# A SURVEY OF CHALLENGES FACING THE GROWTH IN USE OF PLASTIC CREDIT AND DEBIT CARDS IN KENYA

**MURIU SAMMY MATIRU**

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## DECLARATION

I declare that this is my original work and has not been presented for a degree in any other University.

**S.M MURIU**
**D61/P/9081/04**

**SIGNED..………………………………DATE**…………………………….

I confirm that I am the supervisor of this student and that I have read this final draft and I believe it to be the student's own original work.

**JOSEPH BARASA**

**SIGNED**……………………………….**DATE**……………………………

## DEDICATION

This project is dedicated to my wife Naomi, daughter Njeri & Wangui and son Muriu together with all those other who believe that the solution of the future payment system is plastic cards.

**ACKNOWLEDGEMENT**

I would like to thank all those people that helped me to ensure the success of this project. More so I would like to thank Mr Barasa Joseph for the useful comments that he gave when carrying the research and his timely response whenever I needed it. Others include all the Kenya Credit & Debit Card Association (KCDCA) Card Managers and in particular Catherine Mogambi (CBA) and Mr Ruitha (I& M) who took extra time out of their busy schedule to grant me time to interview them in addition to all the respondents who agreed to fill the questionnaire.

Finally, my gratitude goes to Postbank for sponsoring half of the cost of the entire MBA programme and thus creating a favorable stress free financial environment and thus enabling me to concentrate more in my class work.

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## DEFINITION OF TERMS

- **A cardholder**-any person holding a plastic card, which can be used to obtain goods and services.
- **Plastic Cards-** In this project, "plastic cards" means both Credit and Debit cards as a mode of payment for goods and services.
- **A card issuer**- this is any organisation, which issue plastic cards to its customers.
- **Merchants**-these are outlets where plastic card are used to obtain goods and services e.g. supermarkets, hardware shops, petrol stations, airlines, hotels among others.
- **Regulatory body-gives** guidelines pertaining to rules and regulations to be followed in the card business related to a certain brand this franchise holder for example Visa International.
- **Acquirer-T**his is a bank which sign contracts with merchants so that they can start accepting cards. An acquirer pays merchants directly. In Kenya the two prominent acquirers are Barclays Bank and Kenya Commercial Bank.
- **Visa International, MasterCard, Dinners** and other card franchise companies-these are franchise holders and they license card issuers to use their respective brand name on plastic cards.
- **A debit card**-a plastic card which is only used in an electronic environment. It has to be authorized 100% on line and one has to have a bank account with the issuer bank.
- **A credit card**- A cardholder uses his payment card to buy goods and services instead of using cash. Card issuers then debit the cardholder with transaction amount and sent a statement to the cardholder. The cardholder can choose to pay all the balance outstanding to the issuer or just part of it and roll over the balance to next month.
- **A charge card**- it operates the same way as a credit card with the exception that one has to pay full amount on receipt of the statement.
- **Card authorization process**- this is a process of seeking approval by merchants before rendering services from card issuers.
- **KCDCA-** Kenya credit and debit card association- this is an association of card issuers in Kenya that lobby for members interest.

# ABSTRACT

The first plastic card in Kenya was launched in 1967 by Diners club Africa Limited (Mahinda, 1991). However, the peak in usage of plastic cards in Kenya was not realized until 1980's. The development of the Kenya domestic plastic credit card market is mainly due to aggressive marketing of Diners Club Card. The objective of this study was to identify what challenges the industry is facing on the usage of plastic cards, identify the determinants of growth in usage of plastic cards in Kenya and document the current trends on use of plastic cards in Kenya. The research question for the study were

i) What are the factors hindering the use of the plastic cards in Kenya?

ii) What has been the customer's response on introduction of credit and debit cards in Kenya?

The research was carried out through descriptive survey method. A sample of all cardholders was required to represent the views of all cardholders and a representative sample of 30 Cardholders. The data collection instrument for the cardholders and non-Cardholders was a questionnaire and the instrument for data collection for the Card Issuers was an interview guide. Data analysis method was content analysis for the Cardholders and qualitative analysis for Card Issuer Managers.

A total of 56 respondents were involved in the study out of the target 190, therefore generating approximately 30% response rate. The study found out that marketing is limited in that the products for example credit card are not a mass product. Vetting of new entrant in credit cards is very restrictive. Different banks who are majority issuers of these cards tend to segment their market and thus joint marketing promotions are of little help. Why customers do not apply for cards; they fear debt, some are risk averse, for debit cards- fear of technology, fear of fraud for both credit and debit through lost cards, carjacking

Banks do not have well thought strategies on plastic money education to existing and potential customers in Kenya. Awareness campaigns by card Issuers on how plastic cards operate is lacking. Telecommunication network in Kenya is unreliable and is hindering card growth. The need for a national credit reference bureau is of paramount importance . The Kenyan judicial System is wanting and seems to frustrate card issuers on plastic money debts related cases. Still majority of Kenyans has the culture of wanting to hold money in form of physical currency notes and coins as opposed to plastic cards. This culture need to change in order for plastic cards to become deep rooted in Kenya.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background

### 1.1.1 Historical Development of Plastic Cards

Plastic cards got their start in the United States. Department stores began the practice of issuing dog-tag style metal plates to their favorite customers. By 1924 gas credit cards appeared on the scene, the first cards that could be used at merchants all over the country. This was an important advance, because as automobiles became more common so did traveling, and a gas card that was not accepted away from home had limited value (Warutere, 1987).

Retailers would often extend credit to favored customers, allowing them to charge their purchases and settle up at the end of the month with a single payment. The retailer accepted the risk of default. As the number of customers who bought on credit increased, retailers issued identity cards which evolved into store credit cards. In 1958 the Bank of America began its BankAmericard program developed the third-party credit card, expanding the use of credit to a wider base. The retailer would receive immediate payment from the issuer, less a discount. The cards were accepted only at any retailers agreeing to the arrangement. The card holder would be sent a bill at the end of the month by the issuer for all of his purchases (Rigby, 1997).

Macleod (1978) asserts that banks entered this business with third-party cards of their own. However the cards were not widely acceptable because of the restrictions on interstate banking. The banks came up with a solution, the four-party card which involves two banks in each transaction, the cardholder's bank (the issuer of the card) and the retailer's bank. The idea of using a card to make purchases was first thought of by Bellamy (1887) where he described his idea of a utopian society. In his book, he coined the term “credit card” since that time; advancements have been made that have allowed this idea to become a reality.

Michelson (1997), electronic verification systems emerged that allow merchants to verify a credit card that is valid and has enough credit available to cover a transaction in a matter of seconds.  The data from the card is most commonly obtained from a magnetic strip on the back of the card.  Software has been created by many credit card companies that monitor the use of the credit card.  If a purchase seems to be out of the customer's norm, a credit card may become inactive, until the purchase can be confirmed by the customer. This added feature significantly decreases the amount of fraud committed on these cards.

Asokan, et al (1997) Credit cards used in exchange of goods and services, provide a convenient and less risky way of paying for goods and services.  Increased transaction security measures have enabled e-Commerce transactions - transactions using Credit/ Debit Cards (Plastic cards) to emerge as a dominant payment mode. The inherent inefficiencies in payment processing and account reconciliation processes limit the efficacy of conventional Point-of-Sale systems used by merchant organizations. These inefficiencies are further accentuated due to issues pertaining to system robustness, data security and spurt in transaction volumes. Therefore, seamless integration of plastic cards transactions with the enterprise wide software applications becomes a critical need.

MasterCard International was established in the 1970s. The first MasterCard was issued in 1988, in Soviet Union. According to Cave (1997) the global card market is dominated by two US-based players, Visa international and MasterCard. Visa international introduced its first credit card, BankAmerica in 1958, which went on to become a great success acquiring universal merchant acceptance. Visas card holder's base increased significantly through the decades and reached the one billion mark in 2000.

Cave (1997), by 2000, MasterCard had over 30 offices around the world in various contents Asia and Europe. In the 1990s, having covered a majority of US and European markets, Master Card and Visa shifted their focus to the East, especially the Asia Pacific region. By 2000, MasterCard and Visa had established their debit cards as well in the Asia Pacific region. In 2006, Visa credit/debit cards reached the 48 million mark in the

Asia Pacific region, while the MasterCard credit/debit card base touched the 37 million mark.

Clark (2006), assert that there are over 1.5 billion visa card holders around the world with an annual transactions in excess of US$50 billion globally. He however pointed out that a large portion of Kenya's population does not utilize banking facilities. He therefore challenges other stakeholders to tap into this sector. Clark said that between 2003 and 2005, the average growth rate of visa debit cards issued was 179 per cent per annum globally. He said that during the same period, the amount of money processed using visa debit cards soared to US$153 million in June 2006 from US$43 million in June 2002. Clark further asserts that Kenya is one of the country's around the world facing the challenges of how best to draw unbanked individuals into the formal banking sector.

A credit card allows consumers to purchase products or services without cash and to pay for them at a later date. To qualify for this type of credit, it is not a must for the consumer to have a bank account with the Issuing bank but upon approval of the credit application, they receive a line of credit with a specified dollar amount. They can use the card to make purchases from participating merchants until they reach this credit limit. Every month the Issuer/sponsor provides a bill, which tallies the card activity during the previous 30 days. Depending on the terms of the card, the customer may pay the entire balance and avoid interest or pay part and get charged interest on the amount rolled over to the following month. Also, credit cards may be sponsored by large retailers (such as major clothing or department stores) or by banks or corporations such as American Express (Kiilu, 2005).

