AN ANALYSIS OF FACTORS AFFECTING THE PROVISION OF SERVICES BY BANKS TO INTERNATIONAL BUSINESSES: A CASE OF NATIONAL BANK OF KENYA LTD

BY

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DECLARATION

This management research project is my original work and has not been presented for a degree or for examination in any other university

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Signed............................. Date. 3/11/2006.....

This management research project has been submitted for examination with my approval as university supervisor

Dr. John Yabs

Signed.................................. Date. 3/11/2006.......

DEDICATION

To my loving husband Pat for his support and my shining stars, my children ail'O, Bry and Be, who were my sources inspiration through the entire process of e course.

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ABSTRACT

ll aspects of business activities point towards internationalization, following the new world litical and economic order. The Kenyan economy has been predominantly domestic. But the orld has come and upset the erstwhile peaceful markets where Kenyans dealt in a great degree certainty. Competition has intensified. A glance at various policy papers reveals that Kenya is eparing its economy for the international market in order to achieve sustainable growth. The nya businessman therefore does not seem to have much option but to also go out and confront e international business arena.

n important aspect in business is making and/or receiving payments; and even obtaining the cessary financing. This is more challenging in international business where one may never see e customer/supplier due to the great distances involved

nks, being custodians and mobilizers of funds become central players in the ernationalization strategy. It is therefore important to explore how they can effectively support s process. That is the goal of this study.

e study begins with the observation that poverty eradication is now a priority to the Kenya vernment and policies towards the same are now being formulated. The approach that is being nsidered sustainable is the one that involves the stakeholders both at formulation and plementation levels; and in which the private sector is expected to play an important role. This vate sector comprises, among others, entrepreneurs and financial institutions, which are stodians and mobilizers of funds. And further more focus is on labour intensive activities that l produce for export purposes. Due to the intricacies involved in the contracts, payments and eipts of funds where international dealings are concerned it becomes necessary that banks, ing to their position in the market place, offer the support required by the international inesses.

e study aims at finding out the factors that influence the provision of banking services as uired by international businesses. It is further intended to propose ways of improving banking vices that are provided to international businesses. This is in turn, intended to improve the rnational businesses.

TABLE OF CONTENTS

ABREVIATIONS

Electronic Trade Related Services

HSBC Private Bank- United States

Electronic Data Interchange

Letters Of credit

Real Time Gross Settlements

European Commission

Society of Worldwide Interbank Financial Telecommunications

Interbank Online System

Financial Network Association

Clearing House Automated Payment System

Clearing Interbank Payment System

Automatic Teller Machines

African Growth Opportunity Act

Electronic Data System

Automated Clearing House

Information and Communication Technologies

Kenya Industrial Research Institute

CHAPTER ONE

1.1 INTRODUCTION

The primary development goal for Kenya is to achieve a broad based sustainable improvement in the standards of welfare of all Kenyans. This will require a concerted effort to tackle the intolerably high incidence of poverty that currently afflicts more than half of our population. While Government has a particular responsibility for spearheading action and creating a positive framework, the private sector, non-governmental and community based organizations all have a vital role to play in meeting the challenge of poverty reduction. Kenya must mobilize all available resources and use them efficiently and effectively in the fight against poverty

Kenya's interim poverty reduction strategy has five basic components and policy objectives, which are; to facilitate sustained and rapid economic growth, to improve governance and security, to increase the ability of the poor to raise their income, to improve the quality of life of the poor; and to improve equity and participation

In the Ministries of Tourism and Trade and Industry, because of their central role in the strategy, the Government has set in motion four policy issues as a facilitating avenue.

In the first place the Government is committed to substantially reducing the regulatory and licensing requirements and ensuring a more efficient administering of commercial law. Secondly it has realized that the area of action for policy calibration involves the opening of new export markets for labour intensive manufacturers, services and agro-products and a renewed marketing effort to promote Kenya as an attractive tourist destination. The African Growth and Opportunity Act (AGOA) exemplify this in the special attention that focuses on opportunities presented. The third area involves financial services for enterprises. The Government acknowledges that private institutions are best suited for implementing investment programs and that its role is to be limited to establishing prudential rules which protect savers and investors but which allow adequate flexibility for private financial institutions to develop innovative instruments, modes and methods of finance. Finally, the Government intends to support special measures targeted on providing adequate infrastructure and development of management and technical capacity for the growing micro and small enterprises sector.

at is expected from implementation of this strategy is increased direct foreign investment multinationals and non-governmental organizations. There will also be increased activities such areas as research, capacity building, small and micro enterprises (KIRDI strategic n for 2004, Hon. Mukhisa Kituyi). In one way or another it will not be possible for iness to avoid the international arena in the process of transacting.

ks are the custodians and mobilizers of financial resources. They are therefore expected lay a pivotal role.

ough research it has been established that any programs that are expected to be inable must involve stakeholders from the outset. The Government is increasingly using approach in developmental projects. It therefore behooves the commercial banks to adapt ame approach in order to be able to repackage existing products and/or to develop new that will be relevant to the target market, and to serve the same effectively. Therefore bank to establish the factors that are affecting provision of services to international lesses it is important to conduct a study from both the customers' and banks' ectives, but with focus on the customers since they are the ultimate users. And this is m of this study.

National Bank of Kenya Ltd – Establishment And Services

The National Bank of Kenya Ltd was established in 1968 through an Act of Parliament. It was meant to provide financial services to indigenous Kenyans and their enterprises in the post independent Kenya with the view of accelerating economic development and redistributing wealth. It was therefore fully owned by the Government until 1994 when it offloaded 22% of its shares to the public as it embarked on the privatization process.

Currently the National Bank operates 23 branches spread across the country; and 10 agencies. It offers a wide range of services, which include the following:

1. Deposit taking on various accounts such as the demand deposit accounts, savings and fixed deposit accounts.
2. Credit facilities such as unsecured personal loans, business loans, study loans, car loans, etc, and overdrafts.
3. Funds transfer both inward and outward through various electronic options such as SWIFT (Society of Worldwide Inter bank Funds Transfer), RTGS (Real Time

Gross Settlement) through the Central bank, Electronic Funds Transfer through the inter bank clearing system and Mail transfers.

4. Trade finance through such instruments as Letters of Credit and Collections.
5. Discounting of both local and foreign currency bills.
6. Cheque clearing.
7. Bid and performance bonds
8. Trade and Shipping Guarantees.
9. Central Depository Services for shares of companies that are quoted on the Nairobi Stock Exchange.
10. Safe custody services for valuables and documents.
11. Debit and Credit (both local and international) cards.
12. Multifunctional Automatic Teller Machines (ATMs).

Having been established with the foregoing objective of providing financial services to indigenous Kenyans and their enterprises in the post independent Kenya with the view of accelerating economic development and redistributing wealth, the National Bank still does offer the wide array of banking services that are found in any large bank; and which services are reviewed progressively to match advancement, particularly in the technological communication sectors. It is against this background that the researcher considers the National Bank to be one of the most appropriate financial institutions to support Kenyan businesses in the internationalization process, and therefore suitable for the study

EARCH PROBLEM

he development of money and Banking services has been inextricably associated with the growth of trade and commerce (Perry, 1989). While the Banks need to evelop services that will satisfy the needs of their customers; these needs are volving through the ages.

reviously a major concern for customers was the slow speed of service delivery ith technological advancement this huddle has been overcome E-banking has ptured the customer with impetus despite worries of security and complexity since s appeal lies in convenience and accessibility. (Hirst, 1968)

It has been observed that a major challenge for Banks is that technological solutions are developed by non-banking enterprises (The Economist, 1994c). The Banks therefore do not know where the next wave of advancement will come from and in what form it is likely to be. (Chase 1978) It becomes questionable whether both the banks and the technology providers are on the same page with their end users when it comes to the services that bank customers' need. (Hirst,1968).

It is worth noting that the bank customer relationship is governed within a legal framework. On the other hand the absence of standards and a legal framework for e-commerce is hindering its full adoption in international trade. (Union Bank of Switzerland journal, 2002).

A good number of studies have been done on various aspects in the banking sector here in Kenya. Murigi (2003) is a study on customer satisfaction through end-to-end service management strategy. It looks at the application of the Value Chain in service delivery in large local commercial banks.

Musa (2004) did a study on responses of commercial banks to changes in the operating environment. It was a case study on the National Bank of Kenya with emphasis on how the Bank has tried to enhance customer satisfaction in order regain competitiveness.

Mazrui (2003) did a study on Marketing Approaches used by managers to address customer service challenges in the banking sector. Kandie (2003) has done an investigation on Customers Perception and expectation of Quality Service.

Kenya as a nation is in the process of formulating poverty eradication policies. The entrepreneurial process has been identified as an avenue for sustainable eradication of poverty. Due to the general world economy trends of globalization, integration and all other activities that point towards internationalization, the entrepreneurial process has, of necessity, got to be internationally focused.

According to Dr. M. Ogutu (2004), a business is internationalized when it operates or sells its products in foreign countries. He goes on to list the main forces of internationalization as, market saturation at home, economies of scale, extension of product life cycle, risk diversification, sourcing economics, exploiting foreign market opportunities, presence in competitor's home market, oligopolistic reaction, overcome foreign market trade barriers, to utilize excess capacity, management enthusiasm, dumping, stabilization of demand, and prestige. Whatever the motivation once the decision has been made the next step will be finding ways and means of making/sending and receiving the goods and the payments. Knowledge of reasons for internationalization will help the bank give the customer relevant information and the desired service.

Of the studies that have so far been done none of them seem to recognize the need to support the bank customers involved in international business so that they can adequately address themselves to the situations mentioned above, thus **creating a knowledge gap.**

There exists a twin relationship between businesses and banks. It is therefore important for banks to understand how they can effectively support businesses through this process. This leads to the objectives of this study.

1.3 OBJECTIVES OF THE STUDY

The main objectives of this study is to find out the factors that influence the provision of banking services to international businesses.

Specific objectives include the following:

(i) To establish factors that influence the provision of services by banks to international businesses and how these services could be repackaged and/or, what new services could be introduced in order to be more supportive to the said businesses.

(ii) To investigate customers' perception regarding banking services and the support the banks could give them in order for them (the businesses) to perform better in international businesses.

1.4 IMPORTANCE OF THE STUDY

This study is of importance to:

(i) Banks because it will enhance their understanding of factors that affect the provision of services to international businesses and learn what new services they could provide to the same.

(ii) Traders will also learn the range of services that are available to international services and the future trend in the development of the same

(iii) Regulatory bodies such as the central bank and treasury may be able to draw upon this study as they formulate supportive policies governing the conduct of international businesses.

