards a product which in turn is affected by the perceived usefulness of the product and its perceived User Friendliness (Davis et al., 1989). Perceived usefulness refers to the degree to which using a specific product will increase a user's ability to achieve desired goals, whereas perceived User Friendliness refers to the extent to which the use of the system is free of effort [11].

2.7.4 Anti Money Laundering Requirements on Innovated Channels and Financial Inclusion

AML requires Adoption of a written AML program with internal policies, procedures and controls for: Verifying customer identification, Filing reports as required by your local regulations, creating and retaining records, responding to law enforcement requests, Licensing requirements, Compliance with local regulatory requirements, Employee and Compliance Officer training among others. Online services are characterized by small amounts of money transfer which may not favor business transactions except electronic banking which also faces the problem of anti-money laundering limit requirement

3.0 Research Methodology

3.1 Research Design

Descriptive research design is used in this study which its main purpose is that of formulating a problem for more precise investigation according to [26] this is a survey of people who have experience with the study subject he observed that people who are competent to contribute to the study subject can be carefully selected as respondents to ensure representation of different types of experience. . The customers of the innovated delivery channels under consideration, that is, E-Banking, Agency Banking and M-Banking hence they have hand on experience with the innovated delivery channels which is important to investigate if they use the innovated channels out of will or compelled. The researcher explored the customers at selected Sections – Retail, Corporate and Supreme to represent the rest of the active and potential customers of Equity bank limited.

Exploratory research design is also used in this research because of the unique benefits it presents such as provision of ample opportunity to interview the customers using the innovated channels under deliberation, benefit of getting prompt responses, it is capable of obtaining representative information for a large population as the case is in this research, it is inclusive in the types and number of variables that can be studied and requires minimal investment to develop and administer and its relatively easy for making generalization according to (Kothari, 2006). The nature of the research area explored requires solicitation of opinions and preference of customers using the innovated channels under consideration and in the wider region,

3.2 Target Population

The targeted population in this research comprised of all customers of equity bank limited operating accounts in any of the five branches in Mombasa county who were utilizing any of the three innovated channels under consideration –E Banking,M-Banking and Agency Banking. It was fundamentally important to target this population because besides increasing Efficiency this aspect is very key in financial inclusion.

3.3 Sample Frame

[26] Defines sample frame as a source material or device from which a sample is drawn. The sample frame of this study constitutes of two branches within Mombasa Island this comprises of Moi Avenue Branch and Mombasa Digo Road Branch, all with three branches under them. The researcher considered these as the leading branches with well-established platform for innovating alternative delivery channels.

3.4 Sampling Techniques and Sample Size

Stratified sampling was used to select a representative sample. Stratified sampling method was used because the Equity bank has grouped the existing population of customers into peers. The peers are classified into Supreme, corporate and retail. These peers are established depending on customer status with major focus on the ability to pay the charges associated in every class as well as the type of business undertaken. These peers form different classes of banks that could be classified into strata. The sample consisted of 200 customers of equity bank.

3.5 Data Collection

An official letter of introduction was obtained from Jomo Kenyatta University of Agriculture and Technology .The researcher, through a formal request letter, sought for grant of permission from Equity Bank Limited collect data from the customers queuing in the banking hall at the Retail, Corporate and supreme Sections. The researcher engaged five research assistants to help in the data collection at the bank. Handed with the refined questionnaires, the researcher and two assistants were stationed at moi avenue branch and the other research assistants were stationed at digo road branch. Very brief introduction was made and customers requested to fill the questionnaires. If more than one customer turned up at the banking hall at the same time, the researcher randomly administered the questionnaires. Interview data collection method was also applied for clarity and wider scoped data. The researcher and assistants thanked each respondent and after completion of data collection exercise, proceed to sort the questionnaires for data processing and analysis.