The banks and companies that sponsor credit cards profit in three ways. Primarily they make money from the interest payments charged on the unpaid balance, but they also can make money by charging an annual fee for the use of the card. The income from this fee, which is typically only $50 or $75 per customer per year, can be substantial considering that the larger companies have tens of millions of customers. In addition, the sponsors make money by charging merchants a small percentage of income for the service of the card. This arrangement is acceptable to the merchants because they can let their customers pay by credit card instead of requiring cash. Visa International Service Association (2000)

### 1.1.2 Plastic Cards in the Kenyan Market

The chronology of launch of plastic cards by the Kenyan banks/financial institutions has been as follows:

**Table 1: Chronology of Plastic cards Issuers in Kenya**

| Year | Banks | Non-banks | Type |
|---|---|---|---|
| 1966 | | Diners club card | Diners International |
| 1977 | Commercial Bank of Africa | | VIP Cards |
| June 1986 | | Allied Cards Limited | Senator |
| 1986 | | Merchant Card Limited | Merchant Card |
| 1987.Sept. | KCB | | Visa Card |
| 1987.Sept | Standard Bank | | Money link |
| October 1989 | Barclays Bank of Kenya | | VIP cheque guarantee scheme. Barclays cash |
| 1989 | | Royal credit card | Royal card |
| 1990 | Barclays | | MasterCard |
| 1993 | National bank | | Visa |
| 1995 .Dec | Postbank | | Visa Classic |
| 2001 | KCB | | Visa |
| September 2002 | Barclays | | VISA (branded Barclaycard in 2006) |
| 2005 | | Pesa Point-Paynet ltd | Visa Cards & proprietary |

**Source: (Mahinda 1991) and KCDCA (2007)**

Credit cards were introduced in the 1960s but it took major advancement in the technology for them to be used in large numbers. The first plastic card in Kenya was launched in 1967 by Diners club Africa Limited (Mahinda, 1991). However, the peak in usage of plastic cards in Kenya was not realized until 1980's. The development of the

Kenya domestic plastic credit card market is mainly due to aggressive marketing of Diners Club Card. The first plastic card issue by Diners Club was a charge card. Cardholders could buy goods and service on credit through the use of this card. Later on the cardholders were billed by the Card Company and required to settle the entire debt by a specified, cut-date of a month.

Later on Royal Card took over the franchise of Diners after the collapse of Dinners Club Card in 1984. Barclays bank joined in the market thereafter in 1989 followed by Merchant card. The card sector was quiet until the entry of National bank in 1993 with a new brand of Visa Cards. This lead to growth of the industry at an average rate of 17% per year. Sixteen percent of all customers pay with debit cards (number of cards in circulation) compared with 24 percent who pay with credit cards (Clark, 2006). People are starting to favour debit cards over credit cards since it allows them to pay from the money they actually have in their accounts rather than living on credit. Also customers prefer to use debit cards as opposed to credit cards despite credit cards being more convenient and faster in authorization as compared with the debit cards that requires 100% authorization on line.

Stockbrokers in Kenya can now accept card payments for shares bought by retail investors. A partnership between Barclays Bank and NSE members will see stockbrokers and investment banks signed up as Barclaycard merchants, authorized to run cards on point-of-sale terminals. The partnership will offer investors purchasing shares on the stock market an alternative payment option, which is secure and faster Daily Nation (2007).

There is no legal body regulating the plastic card industry in the country and this is one of the major challenges facing the Card Issuers in Kenya. There however exists a membership body of various stakeholders under the banner of Kenya Credit and Debit Card Association (KCDCA). The KCDCA was established in 1991 by Banks that were issuing Cards in Kenya by then and is open to other issuer joining on application of a specified fee and on fulfillment of the set conditions by the association members. Its members included several banks dealing in credit/debit cards, as well as members from the oil industry. Its members are shown in the appendix 4.

Mahinda (1991), the main objectives of Kenya Credit & Debit Card Association (KCDCA) are to: Collaborate on non competitive issues such as bad debts, Combat fraud through partnership and sharing information, promote the plastic card usage through awareness and acts as credit references bureau for members.

A survey carried out by Steadman Group (Jan. 2007) report reflected the outreach of the financial service providers are distributed in Kenya and how the same is accessed formally and informally. Part of the survey findings have been summarized in table 2 below. The numbers of Kenyans who are in the informal financial sector are more than those in the formal financial sector and usually the informal sector is not well developed to provide plastic cards as a payment system.

**Table 2: Financial Access in Kenya**

| **Level of Formalization** | **Type of Financial Service Provider** | **No. of People (aged 18+) reached, in Millions** |
|---|---|---|
| Formal | Banks | 3.1 |
| | Insurance | 1.0 |
| Formal-Other | SACCOs | 2.3 |
| | MFIs | 0.3 |
| Informal | ASCAs, ROSCAs, other informal groups/persons | 8.9 |
| Total | | 15.6 |
| None | Excluded (no formal or informal financial product used) | 6.6 |

**Source: Steadman Group (Jan. 2007)**

Traders, shopkeepers, moneylenders, family, friends, rotating Savings and Credit Associations (ROSCAs), Accumulating Savings and Credit Associations (ASCRAs) are also locally known in Kenya as 'merry-go-rounds', some of them are registered at the Ministry of Social Affairs, others are not. As self-regulation or group-based rules provide the most decisive regulatory framework for ROSCAs and ASCRAs in mobilizing, rotating, accumulating and disbursing money and they are all labeled as informal here whether registered or not.

### 1.2 Statement of the Problem

Although both revolving credit and debit cards are profitable retail banking products and have been the cornerstone of the plastic card payments business over 20 years in Kenya, their adoption is facing growing difficulties such as the ATM network in Kenya is not well developed until recently in year 2005 with emergence both Kenswitch and Pesa Point ATMs that have now improved the situation. According to Kenswicth (2007) there are about 800 ATMs in Kenya serving a population of about 17 million Kenyans. However this number will keep on increasing as banks/Financial Institutions keep on expanding. Banks do not like to share their ATMs network with other banks as these ATMs form part of their competitive advantage. Currently, the banks are making huge investments in the expansion of branch and ATM networks, and in the training and recruitment of quality employees.

Mahinda (1991) some reasons why credit cards are being rejected at Merchants outlet are namely: Exceeding the approved borrowing limit or defaulted (constantly) on minimum payment due, the card is hot listed not to be honored, the card has crossed its expiration date, where the telephone line is down, where an Issuer is unavailable to authorize cards due to technical reason, the magnetic stripe on the reverse of the card is damaged i.e. has been scratched or exposed to continuous heat/direct sunlight or magnetic field-like card kept near a TV set / other electronic appliances, systems or technology failures have in rare instances also led to non acceptance of cards when swiped through an Electronic Terminal.

Visa International (2006) indicates that plastic cards growth in Kenyan and usage of the same has been growing at a slow rate. This was further reinforced by Central bank of Kenya (2007) report on growth of cards in relation to Kenya population that is estimated to be 35 million people (Kenya Bureau of statistics).The numbers of banks in Kenya are

44 (Central Bank of Kenya, 2007) and reaching 3.1 Million people of the age 18 years and above . Out of this figure of 3.1 million people only 1.04 million are credit/debit card holders. Another 6.6 million people are in the informal sector where plastic cards as a payment system are not used as per Steadman Group report (Jan 2007). According to Daily Nation (2006) Visa electron cards are the mostly used debit cards in Kenya and recently hit the one million mark in the local market but credit card managers and shop merchants say their use has grown at a slower pace in comparison to the population that is eligible to have them Clark (2006). Further since no known research has been carried out in this field of plastic cards to establish factors hindering the spread use in Kenya as payment mode, the study therefore aimed to address some of the down listed research questions.

**1.3 Research Questions**

a) What are the factors hindering the use of the plastic cards in Kenya?
b) What has been the customer's response on introduction of credit and debit cards in Kenya?

**1.4 Objective of the study**

i) To identify what challenges the industry is facing on the usage of plastic cards.
ii) Identify the determinants of growth in usage of plastic cards in Kenya
iii) Document the current trends on use of plastic cards in Kenya.

**1.5 Importance of the study**

Card issuing companies in Kenya will benefit for they will know their customer's preferences, needs and wants.

Cardholders will be more knowledgeable about the service and how to maximize the use of the service at the most convenient price.

Other stakeholders in the Card business will get relevant information on how they can improve their business particularly in the area of co-branding

The government of Kenya will see the need to remove taxes on plastic cards as one way of encouraging usage of cards and enhance benefit from reduced cost of printing money.

Academic fraternity will find the need to continue with studies in the area of plastic cards in Kenya.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

This study will partly focus on corroborating evidence that will validate my undergraduate findings on “plastic cards as a payment system” as well as other empirical research in the area of plastic cards.

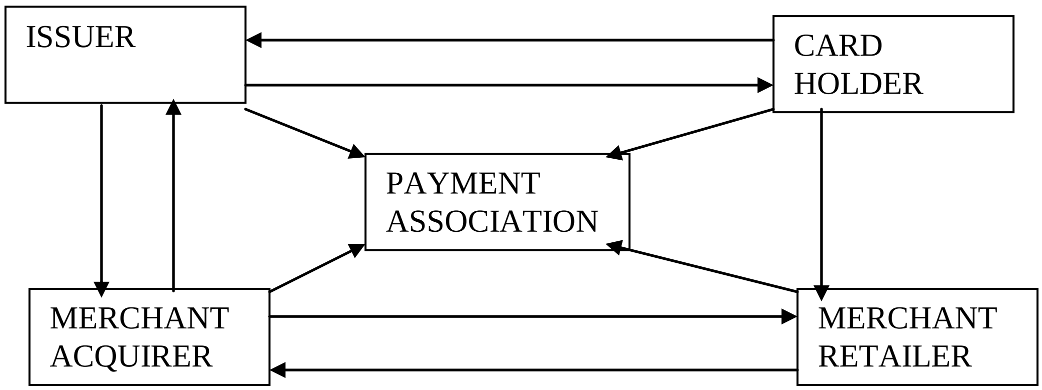
## 2.2 Credit Card Systems

### Credit Cards

By 1995, there were one billion credit cards issued worldwide (Scholes, 1998). Credit cards afford a cardholder credit for a specified period of time. In return, the bank/institution issuing the card benefits in one or several number of ways such as joining fees paid by the card holder, interest charged on the credit amount, and fees paid by outlets at which the cards were used/honoured. In Kenya credit cards are primarily issued by many banks as listed in appendix 4 attached. Barclays Bank has the largest share of credit cards, estimated at 50,000 cards, as at December 2006 (EAS, 2006).

To qualify for a credit card, the applicant has to meet some set minimum conditions. For instant, to qualify for a credit card with a certain bank, one need to be earning a gross income of Kshs. 10,000-20,000 per month, submit an application form, attach one month’s pay slip, and attach two months bank statements and a copy of an identification document. You need not be banking with that bank to qualify for the credit card. The minimum repayment is 10-20% of the billed amount and on average an interest of 3-4% is a charged to the cardholder for the outstanding amount. Most credit cards may also be used to withdraw cash as well. For this service, Banks charge a certain percentage mount on withdrawal termed as cash handling fee.