(i) Academicians who will learn more as the study is bound to contribute to the body of knowledge and provide opportunity for further research

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 INTRODUCTION

Presently more than fifty percent of the Kenyan population is living below the poverty line. Poverty wastes people and their potential. (Government of Kenya Poverty Eradication Paper 2002-2003) Poverty has numerous manifestations including low and unreliable income, poor health, low levels of education and literacy, insecurity and uncertain access to justice, disempowerment and isolation from the mainstream of socio economic development. It is therefore important to develop multidimensional policies and interventions that will provide a sustainable solution. The poor must be provided with a means of earning opportunities, ready access to means of production, the provision of affordable basic services and the protection of the law. This will not be achieved through temporary relief programs but only through a deliberate long-term policy to increase equity of opportunity and to ensure that all members of the society can participate fully in the socio economic development of Kenya. (Government of Kenya Poverty Eradication Paper 2002-2003)

The achievement of a broad based sustainable improvement in the standards of the welfare of all Kenyans as a primary developmental goal cannot be overemphasized. A fundamental prerequisite for poverty reduction is economic growth that considerably outpaces population growth. The most precious resource in this venture is the people and their potential to work for the betterment of the nation

The Kenya Government has acknowledged that private institutions are best suited for implementing investment programs and that the role of the Government needs to be limited to establishing prudential rules which protect savers and investors, but which allow adequate flexibility for the private financial institutions to develop innovative instruments, modes and methods of finance. It has been observed that markets currently do not provide adequate credit to exporters, small firms (especially growing micro enterprises), firm producers or women.(Government of Kenya Poverty Eradication Paper 2002-2003). To address this the Government intends to assess the potential institutional arrangements to provide trade and working capital finance especially for exporters, small enterprises and growing micro enterprises whose credit needs are not provided through existing institutional arrangements;

and review options to liberalize, reform and/or privatize other institutions in the financial sector including the Kenya Commercial Bank and the National Bank of Kenya These are to be addressed alongside other pertinent issues like corruption, security and safety, law and order and political stability and proper dispensation of justice

IVERVIEW OF LITERATURE ON BANKING SERVICES

The National Bank of Kenya Ltd was established in 1965 through an Act of parliament. It was meant to provide financial services to indigenous Kenyans and their enterprises in the post independent Kenya with the view of accelerating economic development and redistributing wealth. It was therefore fully owned by the Government until 1991 when it offloaded some shares to the public as it (Government) embarked on the privatization process.

Having been established with the foregoing objective the National bank did, and still does offer the wide array of traditional banking services that are found in any large bank. With the background against which it was established the National Bank becomes one of the most appropriate financial institutions to support Kenyan businesses in the internationalization process

According to Dr. M. Ogutu (2004) of the University of Nairobi, a business is internationalized when it operates or sells its products in foreign countries. He goes on to list the main forces of internationalization as, market saturation at home, economics of scale extend of product life cycle, risk diversification, sourcing economics, exploiting foreign market opportunities, presence in competitor's home market, oligopolistic reaction, overcoming foreign market trade barriers, utilizing excess capacity, management enthusiasm, dumping, stabilization of demand and prestige. Whatever the motivation once the decision has been made the next step will be finding ways and means of making/sending and receiving the goods and the payments

And even as the customer contemplates involvement in international business at the back of his/her mind they have such important concerns as convenience, efficiency in service delivery, fee structures that are fair, security, secrecy, privacy, functionality, and stability.

The sale of goods and services to foreign buyers entails additional and greater risks than domestic business transactions. With export/import orders such risks can crop up at any point from the purchase of raw materials, through the manufacturing and storage of goods, to delivery and payment within the agreed time. The interests of buyers and sellers must be protected. For the buyer compliance with the terms of performance is of primary importance, while for the seller, prompt payment is a priority the risk involved are accentuated in foreign trade transactions since the buyer is less able to judge the reliability of a foreign supplier than that of a domestic one. In addition it is much more difficult to bring legal action in the event the terms of the contract are not fulfilled. The same applies of course to the seller/exporter who not only incurs additional transport risks but also increased risk of not receiving payment. Further more difficulties may arise in appraising the country risks involved (currency and transfer risks, the threat of social, political and military conflicts, etc)

Overseas services provided by banks can be segmented into two groups- those that are particularly relevant to a potential importer or exporter, and services that are important to those who already trade regularly with overseas importers and importers. This is a rather clinical approach that ignores the overlapping requirements of the two market sectors. But, in mitigation, it enables the overseas services to be broadly marshaled into groups with similar functions and features in order to cross-match service benefits with customer requirements (Marsh J 1992).

Yet the banks in Kenya have to assess what the financial market can offer now and what its potential is. There is need to give a critical look at what is there; and whether or not it requires repackaging. Then there are the other upcoming services, which are facilitated by technology. These too need to be packaged and introduced in such a way that they will be able to effectively support Kenyan businesses in the international arena.

Range Of Overseas Services Available- Existing Importers/Exporters

There are far too many services to name all of them in detail, and in any case in the past it has not been considered as the role of the branch manager to be an expert in all overseas services. However a good appreciation of what type of services are available and how these can be used to effect in given trading circumstances, is necessary in order to grasp opportunities to introduce business to the overseas department of the bank.

Payment services

Terms of payment and the methods, by which settlement will be made, are matters of negotiation between the parties importing and exporting. Nevertheless a bank can advise its customers which payment system is likely to be the most secure and involve minimum risk from exchange rate movements. There are five basic methods by which an exporter may receive payment for his goods and, conversely, can be used by importers to make payments. These are, open account, advance payment or payment in order, documentary and clean collection, documentary credits and barter and counter trade.

The International Chamber of Commerce has also developed regulations that govern the transactions involving documentary credits to provide uniformity allover the world

Services For Active Importers /Exporters

Apart from the likely need to borrow money to support import and export business, trading customers also require payment services both inwards and outwards which are safe, the means to reduce risks from exchange rate fluctuations, and, to facilitate trade, guarantees, tender bonds and export factoring among others. In this regard the modes of payment mentioned above apply

Foreign Exchange Services To Minimize Risk

Exporters have five alternatives open to them when they know that they will receive foreign currency in payment of goods and services supplied. They may convert the foreign currency into local currency on the date it is received at the prevailing spot rate or arrange with a bank a forward foreign exchange contract to sell the currency when received on a nominated date, or between two specified dates in the case of an option contract. They can also borrow from the bank an amount of foreign currency, which, together with interest payable on the borrowing, will equal the amount of the anticipated proceeds. The proceeds are then used to repay the loan when they are received. The other options are to have proceeds paid into a foreign bank currency account; or to arrange to sell currency against a base currency (e g US Dollars) at a rate of exchange picked by the customer. This is known as a currency option.

Importers also have five alternatives when they have to make payments in foreign currency for imported goods or services, which are just the opposite of what is available to exporters.

sually there is delay between fixing a contract with an overseas buyer or seller and the date ıyment is made. An exchange risk is unavoidable. To minimize this risk there are two types forward contracts:

ixed forward contracts which are suitable when the precise payment date is known. This rangement allows the exporter to plan on the amount to be paid or received and to regulate ıc business cash flow accordingly.

ption forward contracts suitable when date of receipt or payment of funds is uncertain. It nables customers to avoid exchange losses that may arise due to adverse movements in spot ıtes over a period of time. It also enables the customers to price their purchase or sale more ccurately. This is of particular importance for any trading organization working on smaller rofit margins.

ometimes customers may wish to arrange for bank guarantees or undertakings to be issued n their behalf in favour of overseas beneficiaries. These guarantees protect those overseas uyers against losses caused by local customers' failure to meet their commitments. This ype of indemnity is a valuable selling factor, but because of the size of the liability that can ıe incurred it is only given to customers of high standing. Circumstances in which guarantees nay be given include:

Performance bonds which stipulate standards of performance and date of completion. ailure to meet the conditions usually incurs cash penalties that must be guaranteed by the bank.

Tenders and advance payments, particularly for overseas contracts have to be supported by guarantees usually for a small percentage of the tender price. Some contracts also require advance payments to be made by the buyer, who may call for a guarantee for repayment if the contract is not completed.

Retention bonds allow the buyer to withhold a certain percentage of the contract value for a specified period of time after the completion of the contract; until the terms of the warranty,

uarantees on trade debts are executed where a bank undertakes on behalf of its stomers, payment of certain debts. Principal examples are government ministries and partments.

xport factoring is a service, which includes the dispatching of invoices, collection of onies and provision of credit facilities where the seller wants to draw against the funds fore the funds are available. Advances are usually allowed up to 80% of the outstanding bt.

easing is medium term finance availed to a company wishing to acquire the use of uipment without the initial burden of the cost of purchase.

orfeiting uses 'free market' funds to provide fixed-rate medium-term supplier credit to porters of capital goods. It enables the seller to extend credit to the buyer and at the same ne to discount the same instrument for cash upfront.

'hen assisting an importer or exporter, specialist information will invariably be necessary. ne banker's role is to identify the need for a particular type of service through an ppreciation of the difficulties that could arise. This identification of needs will only occur if e benefits provided through a comprehensive range of overseas services are understood. he reason for this is that importer/exporter problems and requirements vary widely, and iere is no substitute for a clear appreciation of an individual customer's circumstances. xcept in very general terms, the bank services for exporters and importers cannot be iarketed on a blanket basis.

robably the most important problems a bank will face are a customer who has a liquidity roblem because of the protracted payment schedule, which is a common feature in export ade, and one seeking support when negotiating an overseas contract.

ıry research, communicating with people around the world cheaply and instantaneously. ay, these have all become staples of life, which is, in truth, revolutionary. But the Internet also touted as a tool that would make regular stores, bank branches, full-service financial ‹ers and other "old economy" ideas obsolete or, at the very least, passé. But a funny thing pened on the way to the new world order.

ile enormously successful, the Internet has become an extension of business and ımerce, often as additional sales or distribution channel, but not necessarily a replacement what came before. This is as true for banks as it is for bookstores. While bankers have g been fascinated with the idea of online banking, the notion took longer to catch fire with sumers. Now that e-banking has captured consumer attention, the growth has been matic despite customer worries about security. For bank customers, the appeal of Internet ıking lies in its relative simplicity, absolute convenience and easy accessibility. The ability "touch" one's money, whenever they are online, has finally become a strong draw for ›ple after years of false starts. As The Wall Street Journal observed in October 2002: ternet banking is an idea whose time has come – over and over again."

ıy has online banking finally become popular? And what does the future hold? From ere will the next big wave come? Are the banks, not to mention the companies that ›vide their e-commerce solutions, on the same page as end users when it comes to services ople want or need?

ith the rapid expansion of the Internet, there are a number of initiatives underway for the eation of a secure cost-effective payment system, which will be able to support growing nmercial activities on the network. William Melton is quoted as saying "The Internet is ›ing to happen, with or without the bankers. But the bankers, the bright ones, are going to ake this an opportunity"

›me examples of what has been developed by banks to support Internet banking is the [illegible] of the HSBC Bank in America. It recognizes that business depends w it works:

1. Creation of own collection order and bills of exchange using a simple Access database.
2. Sending the documentary collection directly to the issuing bank.
3. Sending a copy of the collection schedule to the local HSBC office. This can be done through ETRS, the bank's in-house EDI system; customer's own back office systems, or even by fax or mail.
4. HSBC will follow up on customers' behalf for the bills, and regular status reports can be viewed through Hexagon, HSBC's electronic banking system.

: benefits of this are interest savings as documentary collections are paid faster and ection-processing time reduced by up to two-thirds.

ero

: Bolero Service is intended to provide essential infrastructure to global trade, offering rs the opportunity to process all trade documentation electronically. Bolero, jointly owned SWIFT and the Through Transport Club, has established a title registry and rulebook to ument and govern electronic transfer of all documents of title such as bills of lading. Until /, the absence of a legal framework for title documents has blocked the full adoption of E-nmerce in international trade.

ero is Internet-based and uses a certificate authority and digital signatures to ensure the ire transmission of data. By using these, Bolero participants will be safe in the knowledge each party is whom they say they are, that parties cannot deny that they sent or received sages, and that data is private and cannot be modified in transmission or storage.