3.6 Data analysis

[2009] defines data analysis as the process of computation of certain indices or measures along with searching for patterns of relationship that exist among the data group. Further [35] added that the data must be cleaned, coded and analyzed from the results of which the researcher is able to make sense of the data. Data is analyzed with the aid of

SPSS (Statistical Package for Social Sciences). Then both qualitative and quantitative analysis methods are applied to further analyze the statistical data obtained. The analyzed data is presented tables, graphs and charts

4.0 Research Findings and Discussion

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The research findings are presented on the innovative factors that affect financial inclusion as the principal objective of this study but on the basis of four specific objectives. The data analyzed was collected using questionnaire which was designed in line with the objectives of the study. To bring out a more conceptual view of the variables under consideration, a further analysis was undertaken to obtain the means of the respondents' responses. The tables are used to indicate the statistical results of each independent variable.

To determine the relationship between the dependent variable (Financial inclusion) and each of the independent variables in this study (Perceived risk on innovated channels, trust on innovated channels, User Friendliness of innovated channels and anti-money laundering requirement on innovated channels) the researcher undertook a correlation analysis using SPSS.

4.2 Response Rate

The study targeted 200 active customers of three selected customer peers in Equity Bank in 5 branches in Mombasa County that is, Supreme, Corporate and Retail. Although all the questionnaires were filled, six were found to be incomplete and 26 were not yet returned by the time of analysis. Hence the researcher undertook the analysis on the basis of 168 questionnaires which represents 84 %. According to [35] a 50% response rate is adequate, 60% good and above 70% rated very good. This implies that basing on this assertion; the response rate in this case of 84 % is very good.

4.3 Demographic Information of Respondents.

For the researcher to assess the innovative factors that affect financial inclusion in banking industry, it was considered important to establish the demographic information of respondents which included: gender, nature of account held, period of account operation, This was done on the three customer peers that is supreme, corporate and retail The distribution of the respondents according to the above demographic characteristics was as shown in tables and graphs below.

4.3.1 Gender

In terms of gender, the majority of those who took part in the survey were male. From Table 1, majority of the respondents 128 (76.20%) were male while the remaining 40 (23.80%) were female. From this it can be deduced that majority of the account holders are male

Table 1: Respondents Gender

		Frequency	Percent	Cumulative Percent
Valid	Male	128	76.2	76.2
	Female	40	23.8	100.0
	Total	**168**	**100.0**	

Maybe this could be a reflection that many men own bank accounts than women, As to whether either of the genders uses innovated channels of distribution is another distinct area of study

4.3.2 Age of the respondents.

52.4% of the respondents were aged between 25 and 30 years, 28.6% were aged between 31 and 35 years,9.5% were aged 36 and 40 year while the remaining 9.5 % were aged between 41 and 45 years. The results imply that majority of the respondents were still young in the age bracket of 25 and 30 years.

4.3.3 Duration in the Bank

9.5% of the respondents have operated bank accounts for a period less than 3 years, 57.10 % have operated bank account for a period between 3 to 5 years, 23.80 % have operated bank account for a period between 6 to 10 years while the remaining 9.50 % have operated account for period of over 10 years. The results imply that majority of the respondents have had an account with the bank for a period between 3 to 5 years. Thus, most of the customers are more experienced in terms of the account operations hence their opinions are reliable.

4.3.4 Bank accounts Held.

Majority of the respondents 88 (52.40%) are operating Savings Account, 64 (38.10 %) are operating current accounts, 8(4.80 %) are operating Super Junior accounts while 8 (4.80 %) are operating fixed deposit. From this it can be deduced that majority of the customers operate saving account due to their nature. They are easy to start, operate and manage.

4.4 Perceived Risks and Financial Inclusion.

4.4.1 Perceived Risk on Innovative Channels

The data revealed that 33 % of the respondents moderately agreed that the banks had innovated risky channels in its pursuit of providing a variety of services in the industry. Further, 43 % of the respondents strongly agreed so. The results indicate the respondents agreed that the banks had innovated risky channels. The study also found that 14 % of the respondents were neutral on whether the bank had innovated risky channels in its pursuit of providing a variety of services in the industry and the remaining 10%strongly disagreed that the bank had innovated risky channels in its pursuit of providing a variety of services in the industry. It can therefore be concluded the banks have innovated. The results imply that the respondents agreed that the banks had innovated risky channels.