**Figure 1 Process through which a Credit/Debit card Operates/Authorized**




**Source: Scholes 1998 adapted from the 1997 guide Barclays Merchant Service.**

The above figure shows the process through which payment cards operate and the relationship between the various stakeholders. In absence of any one of them, the process will be incomplete.

Payment associations: Master card and Visa card for example, provide a recognized marque, technical specs & Information Technology services. They provide the technology and hardware, through which the credit and/or charge cards are processed. They earn their revenue by charging in commission, authorization fees, integrated billing among others to both the Acquirers and Issuers of plastic cards. VISA is a good example of payment association. In Kenya, the VISA franchise is run by all banks issuing VISA Cards. As at September 2002, there were 332,000 VISA cards in Kenya and 90% were VISA debit cards. Worldwide, there are 400 million VISA backed credit cards Kiilu (2005).

Credit cards under the VISA platform come under the name VISA cards for example Barclay VISA card. Debit cards under VISA platform come under VISA electron, for example Standard Chartered VISA Electron. These serve as global currency when traveling. Master card franchise by May 2007 is held by three issuers namely Barclays Bank, CFC Bank and KCB. Unpublished KCDCA minutes (May, 2007)

Card issuer issues the card to the cardholder. For example in Kenya, the Cooperative bank is an issuer of the Coop VISA card. The card agreement is between cardholder and card issuer. Card issuers benefit from the fact that they charge commissions to merchant retailers. For instance, the average commission charged to merchant retailers in Kenya average 4% of sales. In addition card issuers make money through charging joining fees and yearly subscriptions to cardholders. Majority of bank issue VISA cards and only some few banks have licenses to issue both VISA and Master cards in Kenya as indicated above.

Merchant retailer represents an outlet or institution, where the card is accepted and honoured. For example, supermarkets like Uchumi, restaurants accepting cards such as the Carnivore are merchant retailers. Merchant Retailers benefit, by virtue of the fact that they can tap the captive market of cardholders, they save processing costs, transactions are purely electronic making it easier to track them, cardholders are likely to spend more or competitive. There were 5,000 merchant retailers as at December 2002 Kiilu (2005). Merchant transactions are processed by an acquirer bank such as Barclays Bank of Kenya or KCB. Merchants benefits from increased sales revenues from cardholders doing their shopping, while acquiring banks charge commission to merchants accepting cards on purchase done through credit/debit card.

Card holder refers to the individual issued with a card by the card issuer. Cardholders benefit from the credit period advanced to them, as well as the convenience of cashless transactions.

**Debit Cards**

Debit cards charge customers bank account direct, on being used. These cards are issued by banks. They also serve as current/savings account cards that facilitate payments by directly debiting of a customer’s bank account. Debit cards are issued by various banks in appendix 4 although not all banks that issue debit cards. However Standard Chartered bank introduced its VISA electron in 1998. It is the largest issuer of electron cards, with over 130,000 cards, as at December 2002. Of the Visa International products, Visa Electron is the most popular VISA card product in the country (Kiilu, 2005).

**Electronic Cards**

This type of card allows its holder to pay money in advance to an issuing institution, upon which the paid up amount is loaded onto the card. The cardholder can then do various purchases against the credit loaded onto the card. For example, Oil Companies such as Total and Shell issue electronic purse cards, popularly known as "pre-paid" cards. The phone cards, such as those issued by Telkom Kenya, are another good example of electronic purse cards.

**Entertainment/Travel Cards**

These are mainly issued by travel/entertainment outlets for purposes of use at the specific outlet of issuance. An example is the Tamarind card, used at tamarind hotels and Minar card honoured at Minar restaurants.

**Charge Cards**

For charge Cards, Cardholders do not enjoy rolled over credit facilities. Rather, they are billed for goods/services purchased with the use of the card and full payment must be made in the month in which the card was used. Any payment not made within the specific period within the full payment must be made to attract a penalty, in the form of an interest and late payment fee. The main difference between charge and credit card is that credit card allows credit cardholders to settle a specified minimum payment of the card total usage per month and roll over the balance while for a charge card one has to pay on monthly basis the entire usage on due date.

### Other Type of Cards

Other cards under this category include: - Loyalty programme cards that are not payment tools, but rather are used for loyalty programmes to accumulate points, against which customer may redeem various prizes. Others include: the Flying Dutch man card, hat prestige card of Sarova hotels, Nakumatt, Uchumi among others.

In addition we have facility cards that are used exclusively by members of a particular organization (which receives income from user transactions). An example is the Kenya Wild Life Service (KWS) card, issued for purposes of park management since it carries information on card holders' nationality among other things. Such information is used for purposes of distinguishing between residents and non-residents. This is necessary for determining appropriate park entry fees.

## 2.3 Costs /Charges Charged by Card Issuers

**Interest Expenses**: Banks generally borrow the money that they then lend to their customers. As they receive low-interest loans from other firms, they may borrow as much as their customers require, while lending their capital to other borrowers at higher rates. If the card issuer charges 15% on money lent to users, and it costs 5% to borrow the money to lend, and the balance sits with the cardholder for a year, the issuer earns 10% on the loan. This 5% difference is the "interest expense" and the 10% is the "net interest margin" Gross (1996).

**Operating Costs**: Castelluccio (1996), this is the cost of running the credit card portfolio, including everything from paying the executives who run the company, printing the plastics, mailing the statements, running the computers that keep track of every cardholder's balance, taking the many phone calls which cardholders place to their issuer and protecting the customers from fraud rings. Depending on the issuer, marketing programs are also a significant portion of expenses.

**Charge Offs**: When a consumer becomes severely delinquent on a debt (often at the point of six months without payment), the creditor may declare the debt to be a charge-off. It will then be listed as such on the debtor's credit bureau reports. It is one of the worst possible items to have on your file. The item will include relevant dates, and the amount of the bad debt (Cave, 1997).

**Minimum Payments***:* Gross (1996), in the UK, there has recently been increasing concern about the minimum payments required on outstanding credit card balances. Until the mid-1990s the required minimum monthly payment was generally 5% of the outstanding balance, but competition in the last 15 years to attract customers has led to this figure being eroded on the premise that the minimum monthly payment to service a debt will be lower. Typically, credit card companies now only require a monthly minimum payment of between 2% and 3% of the outstanding balance, or a fixed cash fee, whichever is greater. Take for instant, on a debt of £1,000, the card holder can expect to pay back only £20 - £30 per month.

Unfortunately, some people are not aware of how long it can take to repay a debt when only paying the minimum each month. An example of this: by paying 2.5% of the debt each month, while accruing interest at 14% (in line with modern credit card interest rates), it can take over 14 years to pay back an original debt of £1,000, and roughly £10,500 will have been paid back Mahinda (1991).

Muhammad (1997) assert that, It has recently been suggested that credit card companies include a warning on their statements discouraging customers from paying only the minimum, however few companies have so far acted upon this. Companies which do include a warning tend not to inform customers how long full repayment will take, i.e. they discourage users from making just minimum payments but do not explain why. Less financially savvy customers may ignore these empty warnings as a result.

**Trailing Interest***:* Trailing interest, sometimes called final or residual interest, is a method of calculation whereby interest is charged right up until the day of a full payment. Cardholders of banks that use this method receive a bill with the balance owing and interest accrued and pays it off in full. On the next statement they are billed a "final" amount of interest even if no purchases or cash advances have been debited since. The reason for this is that interest continues to accrue from the time of the close of the previous statement until the day the payment for that statement is actually received (O'Sullivan, 1997).

In comparison to the normal method of interest calculation, this method is judged by many to be a hidden and thus unfair cost. Uninformed cardholders often inquire as to what amount they need to pay by their due date in order to have paid off their credit card in full and to stop interest from accumulating. They then proceed to pay off this amount under the belief that they finished paying interest charges, only to find trailing interest on their next statement which was posted to their account on the day of the statement billing (so even if they check their balance a day before that next billing date, it would still show a zero balance).

**Hidden Costs**: Merchants pay a negotiated fee typically 1-3% for larger merchants and 3-6% for smaller merchants to process credit payments. They must also bear the cost of providing a point-of-sale solution to enable the acceptance of card transactions and other card services related expenses. Credit card issuers understand full well that if card holders were aware of and made to pay these additional costs with their purchases it would tend to discourage credit card usage (Rigby1997). As a consequence, businesses who accept credit cards often must sign a "merchant agreement" or contract with the acquirer that stipulates that they are not allowed to offer different prices for card and non-card transactions (sometimes referred to as surcharging) despite the additional costs to the business for accepting the cards. The prohibition on surcharging or cash discounts is enforced by law in some countries, although some governments are beginning to lift this restriction (Panurach, 1996).

Scholes (1998) some critics have observed that this results in what is effectively a hidden tax on all transactions conducted by merchants who accept credit cards since they must build the cost of transaction fees into their overall business expense. Furthermore, cash and other non-credit card using customers are in effect made to subsidize credit card user purchases. The cost of the convenience and protections enjoyed by card holders and the profits taken from transaction fees by the card industry (which has come to rely increasingly on this revenue stream over the years) is in part borne by the non-card purchaser. Critics further note that the customers most likely to pay in cash are probably the least able to afford the additional expense, the argument going that card holders are more likely to be affluent and non-card holders less so.

Scholes, K (1998) a counter argument is that there are also costs to the merchant in other forms of payment. For cash payments these include frequent trips to the bank or use of an armored delivery service, theft, and employee error, such that cash is actually not cheaper for the merchant than credit cards. This argument is probably specious under most circumstances, however, considering that many merchants would offer a discount for cash-paying customers were they allowed, and indeed, do so where it is legal. The fact that laws exist or have existed that prohibit such practices and that the major card issuers strongly discourage such practices can be taken as an indicator that cash transactions do not have as much cost associated with them as credit card transactions.