3C Trade Services is participating in the Bolero pilot. Testing has begun and already e are bills of lading, packing lists, invoices, inspection certificates, requests for collection oided, and eliminates manual intervention, allowing large numbers of LCs to be issued pidly.

esides eliminating the majority of the customer's back office LC issuance costs, straight-rough processing increases accuracy and enables them (the bank) to reduce their cost. ivings made are passed back to the customer in the form of a discounted LC issuance tariff.

SBC are also able to issue LCs in the country of the beneficiary, thereby ensuring that they e advised to the beneficiary more quickly, enabling the customer to issue them a day or two er. They can arrange for the LCs to be payable at the counters of their branch in the untry of the beneficiary, thereby enabling the customer's supplier to get payment as soon he ships - a crucial benefit when liquidity is tight. The bank can also arrange for cuments to be checked by their branch in the country of the beneficiary, and then sent by urier directly to customer, thereby reducing the amount of time it takes for him (customer) receive documents and hence the risk of any delays in customs clearance due to complete documentation.

porting of discrepancies and of bills due for payment can be tailored to meet the stomer's requirements and can be provided by EDI or email to enable him to upload formation directly into his back office system. Again, keying errors are eliminated and ck office processes can be streamlined. HSBC can consolidate all bills due for payment on particular day into one payment, and provide a detailed statement in advance of the due te, thereby enabling the customer to manage cash flow more accurately and eliminating ne-consuming reconciliation.

nks And The Internet

date commercial banks have shown only limited interest in the Internet. Given their focus private, proprietary networks, it is not surprising that banks view with some misgiving a ue that since the Internet is not owned by anybody and users are spread all over the world, urity would be almost impossible to implement because of the different legal, tax and ulatory regimes which would apply.

rertheless, commentators within the financial services industry recognize that changes are ng place. On March 25th, 1994, Unipalm, a small British software firm, became the first ıpany to make the prospectus for its forthcoming flotation available to subscribers on the rnet. This may be indicative of a future which will see increasing volumes of investor-vant information made available to end users which was previously restricted to financial rmediaries. Charles Sanford, the Chairman of Banker Trust, anticipates that by 2020, viduals will be in a position to buy and manipulate staggering amounts of information ›re they make decisions about their investments. The role of intermediary will easingly be taken by electronic bulletin boards that will match buyers with sellers, owers with lenders. Payment and settlement systems will permit transactions to be ıntly verified and settled through a global payments system (*Economist*, 1994c).

ther measure of future developments is the level of spending on computer & ommunications hardware and software. After some years of reduction, investments are growing. According to the consultants Ernst & Young, financial institutions in the ed States are estimated to have spent US dollars 16.35 billion in 1994, with projections this figure will increase to US dollars 19.8 billion in 1997 (*Financial Times*, 1994l). r indicators also point to change. According to a survey by the Electronic Messaging ciation (EMA), a trade group based in Arlington, Virginia, commerce in the US is ming increasingly networked. The number of e-mail sites at head offices and branches of ı America's 2,000 biggest companies exploded from 94,000 in 1991 to 180,000 in 1994. ıumber of users is rising by 17-19 per cent a year. A growing number of companies are ıding their e-mail systems to customers and suppliers.

antaneous settlement of transactions. However, the fundamental difficulty with blishing electronic payment systems on the Internet is that that system was specifically igned to facilitate the free exchange of information. In order to achieve such an objective, urity issues will need to be successfully addressed without losing all of the benefits that rue from its open systems structure.

present Internet customers have a limited set of options for making payments. The plest option is to provide details of a credit card number and transmit this information to merchant vendor usually using an alternative to electronic mail, either the telephone or A number of enterprises currently trading on the Internet have opted for this payment hod. However, this method has a number of limitations. It requires the buyer to incur the itional expense and inconvenience of conveying, for instance, credit card details and iires that the seller be accredited by a merchant acquirer/credit card processor. It is also tively costly since credit card merchant acquirers generally charge premiums for handling phone-based sales. A simpler method would be to provide credit card details using e- l. However, given the open structure of the Internet with messages routed through the vork, there is a general unwillingness to make personal credit card details available in this n, since both buyer and seller are exposed to fraud.

Internet is now acquiring a more commercial character and therefore there is pressure to elop and market a form of electronic payment system that will be as fast, flexible and al as the Internet itself. In general terms, this is one of several instances where advances communications technology have already moved ahead of the technology presently rporated into proprietary payments networks. Innovation appears to be led by non-bank, n start-up software-based companies. As well as small entrepreneurial companies, the or credit card companies, Visa and MasterCard are presently leading the race to establish re payment systems on the Internet.

Services Available To Potential Importers/ Exporters:

Advice and information

All major banks have networks of connections worldwide and they monitor the political and economic climates of many countries very closely. They can often obtain and pass on very substantial advice on almost every aspect that is likely to affect overseas trade. The advice and information available from major banks can be summarized as follows:

Regulations of overseas countries

This information includes detail on foreign import licensing procedures and any overseas controls and formalities that have to be satisfied.

Status enquiries

The reputation and financial strength of overseas clients of firms importing or exporting can be assessed in a variety of ways. Measures include reports from overseas banks; special reports from agents abroad and, in some cases, even the balance sheet s of foreign businesses can be obtained.

Trade enquiries

Not to be confused with status enquiries this service involves obtaining the names of prospective buyers and agents overseas. Overseas banks often seek openings for their customers and will ask a bank to pass on details to firms, which might be interested in doing business with their clients abroad.

Economic reports

There can be increased risk for businesses considering exporting or importing with countries where the political or economic conditions could create trading difficulties and could cause large fluctuations in the rates of exchange. The major banks maintain information, especially on those countries that have a volatile history and this data is regularly updated. Some economic reports are very comprehensive and apart from the political and economic scene also consider the trading opportunities that exist domestic firms wishing to establish an import/export trade.

Other forms of advice

The banks will advise on most aspects of overseas trade from merely explaining how payments can be made or received, to actually making direct investment in an overseas firm. The latter will require consultation on such problems as repatriation of profits, capital investments and other local regulations, legal and taxation matters.

separate credit card authorization using the proprietary networks, including those established by Visa and MasterCard. Finally, there is a fourth approach that involves the use of 'smart cards.' Several schemes are presently at the experimental stage, while others such as First Virtual have already declared themselves as open to do business on the Internet. The ultimate vision could be for a truly global and virtual marketplace requiring completely new institutional and legal structures and having a similarly profound impact on economic life to the medieval trade fairs that emerged in Europe in the 12th century. Business Internet Banking combines the speed, ease, and convenience of round-the-clock

The Internet is the hub of global business. E-commerce is transforming weighty supply chains to lightning-fast supply networks. HSBC says it is a leader in this transformation and brings its clients dynamic solutions that evolve in harmony with changing needs. This truly is necessary for any bank to remain in business.

International Systems Of Exchange

International trade has grown significantly in the post-war period and with it the associated monetary flows. More recently, deregulation and globalization have led to a spectacular growth in the value of non-trade-related financial transactions. Every transaction whether trade- or non-trade-related gives rise to obligations that needs to be settled through a transfer of money between the parties involved. Settlement of non-trade-related and large value trade transactions is increasingly based on the electronic large value payment systems that have been developed since the 1960s. Together this has led to a major expansion in payment and settlement systems. These now handle payment volumes on a daily basis, which collectively dwarf economic output in the main industrial countries.

The increasing emphasis on non-trade-related settlement has created an agenda of concerns that are increasingly divorced from the issues faced by businesses and individuals seeking to make lower value transfers. The huge values created by the foreign exchange and securities businesses operating on a global scale create separate agendas as concerns to mitigate the ever-increasing risks associated with settlement grows. Discussions revolve around reducing systemic failure of the settlement system by either 'netting' and/or real time gross settlement (RTGS). However, these issues remain remote for the millions of individual businesses operating at national and increasingly international levels who remain locked into inefficient and time-consuming paper-based payment and settlement systems, particularly when trading is across national borders and involves different banking systems.

Banking And Securities Markets

Non-trade related international and domestic financial transactions have grown substantially both in absolute terms and relative to the growth in trade. For example, the world foreign exchange market alone is estimated to be worth more than 1 trillion dollars per day in 1995 compared to total world trade in goods and services of only $4 trillion. In other words, four days of foreign exchange trading equates to the total requirement for trade-related foreign currency purchases over a 12-month period (Roberts, 1995). Elaborate settlement systems are being developed to contain the burgeoning risks that are involved. (Financial Times, 1994a).

Correspondent Banking

In contrast to the inter-bank settlement systems that have been developed for large value payments, other cross-border transactions are based on an older payment architecture. This system of making payments has evolved from various networks of correspondent banks that date back in their original form to the 12th century. Correspondent banking networks were first established to service trade flows in medieval Europe and some of the present terminology such as nostro and vostro accounts predate this period.

Correspondent banking operates on the principle that a bank initiating a payment should be able to select its routing. A payment from an importer to an exporter will be routed through the importer's local bank who will then select its foreign banking correspondent. This bank in turn will contact the bank of the exporter or, in certain cases a further local intermediary payment bank. The system was originally devised to eliminate the need for medieval merchants to settle transactions in gold currency, given the risks involved in transporting valuables through hostile territories. Correspondent banking arrangements have survived and until the 1980s, correspondent banking was an important source of profit for the small number of banks in each country which have historically handled the majority of cross-border transactions. However, in an age of electronic messaging correspondent banking is rapidly becoming a costly anachronism that simply adds to the costs of each payment transfer and is one of the principal obstacles to implementing effective low value cross-border electronic payment networks. International payment systems like SWIFT remain based on the principles of correspondent banking relationships.

The inability to establish cost effective cross-border payment systems has become a major political issue in the European Commission (EC) given the aspirations for the creation of a 'single market'. It is estimated that every year individuals and small businesses make more than 200 million cross-border payments within the European Community. The EC is presently preparing recommendations for legislation that would force community banks to reduce costs and improve service levels (Economist, 1992b). The Maastricht Treaty signed by the EC partners in November 1993 makes a commitment in principle to moving towards European monetary union. The movement to monetary union will involve large-scale technical changes as funding arrangements and payment systems are overhauled, and the introduction of new bilateral or multilateral payment arrangements in place of the current arcane cross-border payment arrangements (Financial Times, 1994f).

Payment Messaging Systems

As the demands for international settlement of currency and securities transactions have increased, electronic payment systems for large payments have developed. SWIFT, which stands for the Society for Worldwide Interbank Financial Telecommunication, currently dominates the field of interbank messaging but is increasingly facing competition from other networks. SWIFT was set up in 1973 and is based in Brussels. It is owned by its members, a consortium of 2,200 plus banks. SWIFT provides electronic payment services to around 4,300 financial institutions world-wide and presently processes around 500 million payment messages a year.(Financial Times, 1994g). SWIFT has been criticized for relying on hub and spoke communications technology, which was originally conceived in the 1970s. Although the SWIFT system enjoys worldwide acceptance it is dependent on the same heritage of correspondent banks, which form the basis for all low value cross-border transfers.