4.4.2 Numerous delivery Channels

66.7 % of respondents strongly agreed that the bank has innovated numerous channels of service delivery, 23 % moderately agreed that the bank has innovated numerous channels of service delivery,4.8 % moderately disagreed that the bank has innovated numerous channels of service delivery and remaining 4.8 % were neutral.

4.4.3 The Innovated Agency Banking Module in Urban Centers

Majority of the Respondents 136 (80%) strongly agreed that the bank innovated agency located in urban centers for both new and existing customers, 24(14%) moderately agreed with the same while the remaining 8(4.8%) moderately disagreed that the bank has innovated agency banking located in urban centers for both new and existing customers from this it can be deduced that urban areas have got better facilities which attracts setting up of technology based modules.

4.4.4 Accessibility of Banking Services Through Innovated Channels in Rural Areas

Majority of the respondents 104(61.9 %) strongly disagreed that they can access banking services while in rural home through the innovated channels, 8(4.8%) were neutral on the same, 32(19%) moderately agreed you can access banking services while in rural home while the remaining 24(14.3%) strongly agreed they can access banking services while in their rural home.

4.5 Trust on Innovated Channels and Financial Inclusion

The mean scores of 2.10, 2.29 and 2.52 lie within strong disagreement of the respondents to the statements, I highly trust that my bank information details are secure with estate agent (agency banking), I trust that my transactions will hit my account the same day I transact with my phone (M-banking), I trust that I can pay my employees using my computer without having to visit the Bank (E-banking) respectively. Further the standard deviations from the mean range from 1.365 to 1.578 shows the respondent's opinions are close to one another.

4.6 AML Requirements and Financial Inclusion

Table 2: AML Requirements

	I can transfer upto 500,000/- for business transaction through my phone (m-banking)	I can pay my cargo worthy 5,000,000/- or more in Japan through my computer (E-banking).	I can transact 500,000/-and more from my agent (agency banking).
Mean	2.14	2.71	2.33
Std. Dev	1.315	1.648	1.390
Variance	1.729	2.714	1.933

The mean scores of 2.14, 2.71 and 2.33 lie within strong disagreement of the respondents to the statements I can transfer upto 500,000/- for business transaction through my phone (m-banking, I can pay my cargo worthy 5,000,000/- or more in Japan through my computer (E-banking), I can transact 500,000/-and more from my agent (agency banking), respectively. Further the standard deviations from the mean range from 1.315 to 1.648 shows the respondent's opinions we closely unanimous.

4.7 Perceived User Friendliness of Innovated Channels on Financial Inclusion.

Perceived Risk towards innovated channels is very significant and can be transferred to use of the channel hence influences financial inclusion. From Table 3 the mean scores of 2.57, 1.62, 2.29, 2.10 and 2.95 lie within strong disagreement of the respondents to the statements, All my relatives and neighbors in the estate are able to use all the bank innovated service delivery channel with little or no help, All my relatives and neighbors in rural (remote areas) have innovated bank account either through internet or mobile (M-kesho account), My house help, gardener and watchman operate their accounts through their mobile or computer without any help, My grandparents can transact over the phone without any assistance, My uncle who is a peasant farmer has opened an account for his farming activities, respectively. Further the standard deviations from the mean range from 0.921 to 1.746 shows the respondent's opinions were close to each other.

Table 3: User-friendliness of Innovative Channels and Financial Inclusion

	My relatives & neighbors are able to use all the bank innovated service delivery channel with little or no help?	My relatives & neighbors in rural have innovated bank account either through internet or mobile (m-kesho account)?	My house help, gardener and watchman operate their accounts through their mobile or computer without any help?	My grandparents can transact over the phone without any assistance?	My uncle who is a peasant farmer has opened an account for his farming activities?
Mean	2.57	1.62	2.29	2.10	2.95
Std. Dev.	1.568	.921	1.384	1.375	1.746
Variance	2.457	.848	1.914	1.890	3.048

4.8 Correlations between Independent and Dependent Variables

Table 4: Correlation between Anti-MoneyLaundering and Financial Inclusion

		Financial Inclusion	AML Requirements
Financial Inclusion	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	168	
AML Requirements	Pearson Correlation	-.692**	1
	Sig. (2-tailed)	.001	
	N	168	168

The correlation between AML (IV) and Financial Inclusion (DV) in this study was found to be -0.692 (Negative) at significant level of 0.001.for this reason an increase or decrease in independent variable (AMLR) results into slightly 10% increase or decrease of dependent variable (FI) in the opposite direction. Hence though the two variables are related, the relationship is highly negative. Tightening the anti money laundering low would also decrease financial inclusion.