## 2.4 Customer Perception on Credit Cards

Brooks (1999) argues that in simple terms perception is how we view and interpret the events and situations in the world about us. According to Schiffman and Kanuk( 1996), individuals tend to see the world in their own special ways. Kiilu (2005) argues that when someone perceives something he becomes aware of it especially through the eyes or the mind. Therefore perception is the process by which one becomes aware of changes in the environment through senses such as hearing and seeing.

Luthans (1992), people will select out stimuli or situations from the environment that appeal to, and are compatible with, their learning and motivation and with their personality. He further argues that perception begins when a person is confronted with a stimulus or a situation. This confrontation may be with the total physical and social cultural environment. In addition to the situation, person interaction they are the internal cognitive processes of registration, interpretations and feedback.

Cardholder's views credit cards as convenient, provide accessible of credit and the cards offer consumers an easy way to track expenses, which is necessary for both monitoring personal expenditures and the tracking of work-related expenses for taxation and reimbursement purposes. Credit cards are accepted worldwide, and are available with a large variety of credit limits, repayment arrangement, and other perks (such as rewards schemes in which points earned by purchasing goods with the card can be redeemed for further goods and services or credit card cash back).

**2.5 Risk Management**

Risk Management is the cornerstone to every successful plastic card programme. Failure to define, understand and control risk cannot be cured by a better marketing, more efficient operations or tougher collection processes. Basically in credit card risk management, there are three types of risks: Process risk: - The risk involved in managing an issuing or acquiring business, New applicant risk: - the risk involved in recruiting new cardholders and Accounts risk:- the risk involved in managing existing card portfolios, By analyzing groups of credit cards opened in a defined period (vintage analysis) one can see risk criteria that will follow these accounts through out the group's credit life.

Muhammad (1997) the element of risk exists in all aspects of our lives. However, just as in our every day lives, there are things in the credit industry that we can do to reduce risk. For example providing the right credit products to a good individual at the right time not only will control risk but also will develop a loyal customer. Risk in the credit card business is unavoidable but fortunately very predictable and therefore manageable**.** To maintain profitability, banks need to understand and manage risk from the top and cascade this down through all the organizations that are involved with the cardholders & merchants.

**Credit risk Selection**: This is the process of selecting the customer who will be granted credit and determining their individual credit limits. It is the initial stage in the operation of an effective credit management system. Usually, a set of criteria or checklist will be available to perform the initial credit screening. The process of credit selection and analysis is essentially an exercise in risk assessment that is, in assessing the probability of customer non-payment.

Sound credit selection procedures help to reduce customer default risk by eliminating unsuitable applicants at the outset, and thus avoiding the costly process of chasing slow payments and incurring bad debts later. The old adage ‘prevention is better than cure’ is appropriate here (Mc-Menamin, 1999). A common approach to customer credit selection and analysis is the use of the six Cs’ of credit as an initial screening and risk assessment device. Applying the “six Cs’ involves a review potential customer’s capacity, capital, character, collateral, conditions and control.

## 2.6 Challenges of Plastic Cards

Mahinda (1991) considered the following as some of the challenges that plastic cards face:-

First the negative aspect is that credit cards are expensive to maintain and an agency of Canada described them as an expensive way to spend your own money.

Secondly, one may have exceeded the borrowing limit or failed to pay constantly on the minimum payment due and still want to use the card despite the financial stress expected in the future.

Thirdly, the Card could be hot listed without cardholder knowledge and thus gets embarrassed when confiscated by a merchant. This may discourage a customer never to use a card gain particularly those who value their ego very much.

Fourthly, the card has crossed its expiration date and no renewal has been processed and thus it is unacceptable in merchant’s outlets. Card issuers in many cases do not automatically renew credit cards that have overdue balance and they consider this to be a natural opportunity to force such customers to pay up.

Fifthly, the magnetic stripe on the reverse of the card is damaged i.e. has been scratched or exposed to continuous heat/direct sunlight or magnetic field-like card kept near a TV set / other electronic appliances and hence is not useable when needed. In most cases customers are not aware of this and they may end up getting embarrassed for not getting a service despite having funds available.

Sixthly, Systems or technology failures have in rare instances also led to non acceptance of cards when swiped through an Electronic Terminal.

And finally, unreliable telecommunication infrastructure thus frustrating online card authorization process and this discourage customers from using plastic cards and this is a common problem in third word countries. The list could be long and is not therefore limited to what has been sighted here since during my survey it is expect that more challenges could come about and hence one has to compare what is included by Mahinda (1991) with my findings in chapter five.

## 2.7 Weakness of Cash Payment

Cash is the preferred method for small payments because it is the only one that involves no credit, and therefore no promise. Checks are a form of credit and involve fixed costs that are independent of the amount of the check. Thus checks are seldom used or accepted for very small payments. There is no empirical study which deals with the actual use of coins and notes, given a specific denomination range (Jeanine, et al, 2003). In their paper they presented such a study, which is based on two rather unique data sets. In contrast to the widely accepted assumptions, they found that individuals appeared not to pay efficiently and that they are also not indifferent to the use of coins and notes. In other words, some notes and coins are used less often than others. All this hassle of notes and coins can be overcome if the population was to embrace the plastic cards as payment system (Timberlake, 1987).

## 2.8 Conclusion and Knowledge Gap

Jeanine, et al (2003) in their research paper entitled "An Empirical Study of Cash Payments" anytime an individual makes cash payment, he or she needs to think about the amount to be paid, the coins and notes which are available, and the amount of change. For central banks and retail stores, it is of interest to understand how this individual choice process works. The literature of currency use concerns primarily theory, in the sense that, given certain assumptions, one can derive an optimal denomination range.

Muhammad (1997) most Australians, cash, the check and the branch remain the dominant payments and transactions mechanisms. Despite a fast rate of growth in electronic payments and transactions, these traditional forms of money continue to remain important for Australian consumers. Cash remains the most popular and convenient way of paying for everyday transactions of small value in Australia. Though there is no hard evidence, it is estimated that some 90 per cent of the number of transactions are in cash (Bank for International Settlements, 1994, p. 8). Though payment by cards is increasing, it still comprised only 0.1 per cent of cashless transactions in value (Bank for International Settlements, 1994, pp. 46, 48). Socio-economic factors like income and literacy are important for drawing the outer limits of access to bank accounts, plastic cards, personal computers and modems. Access to bank branches and ATMs is also a limiting factor in some rural areas pushing people more to the use of EFTPOS on the one hand and checks paid personally or across the post office counter on the other. These factors are less useful, however, for predicting the way people use different forms of money.

Rigby (1997) recent decisions by the Spanish national competition authority (TDC) mandate payment systems to include only two costs when setting their domestic multilateral interchange fees (MIFs): a fixed processing cost and a variable cost for the risk of fraud. This artificial lowering of MIFs will not lower consumer prices, because of uncompetitive retailing, but it will however lead to higher cardholders' fees and, most likely, new prices for point of sale terminals, delaying the development of the immature Spanish card market.

The extent that increased cardholders' fees do not offset the fall in MIFs revenue, the task of issuing new cards will be underpaid relatively to the task of acquiring new merchants, causing an imbalance between the two sides of the payment networks. Moreover, the pricing scheme arising from the decisions will lead to the unbundling and under-provision of those services whose costs are excluded. Indeed, the payment guarantee and the free funding period will tend to be removed from the package of services currently provided, to be provided either by third parties, by issuers for a separate fee, or not at all, especially to smaller and medium-sized merchants. Transaction services will also suffer the consequences of the fact that the TDC precludes pricing them in variable terms Singh, Supriya. (1994).

Statistics reveal that more and more college students are getting into serious debt. Unfortunately, the debt being incurred has little to do with education and a lot to do with lifestyle. Students are using their student loans and student credit cards to pay for basic expenses and not-sobasic- wants. Most college students fail to realize that they may be paying off their pizza tab long after they graduate. The reality of credit card abuse is usually seen after graduation. Often the excitement and sense of accomplishment that come from completing a degree and starting a new career is dulled by the realization that repaying student loans and credit cards will eat up most, if not all, of the money earned.

It's very frustrating to work full-time, make a decent salary, and not be able to afford a decent car, furnishings for your apartment, a wardrobe for work, or the latest gadget. It is easy to abuse the privilege of credit and the repercussions linger long after the money is spent. For example $3000 worth of miscellaneous expenses on a student credit card, would take 36 months to pay off if you pay around $100 a month at 10% interest (if you're lucky enough to GET 10% - the going rate for college students is around 18%). It will take 36 months to pay off assuming that you never charge another dollar to your credit card (how likely is that?).

With the ever-advancing technology, carrying a plastic card has become the norm of the day. According to daily nation (2006) plastic cards are a relatively recent development and this study set to establish challenges facing the growth in use of plastic cards in Kenya and to answer the following questions. What are the factors hindering the use of the plastic cards in Kenya? What has been the customer's response on introduction of credit and debit cards in Kenya?

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Research Design

The research was carried out through descriptive survey method. Mugenda and Mugenda (1999), notes that a descriptive research attempts to collect data from members of a population. The method helped the researcher to get the descriptive existing phenomena by asking individuals about their perceptions, attitudes, behaviour or values.

## 3.2 Population

Nachmias and Nachmias (1996), states that a population is the total collection of elements about which we wish to make some references. The study covered two aspects namely Card Issuers and Cardholders. The whole population of Card Issuers was surveyed as a census since according to Appendix 3 they are only 19 managers. Cardholders total approximately 1.04 Million scattered all over the country and convenient sample shall be examined.

## 3.3 The Sample Size

A sample of all cardholders was required to represent the views of all cardholders. A representative sample of 30 Cardholders was selected using a convenient sampling technique from each company. The sample size of the cardholders from the nineteen (19) Card Issuers was 570 and this was considered adequate to represent the views of all cardholders. The researcher target was to pick thirty existing cardholders from each company but from all the nineteen Card Issuers to fill the questionnaire. The sample was be picked by visiting people in areas such as working place, social places, Universities, residential estates among other commonly visited places but my concentration was more in urban than rural areas and those who are in better positions to use but are not using plastic cards.