In recent years, other competing cross-border electronic payment systems have been established. The Royal Bank of Scotland joined forces with a number of European banks to launch the Inter Bank Online System (IBOS) in 1991. IBOS attempts to break with the correspondent banking architecture still predominant in international payment transfers. It aims instead to create a virtual banking association, which links the customer networks of the participating banks without reference to existing financial infrastructures. Significantly, IBOS used expertise from British Telecom, Digital Equipment and more recently the US computer services giant Electronic Data Systems (EDS) to establish the system (*Financial*

Times, 1995a). Other payment networks that are being established include the Financial Network Association (FNA) and the UK-based company, Scitor, set up in 1991 by Sita, the airline reservation system co-operative. In both cases, significant technical support is being provided by companies with established expertise in information and communication technologies (ICT).

Checks and Bank Transfers

Despite the development of electronic payment systems, business-to-business payments are still predominantly made using non-electronic funds transfer (checks or telegraphic transfer). Despite the development of an array of automated systems, most businesses continue to bill their customers with paper invoices and to make payments to suppliers using paper checks. Even in developed economies like the US the Federal Reserve estimates that in 1993, only 3.8% of business-to-business payments by transaction volume were made electronically using either Clearing House Interbank Payments System (CHIPS), Fedwire or Automated Clearing House (ACH) transfers. (Knudson et al., 1994). But the trend is now gathering momentum due to growth in trade and high speed at which transactions are concluded.

Paper-based payment systems are an increasingly costly anachronism in an age, which permits cost effective global electronic communications systems. Nevertheless, important institutional barriers stand in the way of reforming existing payment systems. For example, many European countries including the United Kingdom still do not permit cheque truncation (removing the need for cheques to be physically returned to the bank branch on which they were drawn). Individual businesses have also been reluctant to move to electronic methods, preferring instead to focus on automating internal administrative processes and in some cases capitalizing on the float benefits that accrue as a result of payments in transit.

Electronic Data Interchange (EDI)

Electronic data interchange (EDI) involves the exchange of structured business documents, such as orders and invoices, directly between computers. Financial EDI extends this process to the payment and settlement process performed by banks. At present EDI is principally used for inter-company communication, removing the need for paper-based transmission of orders and remittance information. Although EDI standards were developed in the early 1980s, actual implementation has been very modest to date (Financial Times, 1994i).

Cash And Automatic Teller Machines (ATMs)

Despite the development of electronic payment systems, modern industrial economies still function to a large extent on cash payments. In the United Kingdom, around 85% of payments by volume are still made in this way (Association for Payment Clearing Services, 1994). Although cash payments represent the direct converse of electronic forms of payment, cash delivery is itself increasingly based on the huge base of Automatic Teller Machines (ATMs) which are being increasingly networked together to permit customers to collect cash from different banks as well as in other countries. ATM and credit card networks are linked in that VISA and MasterCard holders have long enjoyed the facility to draw cash from ATMs. This means that 530 million Visa cardholders, for example, have access to around 232,000 ATM locations in 87 different countries. Although originally established by large commercial banks, ATM networks are increasingly being developed by non-banking organizations. In the US, the company currently installing the most ATMs is Electronic Data Systems (EDS), a computer/data processing Services Company.

A number of companies, including Nat West in the UK, are developing smart card technologies, which may ultimately bridge the gap between ATM networks for delivering cash and the requirement to make electronic payments. Nat West are leading a consortium to develop smart card technology to develop an 'electronic purse' which with suitable equipment could also be used to transact payments on the Internet.

Digitized 'e-cash' Systems

A number of companies are developing payment systems that permit direct payments to be made anonymously. Payment takes the form of encoded messages representing the encrypted equivalent of digitized money. The aim is to be able to effect payment directly without requiring the use of intermediaries. A number of trials are presently under way to test the concepts that are involved.

One of the leading firms which is developing an 'e-cash' system is DigiCash, which has previously been involved in developing smart card technologies. DigiCash is a Dutch company based in Amsterdam. It has been running trials since November 1994, involving the transmission of what is effectively electronic money using more than thirty sellers linked to the Internet. Test sites include the Encyclopedia Britannica. Payments consist of uniquely coded digital tokens that are established in such a way as to prevent duplication or fraud.

Under the DigiCash scheme, customers would use local currency to buy an equivalent amount of digital cash from a bank. Instructions would then be sent from the bank's to the DigiCash user's personal computer, enabling payment instructions to be sent directly to sellers of goods and services on the Internet.

The key to the DigiCash system is **anonymity**. A person who spends one of its electronic tokens does not need to reveal his or her identity to the buyer nor to any third party except when there is an attempt at fraud, i.e., when the same piece of digital money is presented twice for payment. At this point it is possible to unravel the digital token to reveal the entity to which it was originally issued. DigiCash is attempting to license its e-cash system to banks and other financial institutions. One of its key attractions is that it avoids the time and expense associated with becoming an approved credit card accepting merchant. Anyone will be able to set up a business and receive e-cash once the system is operating fully. However, DigiCash will require the direct involvement of a bank for its system of digital cash issuance and this may yet prove to be a significant obstacle to the realization of the scheme. A bank is integral to the scheme, since it is required to hold collateral and to provide ultimate settlement of e-cash to more directly convertible currencies. Certainly there is a lot to be done on this product to gain acceptability from the international business players.

Card and Credit Card Payment Systems

Credit cards in their present form emerged in the United States in 1960s. However, it was not until more recently that credit card usage has expanded significantly outside North America and until the late 1970s the level of penetration in most of Europe was quite limited. Debit cards have been introduced more recently and together they represent the most rapidly growing method of payments in the United Kingdom as well as several other countries. This is also catching up fast with the Developing Countries.

Despite the fact that banks are participating actively in the cards business it is a threat somewhat to banking business given that they (cards) can be operated by any company. In fact cards are rapidly replacing the necessity to write cheques or to carry cash around.

Credit and debit cards are rapidly growing in significance as the preferred method of settling small value payments associated with the purchase of specific goods and services. Separate electronic clearing and settlement systems have been established by the major credit card companies. Both MasterCard and Visa have established their own networks that are used for verifying transactions worldwide. These networks are growing rapidly as the trend for consumers to make payments by credit card in place of writing a cheque continues to grow.

Despite increasing volumes, the credit card business has become increasingly competitive with fees being driven down by new, often non-bank entrants.

Credit cards developed from Oil Company, restaurant and department store charging accounts, which predated the present electronic systems by several decades. In the 1960s and 1970s their use expanded as consumer finance was made more readily available and became an important source of revenues for banks (Lindsey, 1994).

Credit card payment systems have proved to be highly vulnerable to fraud. Credit cards can be stolen from their owners and then misused, and merchants accepting credit card payments can fraudulently fail to deliver goods (e.g., when placing orders over the telephone). Similarly, issuance of credit cards has become much more controlled to curtail misuse and fraud by card holders.

Despite these limitations, credit card companies like Visa and MasterCard are currently most active in developing secure payment systems using the Internet. Secure methods of transferring credit details and ensuring effective authorization will represent a major improvement over the off-line systems presently in use for making sales of consumer goods and services by phone or by fax. However, credit and also debit cards were designed at a time when the emphasis in the financial services industry was on transaction-based automation. Credit cards may represent too cumbersome and restrictive a system for achieving the possibilities presented by truly global low value electronic payment systems.

The major credit companies have been the only established financial institutions actively investing in future payment systems on the Internet. Credit card based payment systems have some limitations already identified earlier. Nevertheless, telephone-based credit card payments currently account for the majority of Internet commercial transactions. A secure and efficient method to transmit credit card details will clearly be welcomed as a major step forward. A number of initiatives are underway. Both of the major credit card companies have linked up with software houses to develop the encryption software systems that will be required.

On November 9, 1994, Visa and Microsoft announced that they were jointly developing software based on a security architecture that will enable customers to make purchases using coded credit card, debit card and charge card numbers on-line. The intention is to add future optional upgrades to the PC-based Windows operating system that will permit card details to be encrypted so that payment will be secure. The intention is to make the software available as part of future optional upgrades to the Windows operating system, which will also incorporate a user-friendly interface to the Internet as standard. Visa International is a non-stock, non-profit-making company, which is registered in Delaware, US. It is controlled by its members, the banks that issue VISA credit cards. Voting rights are in proportion to the volume of business transacted. In common with other credit card-based systems, Visa's Internet payment system will be limited to merchants who have been approved by the organization to accept their credit cards.

In January 1995, MasterCard announced that it would start providing banking services on the Internet. MasterCard would base their services on the Netscape computer software, which is designed to encrypt transactions and keep them secure. MasterCard International is also registered in the US and controlled by its bank membership. Netscape is a California based company, which is developing secure encryption software for transmitting payments over the Internet. It has already successfully developed a suite of programs for accessing the Internet, which are sold commercially. Netscape is also working with Bank of America and with First Data Corp as well as MasterCard International.

Smart Card Based Systems

Some observers believe that the only way in which payments over the Internet can be made secure is to physically separate authentication from the process that provides the communication links between buyer and seller. A number of companies are therefore examining the use of smart card readers linked to a personal computer. A smart card used to store money in the same way as a phone card would make it possible to separate authentication from the payment process. Smart cards technology would permit them to be charged up with cash at an ATM or separately using a proprietary bank network. The value in the smart card could then be transferred securely and anonymously over the Internet.

National Westminster Bank is one of several organizations developing smart card technology to create what is referred to as an 'electronic purse'. While the magnetic strip on a credit card can only hold one or two lines of information, smart cards can store several pages of text. This permits credit card-sized smart cards to be used to transfer cash amounts that can then be 'spent' using special terminals. The initial applications will involve replacing small cash payments made to retailers (e.g., for newspapers, confectionery) or to pay for services like public telephones or public transport.

NatWest's longer-range vision is for Mondex to be used on a more global basis to buy goods from suppliers on the Internet. This is a product where payments would involve having a special smart card reading device linked to the PC and software that recognized the card reader. Although this may prove a cumbersome alternative compared with more direct payment methods, NatWest and other smart card developers believe there would be a key benefit from the inherent security, which is built into smart cards. Smart cards could also be more readily integrated into the existing networks of ATMs, integrating with what is likely to remain the predominant form of payment transaction, namely cash.

Payment Clearing Systems

A number of companies are attempting to overcome the security issues involved in handling payments on the Internet by establishing electronic clearing systems. Essentially the service on offer involves a system of secure messages which permit buyer and seller to communicate with each other, while also permitting instructions to make payment to be sent via the message/payment clearer, frequently using existing proprietary networks.

One example is First Virtual Holdings, which is a start-up company based in Cheyenne, Wyoming. First Virtual has developed a system for linking credit card, banks and processing agents with the Internet. It has developed a closed loop payment system which involves First Virtual's providing a mailbox from which instructions to make the payment and to credit the seller's account are made. The system depends on the "off-line" network provided by EDS, which is used to transfer credit card/bank account information, with First Virtual effectively acting as a message-clearing house. In effect the buyer sends a message to First Virtual, which passes this on to EDS. EDS in turn acts under instruction from First Virtual to pass on the account details to the seller. When the transaction is confirmed, First Virtual sends a message to the buyer to confirm that the transaction should still go ahead, at which point payment is effected.