Table 5: Correlation Between Trust on innovated channels and financial Inclusion

		Financial Inclusion	Trust on innovated channels
Financial Inclusion	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	168	
Trust on innovated channels	Pearson Correlation	.579**	1
	Sig. (2-tailed)	.007	
	N	168	168

**. Correlation is significant at the 0.01 level (2-tailed).

The correlation between Trust on innovated channel (IV) and financial inclusion (DV) at 0.01 significant levels showed the PPMC to be 0.579 (positive). Hence the two variables-Trusts on innovated channels (IV) and FI (DV) move in the same direction so as Trust increases (IV) the financial inclusion (DV) also increase at 57.9% rate. The same would apply to any decrease.

Table 6: Correlation between Perceived risk and financial Inclusion

		Financial Inclusion	Perceived Risks in Financial Inclusion
Financial Inclusion	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	168	
Perceived Risks in Financial Inclusion	Pearson Correlation	-.299	1
	Sig. (2-tailed)	.188	
	N	168	168

The correlation between risk on innovated channel (IV) and Financial inclusion (DV) at 0.01 significance level showed the PPMC to be 0.299 (Negative). Hence the two variables-risks on innovated channels (IV) and FI (DV) move in the different direction so as risk increases (IV) leads to decrease in financial inclusion (DV) hence the two variable change at a rate of 29.9 % in opposite directions.

5.0 Summary, Conclusion and Recommendations

5.1 Summary Of the Findings

The main purpose of this study was to assess the Innovative factors that affect financial inclusion in banking industry with major emphasis of Equity Bank.

The study was guided by 4 objectives;

- To analyze how perceived risk on innovated channels affect financial inclusion.
- To determine how trust on innovated channels affect financial inclusion.
- To find out how User Friendliness of innovated channels affect financial inclusion in Kenya.
- To assess how anti-money laundering(ALM) requirements on innovated channels affects financial inclusion

5.1.1 Perceived risk on innovated channels and Financial Inclusion

The study showed that majority of the respondents (89.7%) agreed that the bank has innovated numerous service delivery channels thus confirming alternative channels are readily available. This has an implication that majority of the respondents could readily access bank services without having to visit the bank.

Majority of the respondent further confirmed that they are using the innovated channels 52.40% of the respondent were using M Banking services, 38.10% of the respondent were using Agency Banking, 4.80 % of the respondent were using E-Banking while the remaining 4.80% were multi channeled using M Banking and Agency banking. Thus the respondents were of ignorant of the availability of (ABC) alternative delivery channels

The study further found out that majority of the respondents (94 %) agreed that the bank innovated agency banking located in urban centers for both new and existing customers and thus the access of financial services was high and customers could be served from the estates which confirms the availability of better facilities which attracts setting up of technology based modules.

However, the study reveals that majority of the respondents (61.9%) reported that they could not access financial services when they travel in their rural set ups. This non accessibility factor can be an impediment to Financial inclusion. Moreover majority of respondent 76 % agreed that the banks had innovated risky channels in its pursuit of providing a variety of services in the industry which can be a barrier to financial inclusion. The study further revealed that the bank innovate numerous channels which are not sustainable in long run this would make it more difficult to utilize the innovated channels due to unforeseen future reliability.

From the study it is revealed that incase a transaction is not successful it takes over 48 hours to be rectified which the corporate and supreme customers find it hard to make Business payments since risk averse.

Finally the study also revealed that the management was not responsive enough to customer complaints as the respondent felt that the online notification through SMS was wrongly timed often going through at midnight

5.2.2 Trust on innovated channels and financial inclusion

The study shows that majority of respondents (72.60 %) felt that their Bank details information was not secure with the estate agent; the agent has been entrusted by the bank to provide financial services on behalf of the bank. this can bar new customers from opening and operating an account with the bank on account of trust.