## 3.4 Data Collection

The data collection instrument for the cardholders was a questionnaire (Appendix 1) which contained a closed ended structure questions developed by the researcher. Data collection instrument for the Card Issuers was an interview guide and this enabled the researcher to capture the objective of the study and answer the research questions. It was also easier for the respondents to answer questions as asked and an interview guide for the managers. Data was collected by the researcher and two research assistants recruited by the researcher using a “drop and pick later” method. The questionnaire was used to collect general information on the customers and their perception on the use of plastic card as a payment system. The Card Managers were interviewed on their knowledge and understanding on extent use of use of Plastic cards in Kenya as payment system and challenges they face as they continue issuing them.

## 3.5 Data Analysis

Data analysis method was content analysis for the Cardholders and qualitative analysis for Card Issuer Managers. The structured questionnaire was coded in respect to questions for ease of electronic data processing prior to the commencement of the fieldwork. After tabulation, the data was coded to facilitate statistical analysis. The SPSS (Statistical Package for Social Sciences) package was used to analyze the data. Descriptive statistics such as percentages and frequency distribution was used to enable the researcher to meaningfully describe the distribution of measurements.

## CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

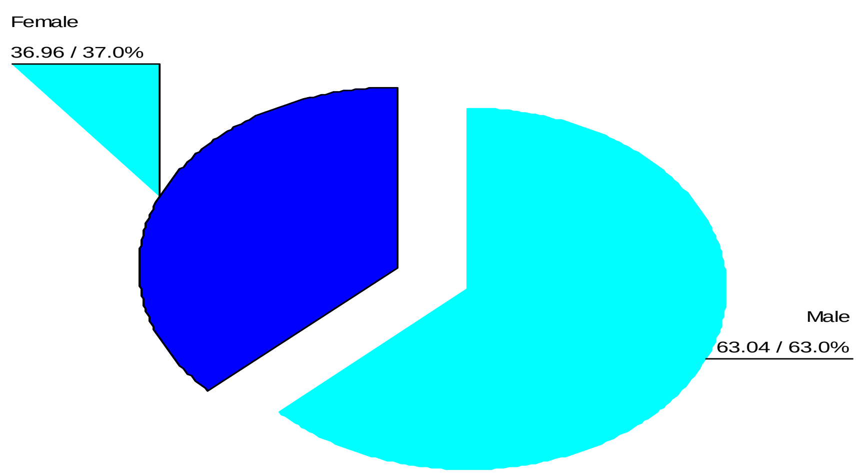
### 4.1 Introduction

This chapter gives a detailed analysis of the data collected and presents the findings. The data has been analyzed and presented in form of frequency tables, pie charts, percentages, means and standard deviations. Findings in this chapter have tried to fulfill the objectives of this study. A total of 190 respondents were involved in the study out of which 56 responded and thus representing approximately 30 % response rate.

### 4.2 Gender of Respondents

This part sought to find out the gender of the respondents. Results on how the participant's gender is shown in the figure 2 below

**Figure 2: Gender of Respondents**

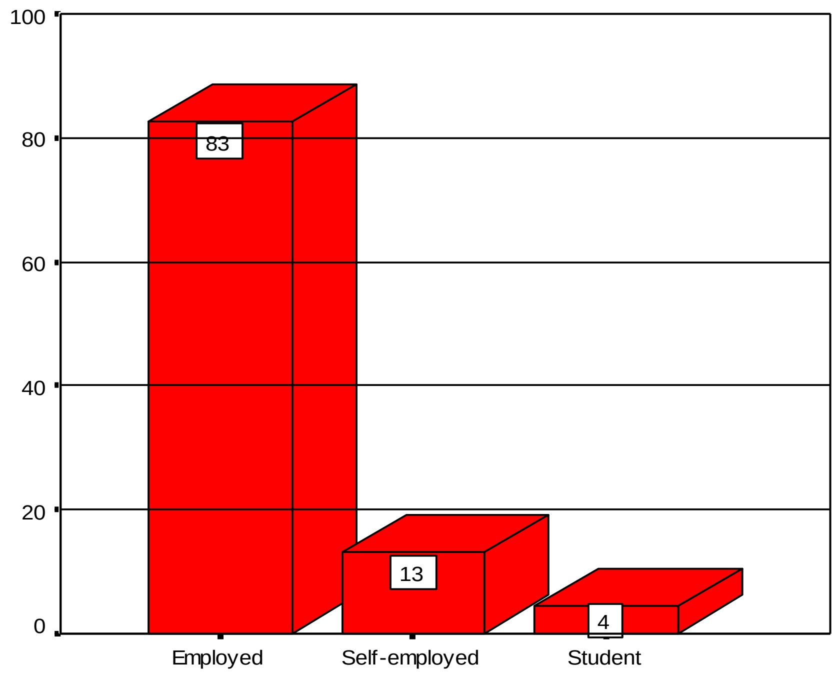



From the above pie chart, it is clear that 63 % of the respondents are Male while 37% are female.

### 4.3 Employment Status

In this category, the focus was on the employment status of our participants. The results are presented in terms of percentage. Results on the participants employment status is shown in the figure 3 below

**Figure 3: Employment status**




Majority of the participants were employed at 83%, self-employed were 13% and 4% were students.

### 4.4 Existing Cardholders of Plastic Cards

The aim of this section was to find out if the respondents have plastic cards. The results are presented in terms of frequencies and percentage in the table 3 below.

**Table 3: Existing Cardholders of plastic cards**

| Response | Frequency | Percent |
|---|---|---|
| Yes | 40 | 87.0 |
| No | 6 | 13.0 |
| Total | 46 | 100.0 |

The above table 3 shows that the 40% of the respondents have plastic cards while those who do not have are at 6% and whom we concluded to be those not interested in applying for cards despite their bankers offering them.

### 4.5 Awareness of Card

The participants were asked to indicate if they are aware of the different types of cards in existence in Kenya. Results on how they are aware is shown in the figure 4 below

**Figure 4: Awareness of Card**

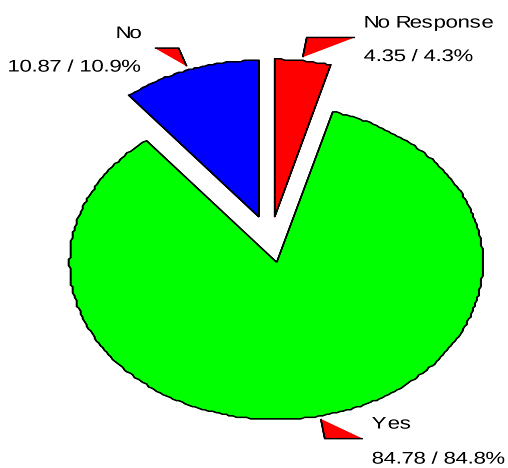
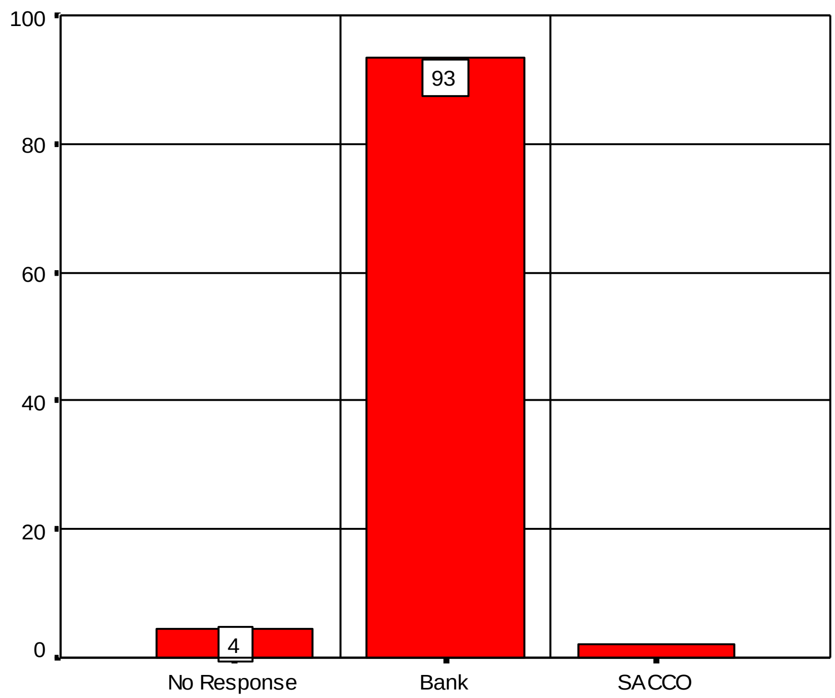



Figure 4 above indicates that 84% of the participants are aware of plastic cards, 10.9% are not aware of the plastic cards while we had 4.3% who did not respond to the question.

## 4.6 Place of Banking

A survey carried out by Steadman Group (Jan. 2007) report reflected the outreach of the financial service providers as distributed in Kenya and how the same is accessed formally and informally. The purpose of this section was to find out which organization the respondents bank with. Results on the participants organization banking is shown in the figure 5 below.

**Figure 5: Place of Banking**




The figure 5 shows that the majority of the participants reported that they banked with the formal banks at 93% and 2% with SACCOs while 4% did not respond.

### 4.7 Banks Having Plastic Cards

This part sought to find out if the respondent's institutions issue any plastic cards to its customer. The results are presented in terms of frequencies and percentage in the table 4 below.