The First Virtual system has been in operation since October 1994, and is seen to have the advantage that it does not require encrypted messages, as do other credit card-based systems. First Virtual checks with the buyer that a particular transaction is to go ahead before arranging the appropriate account debit. First USA Merchant Services have been contracted to provide clearing, settlement, and authorization for the credit card transactions. First Virtual is significant in that its payment system was created almost entirely independently of the banking system. The President and Chief Executive of First Virtual is quoted as stating "There was no traditional banking mechanism set up to deal with the Internet". First Virtual's initial aim is to permit businesses to receive income for services (such as publications) over the Internet where traditional payment methods would be uneconomic.

Cyber Cash Inc. is a small start-up company set up in August 1994, in Reston, Virginia. Its founder is William Melton, who was responsible for the creation of Verifone Inc., currently the leading supplier in the United States of POS (point of sale) credit card authorization systems. Cyber Cash is developing an on-line payment service and on December 12, 1994 announced that it had signed an agreement with Wells Fargo to run a pilot service. Initially the system would provide a secure means of providing credit card details and thereby effecting payment electronically. One of the features of the systems being developed by Cyber-Cash is that it would be 'browser independent.' This stems from the breakthrough that Verifone made in supplying authorization terminals, which can handle all the principal credit card services. William Melton is quoted as saying "The Internet is going to happen, with or without the bankers. But the bankers, the bright ones, are going to make this an opportunity".

Cyber-Cash provides a useful illustration of how electronic payment clearing systems on the Internet will work. Users of the Cyber-Cash system must first obtain copies of software that can be downloaded from the Cyber-Cash web server. Once a price has been negotiated with the merchant, the customer is sent an on-line invoice detailing the purchase information together with a statement confirming the total charges to which the customer adds credit card number or debit card information, including personal identification number (PIN) where appropriate. This information is then sent to the merchant in encrypted form together with the original invoice. The merchant adds identification information and forwards all the information to the Cyber-Cash server. Cyber-Cash then initiates a standard credit card or debit authorization request to the merchant's bank or designated merchant acquirer (processing center). After the authorization request has been processed, Cyber-Cash forwards a response to the merchant who then completes the transaction. Involvement on the part of Cyber-Cash is completely automated and runs off its Internet file server.

In addition to facilitating debit or credit card payments, Cyber-Cash will also provide independent electronic payment services. Accounts are established directly with Cyber-Cash and maintained on the basis of an account holder's Cyber-Cash key and not on direct user identity. Cyber-Cash accounts are non-interest-bearing holding accounts for cash which the account holder intends to transfer or has received through Cyber-Cash. There are neither float nor checks, only signed receipts that can be sent to receivers to indicate that a transfer has occurred. The only way to place cash into or remove cash from a Cyber-Cash account will be through a demand deposit account in a bank. Consequently, any funds in Cyber-Cash accounts remain within the participating banks. Cyber-Cash accounts are particularly suitable for electronic cash payments that are too small to be processed cost effectively as discrete credit card or debit card payments. This service is expected to permit the processing of the large volume of small payments that are expected to arise from a projected explosion in entrepreneurial electronic information publishing and commerce.

Meanwhile the Information Networking Institute of Carnegie Mellon University is sponsoring 'NetBill,' which is a scheme that would broker transactions through a third-party financial institution, similar to the system of debit cards, which is already in existence. The system requires both the customer and merchant to maintain accounts with the third party acting as the broker. When a customer wants to make a purchase of goods or services, a message is sent using the NetBill software to the third party financial institution instructing a transfer of the relevant amounts to the seller's account. Similarly, the Information Sciences Institute (ISI) at the University of Southern California is developing both a cash/cheque model and a debit card model based on a similar structure. Selection can then be made according to whether the buyer is or is not seeking anonymity. ISI is working with a several banks including Bank of America and Citibank (Economist, 1994d).

CUSTOMER PERCEPTION

As the customer contemplates involvement in international business at the back of their mind they have such important concerns as convenience, efficiency in service delivery, fee structures that are fair, security, secrecy, privacy, functionality, and stability.

The sale of goods and services to foreign buyers entails additional and greater risks than domestic business transactions. With export orders such risks can crop up at any point from the purchase of raw materials, through the manufacturing and storage of goods, to delivery and payment within the agreed time. The interests of buyers and sellers must be protected. For the buyer compliance with the terms of performance is of primary importance, while for the seller, prompt payment is a priority. The risks involved are accentuated in foreign trade transactions since the buyer is less able to judge the reliability of a foreign supplier than that of a domestic one. In addition it is much more difficult to bring legal action in the event the terms of the contract are not fulfilled. The same applies of course to the seller/exporter who not only incurs additional transport risks but also increased risk of not receiving payment. Further more difficulties may arise in appraising the country risks involved (currency and transfer risks, the threat of social, political and military conflict, etc).

There are far too many services to enumerate them all in detail, and yet many banks have not considered it the role of the branch manager to be an expert in all overseas services. However a good appreciation of what type of services are available and how these can be used to effect in given trading circumstances, is necessary in order to grasp opportunities also to introduce business to the overseas department of the bank.

Customers like to be in control of their transactions. They want to be informed of every stage of the process and the progress of the same. That makes them feel somewhat secure. They also want to conduct their affairs in privacy and would further want the bank to keep these transactions secret. This is done for the security of both the finances involved, and the customer.

Customers value efficiency, not only for smooth running of business, but also because delays attract heavy penalties in many ways like demurrage charges, additional insurance, exchange rates, etc.

Functionality of the services as offered is another aspect of concern. They want to be sure that their requirement will be delivered satisfactorily. Then there is the issue of the stability of the institutions involved in the transactions both locally and internationally.

Thus whereas the customers acknowledge that the bank is a necessary evil, they deal with them (banks) in fear and uncertainty. To take care of this the international chamber of commerce has established uniform rules that govern all imports and exports that are handled though banks and, the documentation thereof. Foreign exchange services to minimize risk such as forward contracts have been put in place. Before technological advancement hit the banking sector complex transactions like those that involve foreign trade were characterized with loads of paper work and the customer would be given, on request, some of the copies for record or just for comfort. But the paper regime was inefficient and slow. For instance it could take a minimum of one month for a correspondent bank to acknowledge a letter of credit.

With the advent of the Internet efficiency and functionality have been greatly enhanced. The customer can also initiate the transaction from the privacy of his study at home and monitor its progress through his computer. Therefore in these aspects he has control. However his nightmare is on security, secrecy and privacy. Since the Internet is a public arena he does not know who else has access to his financial dealings and there is the constant fear of hackers. Further more the developers of advanced technology such as the Internet are not bankers and are therefore not sensitive to customer needs.

The law relating to banking services governs the banker-customer relationship. However there is no law that governs e-commerce hence the banker-customer relationship is only loosely defined. This is also reason for both the banker and the customer to worry.

POLICY, REGULATORY AND COMMERCIAL ISSUES

Regulatory Issues

The development of electronic payment systems based on the Internet raises a whole range of legal and regulatory issues. An effective global low value electronic payment system will certainly remove what is currently a major obstacle to the expansion of trade and commerce. Significant costs are associated with the present system, which in turn permits a raft of regulatory and bureaucratic controls to be maintained that are becoming increasingly irrelevant to the demands of the 21st century. Certain writers have argued that electronic or e-cash will not be permitted by Governments, precisely because regulation will be too difficult. Others suggest that we are moving to a future where many of the traditional national boundaries that have applied to money flows will be superseded by new 'cyber-currencies' operating in 'cyberspace'. An American bank, First Union, has even registered "Cyberbank" as a trademark.

The emergence of an electronic payment system that is easy to use and cheap to process is likely to have a range of only partly anticipated side effects. It could, for example, result in a push for greater convertibility and the creation of truly global currencies. This will in turn have important economic implications, perhaps accelerating the move towards currency union in Europe or reinforcing the dominance of currencies like the Deutschmark and the US Dollar. Overall, such developments will create a more globalized economy, which will be less subject to the direct political wills and whims of national Governments.

There are concerns, however, that more widely available systems to make electronic payments could exacerbate the problems currently being created by illegal money flows. According to estimates made by British intelligence, **laundered** money may amount to some US Dollars 500 billion per annum. Over half the total is estimated to be accounted for by illegal trade in **drugs**, with the balance from other forms of **organized crime** and **terrorism.** However, in many respects a move to electronic payments is likely to permit more rather than less control of payment transfers, since there will be greater information capture. High levels of activity in the 'black economy' are generally associated with cash based payment transfers and generally result in lower use of electronic payment systems like credit and debit cards. The introduction of e-cash and electronic payment methods may therefore permit greater rather than less monitoring of the payments system with correspondingly more control over the money launderer, drug smuggler and tax evader.

Online banking with powerful security and monitoring features might provide the much-desired peace of mind.

It is notable, too, that the way forward in technology is spearheaded essentially by non-banking enterprises that then are basically third parties to the bankers' customers' relationship.

Commercial Issues

An expanding ability to order and pay for goods electronically will have important implications for Anglo-Saxon contract law, which attaches great importance to the existence of an offer and acceptance, as evidence that the parties to an asserted contract have in fact agreed. Lawyers are trying to deal with issues such as electronic ordering and payment, within the existing legal framework which distinguishes between instantly agreed contracts made orally, and delayed agreements which apply to written communications such as letters and telegrams. With the advent of electronic messaging, the situation becomes more complicated as there are no accepted standards regarding when a message has been received.

Other similar issues concern authentication. Contract law remains ambiguous regarding the use of electronic signatures. In principle, Personal Identification Numbers (PIN) used in conjunction with credit or debit cards should have the same treatment as a signature in law, but the area remains relatively untested.

Encryption Issues

Computer-based encryption using PCs is, in principle, capable of becoming sufficiently secure to prevent unauthorized access. However, the ability to encrypt messages is presently restricted by the requirements of nation states to have access to all written communications, a right that was in the past enshrined in controls placed on postal, telegraph and telephone services. Any company establishing encryption systems that cannot be 'broken' by the nation's security services is therefore subject to prosecution. This inevitably limits the efficacy of encryption, giving it a role similar to fitting window locks as a means to prevent burglary. Such devices will generally deter entry but with a degree of perseverance and know-how they can usually be overcome.

A protracted legal wrangle is going on between RSA Data and the US Government's rival digital signature technology called Clipper. A number of software companies are presently developing encryption software, some of which is based on patented algorithms, which have been developed by RSA (*Economist*, 1994f). Encryption has become a key element in discussions concerning commerce on the Internet. Commerce-Net hopes soon to distribute Mosaic in a new, improved form with added 'public-key cryptography'. Public-key cryptography makes it possible to 'sign' a document so that the recipient can be assured that the source of the message is authentic as well as to 'seal' a document, ensuring that no one except for the recipient can open or change it. The encryption technology will be based on algorithms that have been developed by the company, RSA Data Security. Encryption facilitates services that require privacy, such as home-banking and electronic money-transfer between businesses.

New trading opportunities are being established as a result of the growth of the Internet and other on-line networks. At the same time there is increasing pressure to move from existing paper-based payment systems to electronic transfer. Microsoft's chairman, Bill Gates, is not alone in believing that the convergence of money, commerce and personal computers represents one of the great new markets of modern times. New and unforeseen opportunities can be expected to arise once a secure and cost effective 'mass' market electronic system for making low value payments is successfully established. Serious efforts to establish such a system on the Internet are still less than 15 months old. However, the coming 12 months should witness some interesting developments as small entrepreneurs, such as DigiCash and First Virtual, battle it out with the credit card companies and, to a lesser extent, with the commercial banks to establish new standards for electronic payments.