The study also found out that the majority of respondent (57 %) were concerned on the efficiency of M banking and they confirmed that the transaction does not hit the account the same day they transact through the phone hence afraid of losing the finances. this has contributed to financial exclusion.

The study further revealed that all the respondent 100% unanimously agreed that they could not rely on the E banking to process staff salaries at the comfort of their PC they raised concern of their information being vulnerable to hackers and could lose their finances. This affects financial inclusiveness negatively.

The mean scores of between 2.10- 2.52 shows that the respondents felt their bank information details were not secure with estate agent, M banking was not efficient and E Banking was not reliable .this indicates that innovated channels are wanting and have limited financial inclusion. Further the standard deviations from the mean 1.365 to 1.578 shows the respondent's opinions were in agreement.

5.2.3 User Friendliness of innovated channels and financial inclusion.

The study found out that majority of the respondent (52.40 %) found it very hard to operate the gadgets without any help. Further the aged and peasant farmers could not operate the innovated channels without any help hence this indicates that majority of respondents were skeptical about User Friendliness of innovated channels. However, a significant number of respondents indicate user friendliness this has bared a segment of the market from accessing bank services through the innovated channels which has affected financial inclusion in the opposite direction.

Further, the study revealed that perceived User Friendliness of innovated channels is very significant and can influence the use of the innovated channels hence impacting financial inclusion. The overall mean scores of 1.62-2.95 found the innovated channels to be complicated. Further the standard deviations 0.921 - 1.746 shows the respondent's opinions were unanimous on this variable.

5.2.4 AML Requirement on innovated Channels and Financial inclusion.

The study found out that the majority of the respondent (76.2%) although utilizing the M banking they could only transfer upto 100,000/- an amount that business people felt was too minimal for a business transaction.

Further, the study established that the telegraphic money transfer could only be initiated from the bank and not from the innovated channels which importers and exporters found to be an impediment to financial inclusion. This is clearly demonstrated by the respondents unanimously agreement (100 %) that they could not send a TT from their PC which the businessmen considered unreliable.

The study further revealed that majority of respondents could not withdraw above 100,000/- from agent locations at once. The researcher sought to establish the whether it was system problem or a matter of policy and it was found that this was an implementation of AML policy from CBK.

5.3 Conclusions

Generally from the study carried out, this researcher found out that there was widespread user apathy towards the use of innovated delivery channels in carrying out transactions, and this could primarily be attributed to their perception on the innovated channels. However the study concluded that if stringent measures like increasing reliability which improves customer confidence, introducing charges and commission for over

5.4 Recommendations

Following this study, it is hereby recommended as hereunder:-

1. That the bank under study and by extension all financial institutions consider minimizing the perceived

risks associated with the current innovated channels. This is due to increasing E-Crimes in the global financial sector. The banks therefore should strive to be in the head-start technologically to avoid defeats in their own games and win the confidence of their customers.

2. That bank instills trust in the customers through ensuring that the innovated e-channels are trustworthy, transactions through innovated channels are almost real-time, the middle-dealers in the services distribution are credible and meet the Central Bank of Kenya regulatory requirements and constant appraisals are undertaken on the existing innovated channels for relevance and upholding customer trust.
3. That the bank comes to the realization that all customers are not technologically savvy and therefore all newly introduced innovated channels are as user friendly as possible to all customer across the board regardless of literacy level to ensure all-inclusiveness.
4. Although the study shows that the bank under consideration has fully complied to the statutory requirements on AML (Anti-money Laundering), it is apparent from this study that customers undertaking international transactions are constrained by the funds transfer limits under the AML law. Although this requirement is appropriate to risk-averse business people, it is recommended that banks explore new innovative channels to facilitate international transactions.

5.5 Recommendation for Further Study

In the course of undertaking this study the researcher realized the need for further study in this area in the following aspects.

1. The researchers should device instruments of measuring the perceived risk on Customers through further research.
2. Future researchers dig into user friendly technology platform that can be applied by banks to develop user friendly channels

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