**Table 4: Institution Having Plastic Card**

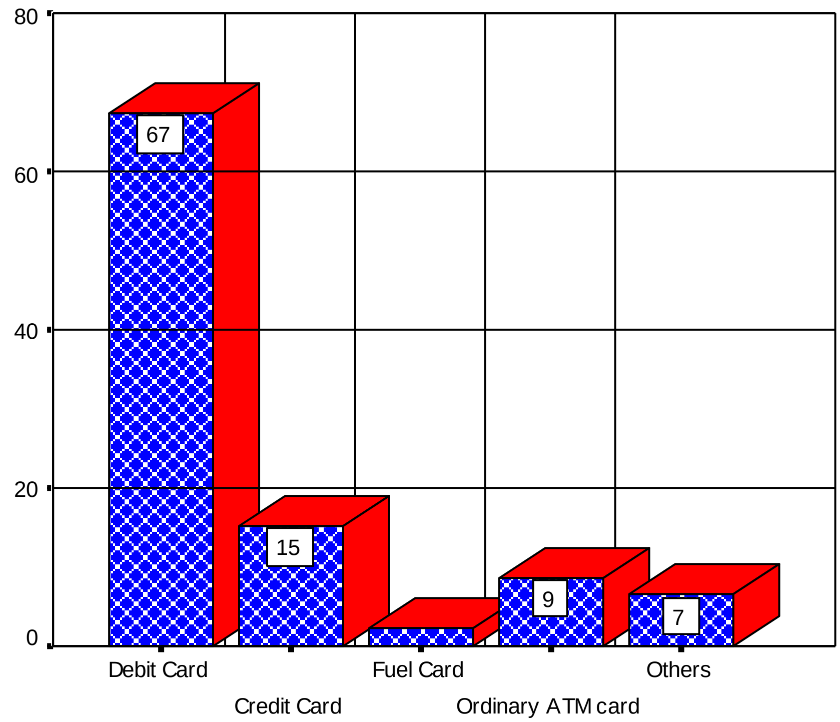
| Response | Frequency | Percent |
|---|---|---|
| No | 0 | 0.0 |
| Yes | 44 | 95.7 |
| No Response | 2 | 4.3 |
| **Total** | **46** | **100.0** |

With respect to institutions, having plastic card 95.7% of the participants indicated that their institutions provide plastic cards to their customers while we had two customers who did not respond.

### 4.8 Variety of Cards

The aim of this section was to find out which of the following card the respondents hold and the results are shown in the figure 6 below.

**Figure 6: Variety of Cards**




The majority of the participants hold Debit card at 67%, Credit card is held by 15%, ordinary ATM cards (private label) by just 9%, fuel cards by only two customers, while other cards and non-respondents at 7%.

### 4.9 Level of Interest of Having a Credit/Debit Card

The purpose of this section was to find out to what extent would the respondents be interested in having any of the above -indicated cards. The results are presented in terms of frequencies and percentage in the table 5 below.

**Table 5: Level of Interest**

| Extent | Frequency | Percent |
|---|---|---|
| To no Extent | 1 | 1.8 |
| To lesser extent | 7 | 12.5 |
| To moderate | 22 | 39.3 |
| To a great extent | 17 | 30.4 |
| To a very Great extent | 9 | 16.0 |
| **Total** | **56** | **100.0** |

### 4.10 Existence of Plastic Card in Kenya

(Mahinda, 1991) the peak in usage of plastic cards in Kenya was not realized until 1980's and in this category, the focus was to find out how the respondents got to know about the existence of plastic cards in Kenya. The results are presented in terms of frequencies and percentage in the table below.

**Table 6: Existence of Plastic Card**

| Existence of plastic card | Frequency | Percent |
|---|---|---|
| Through Advertisement | 35 | 62.5 |
| Introduced by Friend | 10 | 17.9 |
| Mail | 4 | 7.1 |
| Others Methods | 7 | 12.5 |
| **Total** | **56** | **100.0** |

The frequency distributions in table above show that the majority of the participants reported they knew abut the existence of plastic card in Kenya through advertisement at 62.5%, some were introduced by friend by at 17.9% while the who where sent mail were only 4 participants.12.5% of the respondents knew through business product, introduced by employer, place of work and through their banks.

### 4.11 Plastic Card as a Method of Payment

The aim of this section was to find out to what extent in the respondent's opinion they consider plastic cards as one of the best method of payments system. The results are presented in terms of frequencies and percentage in the table below.

**Table 7: Plastic Card as a Method of payment**

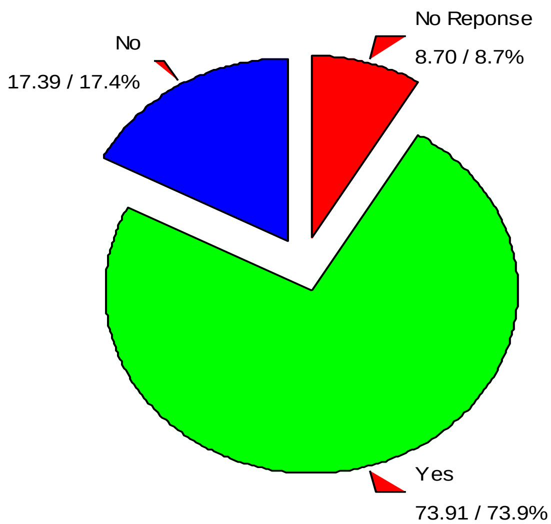
| Extent | Frequency | Percent |
|---|---|---|
| To no extent | 1 | 1.8 |
| To a lesser extent | 7 | 12.5 |
| To moderate extent | 19 | 33.9 |
| To a great extent | 19 | 33.9 |
| To a very great extent | 10 | 17.9 |
| **Total** | **56** | **100.0** |

With respect to plastic cards as one of the best method of payments system one of the participant considered the method to be no extent, 12.5% considered it to a lesser extent, 33.9% to a moderate extent, 33.9% to a great extent while 17.9% considered it to a very great extent the best method of payment.

### 4.12 Envy of Holding a Plastic Card

This part sought to find out if the respondents envy holding a debit card. Results on how the participants envy holding a plastic card is shown in the figure 7 below

**Figure 7: Envy of holding a plastic card**




The envy of holding a plastic card by the participants in our research was expressed positively by 73.9% while those who do not envy plastic card are at 17.4% and non-respondents at 8.7%.

### 4.13 Frequency of Use of Card

The aim of this section was to find out how frequent the respondents use their card in a month. A result on how frequently they use plastic cards is shown in the figure 8 below.

**Figure 8: Frequency of Use of Plastic Card**

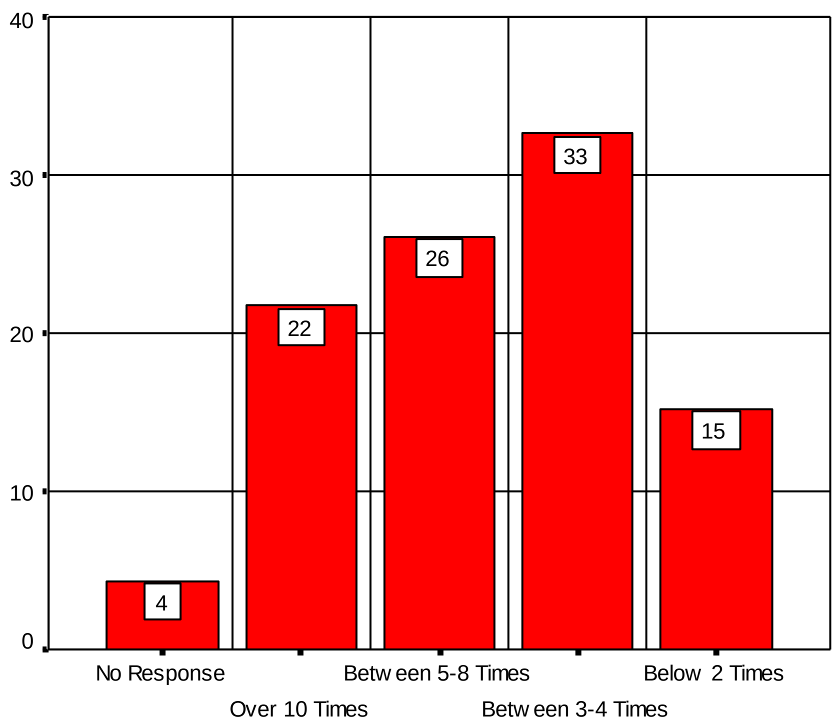



Figure 8 shows that the sample was almost evenly distributed in terms frequency of use of cards in a month, between 3-4 times we had 33%, between 5-8 times we had 26%, over 10 times 22% and below twice a month at 15% while "No" response was 4%.

### 4.14 Extent of Problem Experience

The purpose of this section was to find out from the respondents the extent to which they have experienced problems when using their card. The results are presented in terms of frequencies and percentage in the table 8 below.

**Table 8: Extent of Problem Experience**

| Extent | Frequency | Percent |
|---|---|---|
| To no extent | 15 | 26.8 |
| To lesser extent | 22 | 39.3 |
| To moderate | 14 | 25 |
| To a great extent | 4 | 7.1 |
| To a very great extent | **1** | **1.8** |
| **Total** | **56** | **100.0** |

The above table 8 shows that the respondents considered to have experienced problems when using their card as: to no extent by 26.8%, to lesser extent by 39.3%, to moderate extent by 25% and to a greater extent by 7.1% and to a very great extent 1.8%.

**4.15 Banks Provision of Security to Plastic Card**

Asokan, et al (1997) Credit/debit cards used in exchange of goods and services provide a convenient and less risky way of paying for goods and services. This part sought to find out from the respondents the extent to which they think their bank has provided enough security features to their plastic card. The results are presented in terms of frequencies and percentage in the table below.

**Table 9: Provision of Security to Plastic Card**

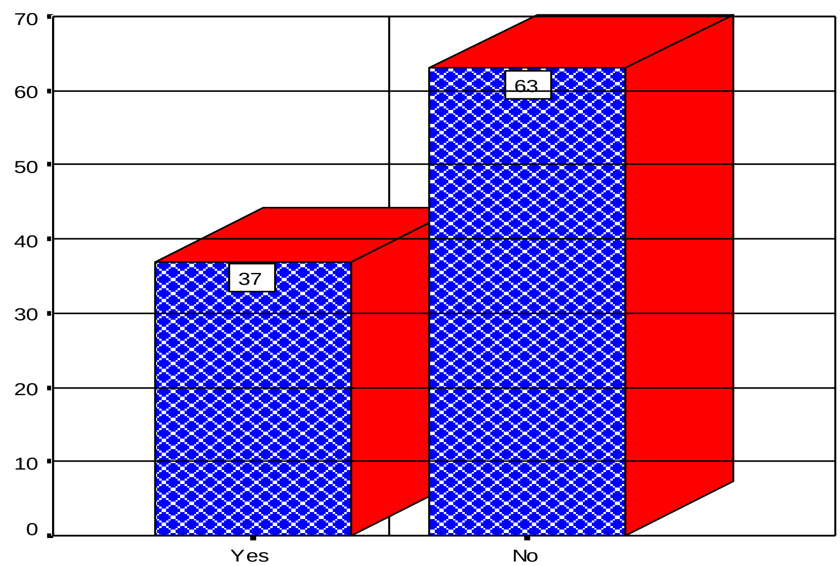
| Extent | Frequency | Percent |
|---|---|---|
| To no extent | 0 | 0.0 |
| To lesser extent | 4 | 7.1 |
| To moderate extent | 19 | 34 |
| To a great extent | 26 | 46.4 |
| To a very great extent | 7 | 12.5 |
| **Total** | **56** | **100.0** |

The table above indicates how the participants think about their banks providing enough security features to their plastic cards and four of the participants considered it to a lesser extent, majority considered it to a great extent at 46.4%, to a moderate extent by 34% and to a very great extent by 12.5%.