Many bankers remain skeptical that Internet-based payment can and will emerge. They believe that they will prove to be largely peripheral to established unchanged patterns of retailing and commerce along with their associated payment systems. However, the evidence is pointing to an alternative consensus. The result is likely to be the creation of a new global commercial market place that permits goods to be ordered and paid for electronically irrespective of location. This will require new institutional structures to be formed as well as changes to existing outdated legal and commercial systems. The changes brought about by electronic commerce may be similar in scope to those experienced when the medieval trade fairs were established in Europe in the 12th century. The comparison is particularly apt, since that period saw the emergence of many of the banking institutional structures and payment instruments, which remain in use today.

CONCLUSION

The variety of new banking products is overwhelming. Yet the banks must not lose focus of the customers and their needs. The urge to sell the new products and post profits must not override need to listen to the customers and develop services that will be relevant to their needs. This is of particular importance since the customer since more and more customers are expected to the venture into international business and its host of uncertainties.

2.4 CONCEPTUAL FRAMEWORK

The conceptual framework establishes the shared responsibilities that both banks and international businesses have in improving international businesses through the provision of the relevant services.

The researcher would like to find out factors that influence banks' provision of services to international businesses. In order to accomplish this and for the purposes of this study the independent variables have been categorized into four as: the current and new banking services offered to international businesses, customer perception, commercial and security considerations, and Government regulation. The dependent variable is the improvement of banking services to international businesses. The relationship that the researcher seeks to establish is as illustrated in figure 2.3.1 below.

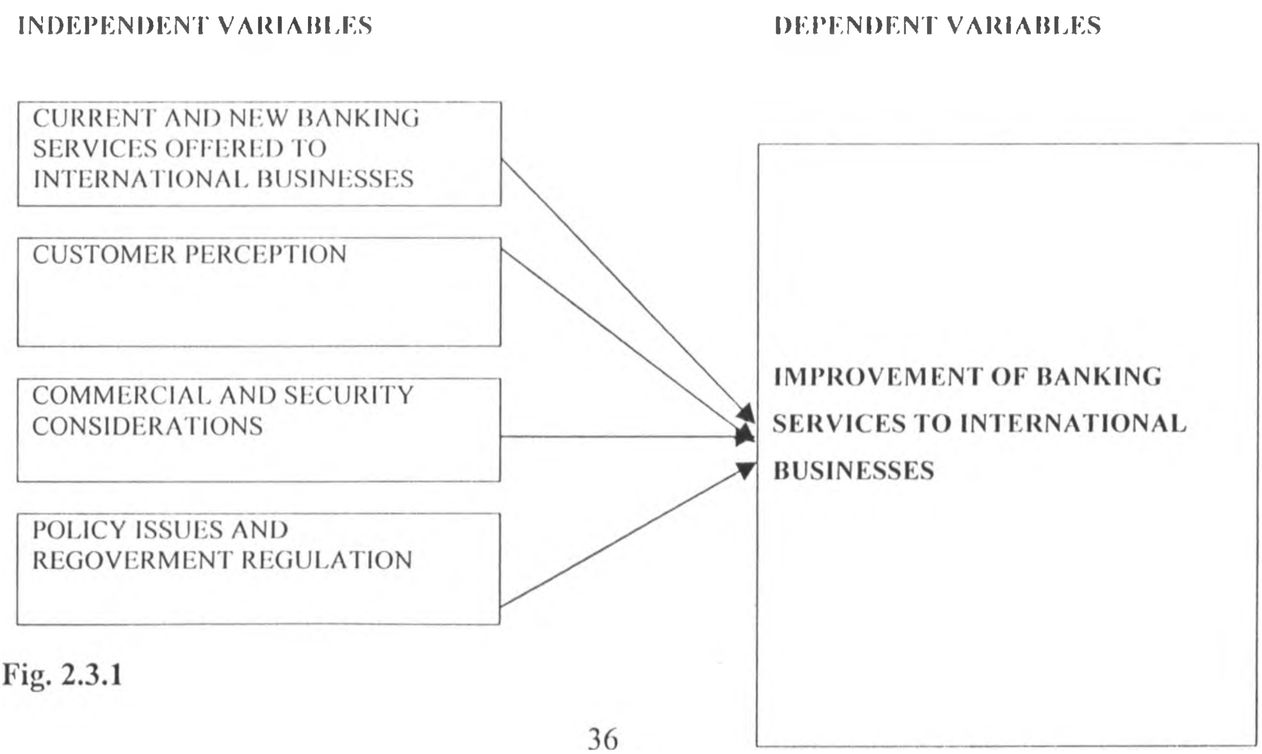

Fig. 2.3.1

2.5 LIMITATIONS OF THE STUDY

The study is limited only to the factors (variables) addressed in the study as those that influence bank's provision of services to international businesses. Secondly, the study is limited to the National Bank of Kenya Ltd and the International Business customers therein. Thirdly, a comprehensive study would require more time; a factor that is illusive to module II students. Fourthly proper funding would be required if a wider research with more widespread findings that would apply more accurately across the board.

CHAPTER THREE

3.0 RESEARCH DESIGN AND METHOLODOLGY

3.1 RESEARCH DESIGN

This a is case study of factors that affect banks in providing services to international business customers, with specific reference to the National Bank of Kenya ltd.

3.2 POPULATION AND SAMPLING PROCEDURES

The population of interest in this study comprises businesses engaged in international business in Kenya and bank with the National Bank of Kenya Ltd.

The sample was drawn from customers of the National Bank of Kenya Ltd through the 23 branches spread countrywide; engaged in international business.

3.3 DATA COLLECTION INSTRUMENT

The study entails mainly the use of primary data. Structured questionnaires were the main instrument. The data was collected mainly by use of structured questionnaires. The questionnaires were of two types. The first type was used to collect data from customers while the second one was used to collect data from branch managers.

3.4 DATA COLLECTION PROCEDURES

The questionnaires for both the branch managers and the customers were dropped off at the respective branch managers and picked later.

3.5 DATA ANALYSIS

There were two questionnaires used to collect data: one from bank managers and the other from customers. Descriptive statistics, namely frequency tables and percentages, have been used to analyze the data

CHAPTER FOUR

4.0 DATA ANALYSIS AND FINDINGS

This chapter contains the analysis and findings of the research study.

4.1.0 RESPONSES FROM BANK MANAGERS

Three questionnaires were sent to each of the 23 branches. A total of 69. They were filled by branch managers and departmental managers involved in customer service within the branches they were all returned and the review of the responses is as follows:

4.1.1 Summary of managers' experience in terms of number of years they have Worked with the Bank

Table 4.1.1

No. of years worked	**Frequency**	**Percentage**
Less than 1 year	0	0
1-3	21	30
4-10	29	42
More than 10 years	19	28
TOTAL	69	100

The findings indicate that 42% of the managers have worked for between 4 and 10 years. Most middle level managers in National Bank normally fall within this category.
For less than one year there is nil. This is consistent because one has to work for at least 18 months before they can be elevated to a head of department.

4.1.2. Summary of managers' experience in terms of number of years worked in the specific area of customer service.

Table 4.1.2

No. Of years worked in Department	**Frequency**	**Percentage**
Less than 1 year	0	0
1-3	19	27.5
4-10	35	50.7
More than 10 years	15	21.7
TOTAL	69	100

50.8 percent of the managers have worked for 4-10 years. This is the bracket with the knowledgeable energetic staff.

4.1.3 Handling of customer complaints

Table 4.1.3

Response	Frequency	Percentage
Yes	69	100
No	0	0
Total	69	100

All the managers responding to the questionnaires indicated that they personally handled customer complaints.

4.1.4 An analysis of common complaints about services offered to International business customers.

Table 4.1.4

Nature of complaint	Most Frequent		Frequent		Less frequent		Never		Totals	
	f	%	f	%	f	%	f	%	f	%
Speed	38	55.1	15	21.7	12	17.4	4	5.8	69	100
Awareness of available services	46	66.7	6	8.7	11	15.9	6	8.7	69	100
Charges	31	44.9	25	36.2	12	17.4	1	1.5	69	100
Risks	36	52.2	10	14.5	5	7.2	18	26.1	69	100
Functionality	36	52.2	13	18.8	3	4.3	17	24.6	69	100
Convenience	36	52.2	23	33.3	5	7.2	5	7.2	69	100
Security	26	37.7	13	18.8	5	7.2	25	36.2	69	100
Goverment regulation	35	50.7	15	21.7	11	15.9	8	11.7	69	100

55.1% of the customers are really concerned about the slow speed at which services are delivered. In this time and age of technological advancement no one wants to spend too much time on one activity.

66.7% of the customers seem to feel that they do dot have adequate information about the services that are available and how these services can assist them in their import-export activities.

44.9% of the customers complain about the charges most frequently while 36% complain frequently. This implies that prohibitive charges are a concern that cannot be ignored. It is indeed in response to this concern that the Central Bank has undertaken to publish the tariff of all the commercial banks operating in the Kenyan market every week. In addition to this the Central Bank requires each bank intending to raise existing or introducing new tariffs to notify them (Central Bank) before implementation.

52.2% of the customers consider the risk of doing business with a Bank a main concern. Time and time again there are shake-ups in the market that affect the survival of certain banks and sometimes some end up closing. National Bank having experienced a run in 1998 due to a scare that it had liquidity problems has since been considered by many businesses as a risky partner.

52.2% are really concerned about the functionality of a service. A service must deliver all that the bank has promised the customer about it. It therefore becomes important to engage customers and the product (service) development stage so that their needs can be successfully interpreted and therefore rendering the resultant service to be an ultimate solution.

52.2 % of the customers are also concerned about convenience. They do not want to go for services that they can enjoy with the least effort on their part.

37.7 % are concerned about their security even as they seek to enjoy the banking services. The level of the numbers concern seem to indicate that security is an aspect that banks have addressed fairly adequately.

Only 26.1% seem to be concerned about Government regulation. It is an indication that customer desire more involvement by Government to cushion them from the inherent risks like exchange rates fluctuations.

4.1.5 Selected mediums of service development and the extent to which the Bank uses them through the managers to develop new services.

Table 4.1.5

Medium	More often		Often		Less often		Never		Totals	
	f	%	f	%	f	%	f	%	f	%
Periodicals & newspapers	8	11.6	25	36.2	36	52.1	-	-	69	100
News casts	9	13.0	24	34.8	33	47.8	3	4.3	69	100
Customer suggestions	33	47.8	25	36.2	6	8.7	5	7.2	69	100
Traings & seminars	41	59.4	20	29.0	8	11.6	-	-	69	100
Internal memos & Circulars	50	72.4	9	13.0	7	10.1	3	4.3	69	100

It appears that the Bank relies greatly (72.4%) on internal memos to introduce a new service, followed by trainings (59.4%) then customer suggestions (47.8%).

4.1.6. Assessment of managers' knowledge of services offered by National bank

Table 4.1.6

Service	Do not know about it		Heard about it				Know how it functions		Can sell it	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Simple Banking	3	4.3	0	0	5	7.2	55	79.7	54	78.3
Debit Card	0	0	0	0	3	4.3	62	89.9	69	100
RTGS	0	0	10	14.5	15	21.7	35	51	18	26.1
Credit Card	0	0	3	4.3	0	0	59	85.5	66	95.6
Swift	3	4.3	15	21.7	8	11.6	63	91.3	43	62.3
Electronic data Interchange	35	50.7	10	14.5	5	7.2	37	53.6	51	74.0
ATMs		0	0	0	0	0	69	100	69	100

All the responding managers seem to have good knowledge about the selected services.

4.1.7.An assessment of how awareness for services is created among customers.

Table 4.1.7

Medium	More often		Often		Less often		Never		Totals	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	
Fliers/pamphlets	31	44.9	15	21.7	18	26.0	5	7.2	69	100
TVs/Radios	20	29.0	10	14.5	31	44.9	8	11.6	69	100
Newspapers	10	14.5	20	29.0	31	44.9	8	11.6	69	100
Social events	8	11.6	23	33.3	38	55.0	-	-	69	100
Over the counter	3	4.3	9	13.0	24	34.8	33	47.8	69	100

44.9% of the managers have indicated that awareness for new services is created through pamphlets (brochures) while 43% indicated that it is done over the counter. The two methods appear to be the most popular with the bank.

4.1.8 The extent to which Government regulation affects International Business and whether or not this is helpful.

Table 4.1.8-a

Very large extent		Large extent		Limited extent		Very limited extent		Not at all		Totals	
F	%	F	%	F	%	F	%	f	%	F	%
13	18.9	10	14.4	20	29	33.3	21.7	3	4.3	69	100

Table 4.1.8-b

Very large extent		Large extent		Limited extent		Very limited extent		Not at all		Totals	
F	%	F	%	f	%	f	%			F	%
9	13.0	9	13.0	13	18.8	32	46.4	6	8.7	69	100

53.3 % of the customers feel that the Government's involvement in terms of regulating the activities of international business is limited, and this is not helping them (72,5% of them)

4.1.9 An assessment of how customer concerns are addressed.

Table 4.1.9

Medium	High priority		Average priority		Low priority		Nil priority		totals	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Staff training	53	76.8	13	18.8	3	4.4	-	-	69	100
Personalized customer care	5	7.2	-	-	16	23.2	48	69.6	69	100
Increasing use of IT in service delivery	39	56.5	26	37.7	4	5.8	-	-	69	100
Pamphlets	19	27.5	34	49.3	13	18.8	3	4.3	69	100
Advertising	13	18.8	49	71.0	7	10.1	-	-	69	100
Revising fee structures	15	21.7	46	66.7	8	11.6	-	-	69	100
Repackaging	32	46.4	21	30.4	10	14.5	6	8.7	69	100
Introducing new products	32	46.4	22	31.9	12	17.4	3	4.3	69	100

According to the response from managers, addressing customer concerns in order of priority, is accomplished through staff training (76.8%), increasing use of IT (56.5%), repackaging and introducing new services (both at 46.4%).

4.1.10 Factors that have propelled the customers into international business, from the managers' perspective

Table 4.1.10

Reason	Frequency	Percentage
Market saturation at home	5	7.2
Economies of scale	8	11.6
To extend product life cycle	7	10.1
To utilize excess capacity	7	10.1
Exploit foreign markets opportunities	26	37.7
Dumping	1	1.4
Prestige	5	7.2
Stabilization of demand	10	14.5
Totals	69	100

A considerable number of customers are involved in international business in order to exploit the foreign markets (37.7%). A good number are also in it to stabilize demand (14.5%) and to enjoy economies of scale (11.6%).

4.2.0 RESPONSES FROM CUSTOMERS OF THE NATIONAL BANK OF KENYA LIMITED WHO ARE INVOLVED IN INTERNATIONAL BUSINESS.

79 questionnaires were sent to the 23 branches for administration to customers. Harambee Avenue and Kenyatta Avenue received 10 and 6 questionnaires each respectively due to their relatively larger sizes. All the others received 3 each.
The following is a summary of their responses:

4.2.1. The age of the businesses

Table 4.2.1

The age of the business	Frequency	Percentage
Less than 1 year	0	0
1-3	8	10.1
4-10	33	41.8
More than 10 years	35	44.3
Not indicated	3	3.8
TOTAL	79	100

44.3% of the customers in international business have been operating businesses for the more than 10 years and 41.8% for 4-10 years.

4.2.2 The age of the account with national Bank

Table 4.2.2

No. Of years since account opened	Frequency	Percentage
Less than 1 year	0	0
1-3	22	31.9
4-10	33	47.8
More than 10 years	24	34.8
TOTAL	69	100

47.8% have held their accounts with National Bank for 4-10 years while 34.8 have had them for over 10 years.

4.2.3 Assessment of awareness of services offered by National Bank to international Business customers.

Table 4.2.3

Response	Frequency	Percentage
Yes	60	76.0
No	19	24.0
TOTAL	79	100

76% Of the international business customers are aware of the services available to them at the National bank.

4.2.4 An assessment of usage of selected services offered to international businesses by the National Bank.

Table 4.2.4

Service	Frequency	Percentage
Letters of Credit	17	21.5
Foreign Drafts	21	26.6
Collections	3	3.8
Telegraphic transfers	26	32.9
Guarantees	3	3.8
Foreign currency Accounts	2	2.5
Advice	3	3.8
Forward Contracts	1	1.3
Futures	0	0
Performance Bonds	0	0
Information & advice	0	0
Not indicated	2	2.5
Totals	79	100

4.2.5 The customers' reasons for venturing into international business

Table 4.2.5

Reason	Frequency	Percentage
Market saturation at home	3	3.8
Economies of scale	13	16.5
extend product life cycle	3	3.8
To utilize excess capacity	4	5.1
To exploit foreign market opportunities	43	54.4
Dumping	0	0
Prestige	3	3.8
Stabilization of demand	8	10.1
Not indicated	2	2.5
Total	79	100

54.4% engage in international business to exploit foreign markets, 15.6% to enjoy economies of scale and 10.1% to stabilize demand.

4.2.6 An assessment of a customer's concerns when choosing a provider for their banking services

Table 4.2.6

Item of concern	Very important		Important		Fairly important		Not important		Totals	
	F	%	F	%	F	%	F	%	F	%
Efficiency/speed	67	85.0	13	16.5	1	1.3	0	0	79	100
Convenience	65	82.2	9	11.4	3	3.8	0	0	79	100
Prohibitive fee structures	50	63.3	29	36.7	0	0	0	0	79	100
Adequate security	56	70.9	23	29.1	0	0	0	0	79	100
Secrecy	65	82.2	14	17.7	0	0	0	0	79	100
Functionality	51	64.6	23	29.1	0	0	5	6.3	79	100
Privacy	56	70.9	18	22.8	3	3.8	0	0	79	100
Availability of information on product	45	56.9	29	36.7	5	6.3	0	0	79	100
Availability of information on International business	42	53.2	37	46.8	0	0	0	0	79	100
New banking services	37	46.8	42	53.2	0	0	0	0	79	100
Goverment regulation	42	53.2	32	4.05	0	0	5	6.3	79	100
Open communication with bank manager	56	70.9	23	29.1	0	00	0	0	79	100

From the responses given by the customers efficiency seems to rank highest at 85% although all the concerns appear to be equally important.

4.2.7. The extent to which Government regulation improvement of business

Table 4.2.7

The extent	Frequency	Percentage
To a very large extent	3	3.8
To a large extent	7	8.9
To a limited extent	35	44.3
To a very limited extent	18	22.8
Not at all	4	5.1
Not indicated	12	15.2
TOTALS	79	100

The customers indicated that the Government's involvement is limited

4.2.8 An assessment of the usefulness of Government regulation to international business customers.

Table 4.2.8

	Great advantage	Less advantage	Not indicated	Totals
Frequency	0	65	14	79
Percentage	0	82	18	100

The responses indicate that they would be happier if the Government were more involved (82%).

4.2.9. An evaluation of whether changes in the following selected services are desirable to customers

Table 4.2.9

Service	Change	
	F	%
Mail transfers	2	2.5
Letters of credit	17	21.5
Guarantees	22	27.8
Performance bonds	3	3.8
Telegraphic transfers	26	32.9
Bank drafts	4	5.1
Forward contracts	2	2.5
Foreign currency accounts	3	3.8
Totals	79	100

Services where changes are desirable are telegraphic transfers (32.9%), guarantees (27.8%) and letters of credit (21.5%.

4.2.10 Customers' proposals for improvements to the selected services in (9) above.

Table 4.2.10

Item of improvement	High priority		Average priority		Low priority		No priority		Totals	
	F	%	F	%	F	%	F	%	F	%
Efficiency/speed	78	98.7	1	1.3	0	0	0	0	79	100
Functionality	48	60.8	31	39.2	0	0	0	0	79	100
Manageable fee structures	69	87.3	10	12.7	0	0	0	0	79	100
Avail more information	57	72.2	22	27.8	0	0	0	0	79	100
Automation	36	45.6	34	43.0	9	0	0	0	79	100
Security	77	97.5	2	2.5	0	0	0	0	79	100
Privacy	77	97.5	2	2.5	0	0	0	0	79	100
Secrecy	77	97.5	2	2.5	0	0	0	0	79	100

Need for efficiency ranks highest (98.7%) although all the concerns appear to be important to the customers. Even automation, which ranks lowest, is at 45.6%.

4.2.11 An assessment of international business customers' understanding of selected automated services

Table 4.2.11

Service	Not interested		Know about it		Understand how it functions		Using it already		Would like to use it	
	F	%	F	%	F	%	F	%	F	%
Swift	5	6.3	62	78.5	50	63.3	48	60.8	7	8.9
Credit cards	14	17.7	55	69.6	38	48.1	33	41.8	17	21.5
Debit card	79	100	79	100	79	100	79	100	0	0
RTGS	2	2.5	31	39.2	13	16.5	9	11.4	31	39.2
ATMs	79	100	79	100	79	100	79	100	0	0

From the response above the customers seem to have good information/understanding of debit card and ATMs (100%) and therefore the rate of usage is also high (100%). Where knowledge is limited like in the case of RTGS16.5%

4.2.12 Aspects that require improvement in order for the services in (11) above to be effective for customers.

Table 4.2.12

Item of improvement	Swift		Debit card		Credit card		RTGS		ATMs	
	F	%	F	%	F	%	F	%	F	%
Efficiency	61	77.2	54	68.4	52	65.8	5	6.3	65	10.1
Functionality	57	72.2	59	74.7	54	68.4	0	0	30	38.0
Manageable fee structures	52	65.8	35	44.3	5	6.3	3	3.8	15	19.0
Avail more information	44	55.7	0	0	20	25.3	15	19.0	10	12.7
Automation	0	0	0	0	3	3.8	0	0	0	0
Security	0	0	44	55.7	37	46.8	0	0	44	55.7
Privacy	0	0	49	62	49	62	0	0	49	62
Secrecy	45	57	53	67	53	67	3	3.8	53	77

CHAPTER FIVE

5.0 CONCLUSIONS ON RESEARCH FINDINGS

5.1 CONCLUSION ON FACTORS AFFECTING PROVISION OF SERVICES BY BANKS TO INTERNATIONAL BUSINESSES FROM THE NATIONAL BANK MANAGERS' PERSPECTIVE

42% of the managers have worked for 1-3 years while 30% have worked for 4-10 years. This is consistent with the National Bank's policy where a staff can only be elevated to a managerial position after working for a minimum period of two years, unless one is employed as a specialist. This would imply that staff in customer service, which is the core business of the branches, have a good experience in their duties and know their customers well as illustrated in table 4.1.10.