### 4.16 Usage of Plastic Card

The aim of this section was to find out if the respondents use plastic card in all merchants/outlets that they seriously think should be accepting Plastic cards. Results on how the participants thought are represented in the figure 9 below

**Figure 9: Usage of plastic Cards**




**(N = 56)**

As per the information given by the respondents concerning the usage of cards in all merchants/outlets that they seriously think should be accepting cards the results show: 63% thought no to the usage while 37% considered it yes.

### 4.17 Merchant Discrimination

This part sought to find to what extent the respondents think merchants discriminate customers using plastic cards as compared to other mode of payments. The results are presented in terms of frequencies and percentage

**Table 10: Merchant Discrimination**

| Extent | Frequency | Percent |
|---|---|---|
| To moderate | 20 | 35.7 |
| To lesser extent | 13 | 23.3 |
| To no extent | 12 | 21.4 |
| To a great extent | 11 | 19.6 |
| **Total** | **56** | **100.0** |

The study also indicated that most of the respondents at 35.7% think merchants discriminate customers using plastic cards as compared to other mode of payments to a moderate extent, 23.3% to a lesser extent, 21.4% to no extent and 19.6% to a great extent.

### 4.18 Marketing to Sensitize Consumers

The aim of this section was to find out to what extent respondents think cards companies are doing enough marketing to sensitize consumers the importance of plastic cards usage. The results are presented in terms of frequencies and percentage

**Table 11: Marketing to Sensitize Consumers**

| Extent | Frequency | Percent |
|---|---|---|
| To no extent | 3 | 5.3 |
| To lesser extent | 13 | 23.3 |
| To moderate | 25 | 44.6 |
| To a great extent | 13 | 23.3 |
| To a very Great extent | 2 | 3.5 |
| **Total** | **56** | **100.0** |

Table 11 indicates that three of the respondents considers to no extent that card companies are doing enough marketing to sensitize consumers the importance of plastic card usage, 23.3 % considered it to a lesser extent, 44.6% considered it to a moderate extent, 23.3% considered it to a great extent while two of the respondents considered it to a very great extent.

### 4.19 Suggestions on ways to improve usage of Plastic cards in Kenya

An open-ended question was put forward to the participants to give suggestions on how in their view improvement on plastic cards operation in Kenya can be achieved and the result are shown below which also form part of our conclusion and recommendations.

**Table12: Suggested of improvement by cardholder**

| Extent | Frequency | Percent |
|---|---|---|
| Do enough marketing to convert Kenya to cashless society | 25 | 44.7 |
| Enhance security | 11 | 19.6 |
| Having many outlets where one can use the cards | 16 | 28.7 |
| Plastic cards should also target people from non formal banking sector | 1 | 1.6 |
| Payments should be 50% to avoid getting into too much debt | 3 | 5.4 |
| **Total** | **56** | **100.0** |

The table above gives the suggest improvement, 44.7% of the participants suggested that there should be aggressive marketing, 19.6% suggested Card Issuers should enhance security, 28.7% suggest that Card Issuers should encourage more shops to accept card, One participant suggest that company should target people in the non financial sector and three suggested that minimum payments on credit cards should be 50% of the total billing to avoid getting into too much debt.

## 4.20 Challenges of usage of Plastic card in Kenya

According to Kenswitch (2007) there is about 800 ATMs in Kenya serving a population of about 17 million adults Kenyans. However, this number of ATMs will keep on increasing as banks/Financial Institutions keep on expanding. Banks do not like to share their ATM networks with other banks as these ATMs form part of their competitive advantage. The Table below indicates some of the challenges and suggested way forward by the 15 Card Managers of the various Card Issuing banks in Kenya interviewed.

**Table13: Challenges by card Managers from various banks**

| Challenges | Frequency | Percent |
|---|---|---|
| Technology is not sufficient | 1 | 6.7 |
| Kenyan population is unbanked hence the market is limited | 2 | 13.3 |
| The risk factor of both bad debts and fraud compounded | 1 | 6.7 |
| Payment service associations like visa or master card are expensive to subscribe to for most organizations | 2 | 13.3 |
| People's culture and attitudes tend to view the credit and debit card products with suspicion largely due to low general education levels. | 3 | 20 |
| Lack of credit reference bureaus and Lack of adequate government leadership/involvement in promoting cards as means of payment | 3 | 20 |
| Fear of banks wanting to increase bad debts ratio for card debts are unsecured and tracking of defaulters is cumbersome. | 1 | 6.7 |
| Bad experiences with merchants at point of sale (POS) level where for example card is declined authorization, has been hot listed or cannot be accepted | 1 | 6.7 |
| Lack of specialised skills required in running of card business | 1 | 6.6 |
| **Total** | **15** | **100** |

# CHAPTER FIVE: SUMMARY AND RECOMMENDATION

## 5.1 Summary of the Findings

The objective of the study was to identify what challenges the industry is facing on the usage of plastic cards, to identify the determinants of growth in usage of plastic cards in Kenya and document the current trends on use of plastic cards in Kenya. The research questions were:

i. What are the factors hindering the use of the plastic cards in Kenya?
ii. What has been the customer's response on introduction of credit and debit cards in Kenya?

The historic development of plastic cards has been covered for both the Kenya market and other parts of the World. A survey report on financial access in Kenya was summarized showing how the Kenya population accesses the same.

The researcher found out that most of the participants use their cards in a month between 3-4 times. The findings indicates that 45.7% of the participants suggested that there should be aggressive marketing, 23.9% thought that card companies should enhance security, 23.9% suggest that Card companies should encourage shops to accept card and Card companies should carry out customer education program, One participant suggest that Card companies should target people in the non financial sector and another suggest that minimum payment on credit cards should be 50% to avoid getting into too much debt.

Marketing is limited in that a plastic card product for example credit card is not a mass product because all Card Companies have laid down selective criteria in recruitment of their customers. Vetting of new entrant in credit cards is very restrictive. Different banks who are majority issuers of these cards tend to segment their market and thus joint marketing promotions are of little help.

Reasons advanced by respondents as to why customers do not apply for credit /debit cards.

a) They fear debt as some of their close friends have been taken to court and finally auctioned for failure to honour their credit cards debt obligation.
b) Some are risk averse and they prefer the status quo.
c) For debit cards- a significant proportion fears technology for they are not trained on how to use the plastic cards by the respective card issuers as they collect them.
d) Fear of fraud for both credit and debit through lost/stolen cards, cards skimming, carjacking and counterfeiting of cards among others.

Banks do not have well thought strategies on plastic cards education to existing and potential customers in Kenya. This can be compared well with cell phone companies in Kenya for example that do a lot of product marketing and educating their existing and respective customers on how to use mobiles. A joint awareness campaign by card Issuers on how plastic cards operate is lacking and handily do we find such initiatives. Telecommunication network in Kenya is unreliable and is hindering card growth particularly in the rural area. The need for an effective and well regulated and governed by law a National credit reference bureau (CRB). The Kenyan judicial System is wanting and seems to frustrate credit card issuers because debts related cases on average take a minimum of two years before they are finalized in our courts. Still majority of Kenyans have the culture of wanting to hold money in form of physical currency notes and coins as opposed to money in form of plastic cards. This cash oriented culture need to change in order for plastic cards to become deep rooted in Kenya and customer education is one of the solutions.

Steadman (2007) some reasons why credit cards are rejected at Merchants outlet are namely: Exceeding the approved borrowing limit or defaulted (constantly) on minimum payment due, the Card is hot listed not to be honored, the card has crossed its expiration date, where the telephone line is down, where an Issuer is unavailable to authorize cards due to technical reason, the magnetic stripe on the reverse of the card is damaged i.e. has been scratched or exposed to continuous heat/direct sunlight or magnetic field-like card kept near a TV set / other electronic appliances, systems or technology failures have in rare instances also led to non acceptance of cards when swiped through an electronic terminal. In my study, the findings are similar to those done by Steadman.

The objective of the study and the research questions are justified by the following findings:

The participants indicated that technology is not sufficient and is expensive, a big number of Kenyan population is unbanked hence, the market is limited, the risk factor of both bad debts and fraud and this is compounded by the payment service associations like Visa or Master Card are expensive organizations to subscribe to for would be new organizations interested in issuing cards. People's culture and attitudes tend to view the credit and debit card products with suspicion largely due to low general education levels.

The respondents indicated that the greatest challenge the industry is facing on the usage of plastic cards was: lack of credit reference bureaus and adequate government leadership/involvement in promoting cards as means of payment. Fear of banks wanting to increase bad debts ratio for card debt is unsecured and risk of default is high and tracking of defaulters is cumbersome. Bad experiences with merchants at point of sale (POS) level where for example card is declined authorization, has been hot listed or cannot be accepted. Finally lack of specialized skills required in running of card business by the local people and this is even supported by the fact that most of the card business training courses if not all are conducted by foreigners and this tend to be very expensive on the card issuers side.

The key future drivers identified through the study to overcome some of the challenges faced in use of plastic cards in Kenya are: -

i) The arrival of new technology. For example microchip Cards which can be used on line and off-line without any problem of telecommunication failure. This will overcome the barrier of poor telecommunication, infrastructure and the availability of credit reference bureau.

ii) Development of locally based cards operational software and this will assist in overcoming the key and prohibitive barrier of high cost of imported card operational software and numerous license fees.

iii) Customer's educations by all Card Companies by marketing them aggressively on the benefits of plastic cards and how they can be applied for in addition to recruitment of more merchants both in urban and rural areas.

iv) Changes in the whole Plastic Money Industry by way of setting up proper legislation governing the operations of plastic cards industry and Government support in drafting consumer credit Act, waiving of tax on cards and related transactions.

v) Creation of alliances between businesses for example embracing co-branding technology in a more robust manner.

vi) Entry of non-financial organizations to the Plastic Money Business e.g. Oil Companies, Mobile Phone Companies among others.

vii) Changes in customer relationship and keeping in touch with customers to get to know their needs and wants all the time.

viii) Recognizing that customers become more discerning as the card market matures.

ix) Having judicial system that will be able to dispense small debt related cases in a short turn around time of less than six months.

x) Setting up a national credit reference bureau (CRB) to reduce the number of people abusing credit facilities.

## 5.2 Limitation

There were some limitations to this study that do not make it conclusive on its own. One of the limitations is that not all the stakeholders in the industry were involved and in that other stakeholders such as government departments, merchants and different Cards franchise holders were not involved. These groups of people play a crucial role and their say is needed in order to come up with effective recommendations for the industry.

Another limitation was that banks are very secretive when releasing information pertaining to their customers for they consider it highly confidential even when it is to be used purely for academic purpose and this matter came about when I was interviewing the various Card Mangers. Books related to card business in general are very few locally and also very few research work has been done in the field of plastic cards operation in Kenya.

### 5.3 Recommendations for Further Research

The current research is limited due to the number of respondents involved in the survey. Future researchers should also consider a larger number of respondents to ensure a more representative sample size.

Further areas of research that is recommended and which came about during my research work are:

i) To carry out research to determine how clients become aware of technology-based products / services.

ii) To carry out a survey with a view of understanding the target population and different ways in which clients/customers have been educated on the effective use of ICT-linked banking/financial services.

iii) To research on how organizations assess needs, preferences and opportunities for client education to increase adoption of technology-based financial services.

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## APPENDIX 1: QUESTIONNAIRE

### Plastics Money Cards Questionnaire

Thank you for agreeing to complete this questionnaire being sent to you by an MBA student from University of Nairobi who is doing a research in plastic cards payment system in Kenya. The objective is to find out the extent of use of plastic cards as a payment system and challenges of it growth since 1970. You have been selected to be a participant in this survey and the results can be obtained from me once the survey is completed if interested. Please tick/circle in the appropriate space or fill in the appropriate/relevant information. Please fill this questionnaire regardless whether you currently hold any plastic card or not. **All responses will be held in the strictest confidentiality**

### Customer Background

**1**. Gender: Male [ ] Female [ ]

**2**. Please tick your employment status

- Employed [ ] self-employed [ ] student [ ] other………………………………..

**3.** Are you an existing holder of any plastic card?

- Yes [ ] No [ ]

**4**. Are you aware of the different types of cards we have in Kenya?

1. Yes [ ] No [ ]

5. Which organization do you bank with? *Tick as appropriate*

a) Bank [ ] b) SACCO [ ] c) other specify……………………..

6 Does the institution that you bank with issue any plastic cards to its customers?

- Yes [ ] No [ ] do not know [ ]

**7.** Which of the listed cards below do you hold?

- Credit card [ ]
- Debit card [ ]
- Charge card [ ]
- Fuel card [ ]
- Ordinary ATM card [ ]
- Other specify…………………………………………………

8. To what extent would be interested in having any of the above-indicted cards?

| 5. | 4. | 3. | 2. | 1. |
|---|---|---|---|---|
| To a very Great extent | To a great extent | To moderate extent | To a lesser extent | To no extent |
| [ ] | [ ] | [ ] | [ ] | [ ] |

**9.** How did you get to know about the existence of plastic cards as a payment system?

- Through advertisement [ ]
- Introduced by friend [ ]
- Mail [ ]
- Other specify…………………………………..

10. Have you ever applied for any plastic card from any card company and received a decline?

- Yes [ ] No [ ]

If the answer is yes what reason were you given…………………………………………...

**10.** To what extent in your opinion, do you consider plastic cards as one of the best method of payment system?

| 5. | 4. | 3. | 2. | 1. |
|---|---|---|---|---|
| To a very Great extent | To a great extent | To moderate extent | To a lesser extent | To no extent |
| [ ] | [ ] | [ ] | [ ] | [ ] |

11. Do you envy holding either a debit or a credit card?

- Yes [ ] No [ ]

**12**. How frequently do you use your card if you hold one in a month?

- Over 10 times [ ] Between 5-8 times [ ]
- Between 3-4 times [ ] Below 2 times [ ]

**13**. To what extent do you experience any problems when using your card?

| 5. | 4. | 3. | 2. | 1. |
|---|---|---|---|---|
| To a very Great extent | To a great extent | To moderate extent | To a lesser extent | To no extent |
| [ ] | [ ] | [ ] | [ ] | [ ] |

**14** To what extent do you think your bank has provided enough security features to your plastic card?

| 5. | 4. | 3. | 2. | 1. |
|---|---|---|---|---|
| To a very Great extent | To a great extent | To moderate extent | To a lesser extent | To no extent |
| [ ] | [ ] | [ ] | [ ] | [ ] |

**15**. To widen acceptability of card in the Kenyan market, which merchants would you like to be recruited? Give two names

- ………………………………………………………………………………
- ………………………………………………………………………..………

**16**. To what extent do you think merchants discriminate customers using plastic cards as compared to other mode of payments?

| 5. | 4. | 3. | 2. | 1. |
|---|---|---|---|---|
| To a very Great extent | To a great extent | To moderate extent | To a lesser extent | To no extent |
| [ ] | [ ] | [ ] | [ ] | [ ] |

**17.** To what extent do you think card companies are doing enough marketing to sensitise consumers the importance of plastic cards usage?

| 5. | 4. | 3. | 2. | 1. |
|---|---|---|---|---|
| To a very Great extent | To a great extent | To moderate extent | To a lesser extent | To no extent |
| [ ] | [ ] | [ ] | [ ] | [ ] |

**18**. What improvement would you like to be made in order for card companies to serve customers better?…………………………………………………………………

**19** What suggestion in general can you make about plastic cards operation in Kenya?

…………………………………………………………………………………………………

**THANK YOU FOR YOUR TIME**

## APPENDIX 2: INTERVIEW GUIDE

### Personal Interview with Card Managers

1. How many cards has your card company issued to date? Please isolate credit & debit cards.

2. Does the number of your existing plastic Cardholder bigger, equal to or less than your corporate target figure? If less than target what do you think could be attributed to the shortfall?

3. Give two major problems you face while issuing plastic cards?

4. What are some of the strengths, weaknesses, opportunities and threat facing the card industry in Kenya?

5. What form of government assistance do you normally get and what assistance would you prefer?

6. Is there legislation in place governing the issuance of plastic cards and if none do you see the need to have one in place?

7. What is the level of card fraud in Kenya and what measures have card companies put in place to minimize it?

8. Do you think the marketing strategy in your organization toward plastic card recruitment is adequate?

9. How in your opinion would you like cards to be advertised/market in Kenya?

10. Do you have any card activation programs in place and do you reward your customers on high card usage?

11. Of the two customers, a cash customer and a card customer who is likely to get first preference of service from a Merchant point of view?

12. Why is that most merchants are only concentrated in urban areas?

13. Why are some Merchants in your view hesitant to accept cards?

14. Is there a national credit reference bureau for the card companies in Kenya?

15. What would you consider to be the main challenges facing card industry growth in Kenya today?

What are the main reasons your customers advocate for not holding/applying

16. plastic cards?

17. In your view, which is the way forward for plastic cards (credit/debit) as one of the payment system in Kenya?

## APPENDIX 3: MEMBERS OF KENYA CREDIT AND DEBIT CARD ASSOCIATION

**The members of Kenya Credit and Debit Card Association (Source: KCDCA minutes book)**

1. Barclay card-by Barclays Bank of Kenya
2. CBA card-by Commercial Bank of Africa
3. CFC Bank
4. Co-operative Bank
5. Diamond Trust Bank -Visa Card
6. Equity Bank-Visa Card and Proprietary Card
7. Fidelity Bank-Visa Card
8. I & M Bank – Visa Card
9. Imperial Bank -Visa Card
10. Kenya Commercial bank
11. National Bank
12. NIC Bank – Visa Card
13. Paramount Bank-Visa Card
14. Postbank
15. Prime Bank-Visa Card
16. Southern Credit
17. Stanbic Bank -Visa Card
18. Standard Chartered Bank

## APPENDIX 4: LIST OF BANKS IN KENYA

1) African Banking Corporation Ltd.
2) Akiba Bank Ltd.
3) Bank of Baroda (K) Ltd.
4) Bank of India Ltd.
5) Barclays Bank of Kenya Ltd.
6) Bank of Africa
7) I & M Bank of Kenya Ltd.
8) Imperial Bank
9) CFC Bank Ltd.
10) Charterhouse Bank Ltd.(under CBK statutory management )
11) Chase Bank (K) Ltd.
12) Citibank N.A.
13) City Finance Bank Ltd.
14) Commercial Bank of Africa (K) Ltd.
15) Consolidated Bank of Kenya Ltd.
16) Co-operative Bank of Kenya Ltd.
17) Credit Bank Ltd.
18) Daima Bank Ltd.(under CBK statutory management )
19) Delphis Bank Ltd.
20) Development Bank of Kenya Ltd.
21) Diamond Trust Bank Kenya Ltd.
22) Dubai Bank Ltd.
23) Equatorial Bank Ltd.
24) Equity bank
25) Euro Bank Ltd.(under CBK statutory management )
26) Family Bank
27) Fidelity Commercial Bank Ltd.

28) Fina Bank Ltd.
29) Oriental Commercial Bank (Delphis )
30) Giro Commercial Bank Ltd.
31) Guardian Bank Ltd.
32) Imperial Bank Ltd.
33) Industrial Development Bank Ltd.
34) Kenya Commercial Bank Ltd.
35) Middle East Bank Ltd.
36) National Bank of Kenya Ltd.
37) National Industrial Credit Bank Ltd.
38) Paramount Universal Bank Ltd.
39) Prime Bank Ltd.
40) Southern Credit Banking Corporation Ltd.
41) Stanbic Bank (K) Ltd.
42) Standard Chartered Bank Ltd.
43) Transnational Bank Ltd.
44) Victoria Commercial Bank Ltd.

**(Source: Central Bank of Kenya 2007)**