They all indicate that they handle customer complaints personally. This could have been very satisfying to the customers save for the fact that the responses have to be given through the Bank's policy guidelines, which are controlled from the Head Office. This as illustrated in table 4.1.9 is accomplished through staff training, increasing use of IT in service delivery and repackaging and /or introducing new products. Customers desire personalized attention in order to be assured of the security of their transaction especially international business, which is shrouded in uncertainty.

From the customers' perception the selected factors of speed, awareness of available services, prohibitive fee structures, risk, functionality, convenience, security and Government regulation are important concerns that affect their businesses. In this era of technical advancement, for instance, the customers expect efficiency, which is speed and accuracy wrapped together. Further more they want to receive the services/information from the convenience of their own premises. National Bank is addressing this challenge by trying to establish systems where it is receiving deposits for institutions and transmitting them on line to the cutomers'account and advising the customer at the same time. In order to meet this and other concerns the National Bank has spent the past three years establishing a centralized branch network. Effective communication is imperative to not only explain the available services but also their inherent benefits to the customer.

Reasonable and explicit charges are a comfort because they do not want to feel exploited. It is indeed in response to this concern that the central Bank has undertaken to publish the tariffs of all the commercial banks operating in the Kenyan market every week. In addition to this the Central Bank requires that any bank intending to raise, or introduce, new tariffs must notify them (Central bank) before notification.

International business is prone to various kinds of risks-political, exchange controls leading to financial risk and the general uncertainty that – surround a transaction until it is completed. The customer wants the assurance that his/her bank is able to pull the transaction through all these risks. Having experienced a run in 1998 due to perceived liquidity problems, National Bank has since been considered by many a businesses as a risky partner.

The security of the customer as they transact, as well as that of the items of transaction, is a concern. The bank addressed this by creating a secure ambience in the banking hall for the customer. The bank also makes use of the regulations provided by the International Chamber of Commerce to safeguard the cross border transactions.

Customers get disappointed and disillusioned when a service does not deliver what the bank has promised that it would. There is therefore need for the Bank to base service development on customer suggestions more than it is doing currently (customer suggestions ranked third in terms of being used as a basis for service improvement/development).

All in all, the Bank has done a good job in imparting the knowledge of the available services and their use to the managers.

Goverment regulation is desirable to customers who feel that they would be cushioned against inherent risks

5.2 CONCLUSION ON FACTORS AFFECTING PROVISION OF SERVICES BY BANKS TO INTERNATIONAL BUSINESSES FROM THE NATIONAL BANK INTERNATIONAL BUSINESS CUSTOMERS' PERSPECTIVE

From table 4.2.1 it can be seen that 44.3% of the businesses have been for more than ten years and 41.8% for four to ten years. It means they have good experience in business. This is also confirmed by the information in table 4.2.5, which shows that 54.4% of the customers have ventured into international business in order to exploit foreign markets, 16.5% to enjoy economies of scale and 10.1% to stabilize demand. From the information on table 4.2.2 the customers have related with the bank for a considerable duration for them to know what the bank provides (table 4.2.3) and what they want from the bank (47.8% for four to ten years and 34.8 % for more than ten years). However their concentration of usage is only on three of the selected services in table 4.2.4 that is 32.9% for telegraphic transfers, 26.6% for foreign drafts and 21.5% for letters of credit. It may be that they do not have sufficient information on the other services to be able to appreciate their benefits and therefore use them.

From the results in table 4.2.6 efficiency, convenience, prohibitive fee structures, security, secrecy, functionality, privacy, availability of information both on the product and on international business, Government regulation and open communication with the bank manager all appear to be important (also confirmed in by results in table 4.2.10) except new banking services. Customers may not clamor for innovations if they are not consulted and if they are not sure how they (innovations) will impact on their business.

Regarding Government regulation 44.3% indicated that the Government is involved to a limited extent and 22.8% indicted Government involvement to a very limited extent (table 4.2.7) whereas the results in table 4.2.8 show that they (customers) would like to see the Government get more involved.

Table 4.2.9 shows that customers would like to see changes in the less used guarantees (table 4.2.4aa0 alongside letters of credit and telegraphic transfers.

Table 4.2.11 is a display of the customers' knowledge of selected automated services which rate swell except for the RTGS and it table 4.2.12 they have indicted the desired changes which again reflects that they understand well what they are using and they do not use what they do not understand, as in the case of the RTGS.

Overall the results of the survey show clearly what international business want and how thy like to be supported for their businesses to prosper.

5.3 GENERAL RECOMMENDATIONS

There appears to be a communication gap between the managers and the customers. It is important for managers to articulate clearly to the customers the features and benefits of all the available services so that the customers can utilize them fully. Managers work in a stimulus reactive environment. The nature of their work is varied, spasmodic and brief and they do it at an unrelenting pace. In general they prefer to deal with specific issues. Managers work in three identifiable role-interpersonal, informational and decisional. To be effective therefore they need to be effective communicators. (Adrian Buckley, 1992) given that the customer mix is changing it is beneficial for firms to hire talent that mirrors the market and that will be sensitive to the needs of new customer groups. This enables an organization to implement a business strategy of providing excellent customer service.

It is also important for the bank to give priority to customer suggestions when they want to develop new services or to effect changes to existing ones. These will ensure that banks are giving services that meet the needs of the customers, thus enhancing the support that they give (to the customers).

There is need for the Government to enact some intervening laws that, besides controlling the foreign exchange regimes, will regulate issues regarding secrecy and security of customer transactions it appears imperative that innovations have to go the information technology way.

There is also need for banks to collaborate with the Ministry of Trade and Industry for factual information on international trade to complement the technical information in order to provide a One stop Shop for international business customers. This will provide more satisfaction, and therefore more support to them (the customers).

5.4 RECOMMENDATIONS FOR FURTHER RESEARCH.

An investigative research should be carried out to establish methods of making communication between bank mangers and customers effective.

Secondly, a research needs to be carried out to establish which aspects of liberalization are desirable and therefore supportive to international businesses and which ones are not in order to put in place determinate and definitive policy guidelines.

Thirdly, a research needs to be carried out to establish means of putting in place a regulatory system that will guarantee privacy, secrecy and security for financial transactions on the Internet and, define clearly the banker –customer relationship in Cyber Space.

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APPENDICES

APPENDIX I

COMMERCIAL BANKS AS CLASSIFIED BY THE CENTRAL BANK OF KENYA

I. Institutions in Terms of Shareholding

a). Foreign owned institutions

i). Foreign owned not locally incorporated

1. Citibank N.A.
2. Credit Agricole Indosuez
3. Habib Bank A.G. Zurich
4. Bank of India
5. Habib Bank
6. Bank of India Finance

ii). Foreign owned but locally incorporated institutions (Partly owned by locals)

1. Barclays Bank of Kenya Ltd.
2. Standard Chartered bank Limited
3. Development Bank of Kenya Ltd.
4. Stanbic Bank Ltd.
5. Bank of Baroda Ltd.
6. Diamond Trust Bank Kenya Ltd.
7. K-Rep Bank Ltd.

b). Institutions with Government participation

1. Kenya Commercial Bank Ltd.
2. Housing Finance Company of Kenya Ltd.
3. Stanbic Bank Ltd.

4. Savings & Loan Kenya Ltd.
5. Industrial Development Bank Ltd.
6. National Bank of Kenya Ltd.
7. Consolidated Bank of Kenya Ltd.

c). Institutions locally owned

1. CFC Bank Ltd.
2. Commercial Bank of Africa Ltd.
3. Transational Bank Ltd.
4. Credit Bank Ltd.
5. Euro Bank Ltd.
6. Daima Bank Ltd.
7. Guardian Bank Ltd.
8. First American Bank Ltd.
9. Investment & Mortgages Bank Ltd.
10. Middle East Bank (K) Ltd.
11. Akiba Bank Ltd.
12. FINA Bank Ltd.
13. Imperial Commercial Bank Ltd.
14. Victoria Commercial Bank Ltd.
15. Prime Bank Ltd.
16. Equatorial Commercial Bank Ltd.
17. Prime Capital & Credit Finance Ltd.
18. Giro Commercial Bank Ltd.
19. Biashara Bank Ltd.
20. African Banking Corporation Ltd.
21. Chase Bank Ltd.
22. City Finance Bank Ltd.
23. Charterhouse Bank Ltd.
24. Paramount Universal Bank Ltd.
25. Southern Credit Banking Corp. Ltd.

26. Fidelity Commercial Bank Ltd.
27. Delphis Bank Ltd. (Under CBK Statutory Mgt.)
28. Devna Finance Ltd.
29. Co-operative Bank of Kenya Ltd.
30. Cooperative Merchant Bank Ltd.
31. National Industrial Credit Bank Ltd.
32. East African Building Society
33. Equity Building Society
34. Family Finance Building Society
35. Prudential Building Society

II. Institutions Listed on the NSE

1. Barclays Bank of Kenya Ltd.
2. Kenya Commercial Bank Ltd.
3. Standard Chartered Bank (K) Ltd.
4. National Industrial Credit Ltd.
5. CFC Bank Ltd.
6. Housing Finance Company of Kenya Ltd.

APPENDIX II

DRAFT OF LETTER OF REQUEST TO FILL QUESTIONNAIRE

KISIA B.A
FACULTY OF COMMERCE
UNIVERSITY OF NAIROBI
P.O. BOX 30197
NAIROBI

DATE

TO; THE MANAGER
NATIONAL BANK OF KENYA LTD
.................................BRANCH

Dear Sir/madam

I am a graduate student at the faculty of commerce, University of Nairobi. Part of the requirement for successful completion of the requirement of the course is to write a management project.

My study is on the Factors that Influence Provision of Bank Services to International Business. I have enclosed a questionnaire for this purpose. The questionnaire is to enable me to collect the information that I will need for the management project which is due for submission to the University in...................2004. Your cooperation in completing the questionnaire will be highly appreciated.

The information that you give will be treated with strict confidentiality. A copy of the findings may be availed to you upon request.

Thanking you in advance

Yours Faithfully

Kisia B.A (MBA student)

Supervisor

Dr. John Yabs

Dept of.............

University of Nairobi

APPENDIX III

QUESTIONNAIRE TO BANK MANAGERS

1. How long have you worked with the National bank?

Less than 1 year	
1-3 years	
4-10 years	
Over 10 years	

2.How long have you worked in your current position?

Less than 1 year	
1-3 years	
4-10 years	
Over 10 years	

3.Do you personally handle customer complaints?

Yes	
No	

5.What are the most common complaints about services offered to international businesses?

	Most frequent	Frequent	Less frequent	Never
Speed				
Awareness of available services				
Charges				
Risk				
Functionality				
Convenience				
Security				
Government regulation				

6.How do you learn about/develop new services

	More often	Often	Less often	Never
Periodicals and Newspapers				
News casts				
Customer suggestions				
Training and seminars				
Internal circulars and memos				

7.The following new products have already been developed in National bank. Indicate your knowledge concerning them by ticking as appropriate.

	Do not know about it	Heard about it	Read about it	Know how it fubctions	Can sell it
Simple banking					
Debit card					
RTGS					
Credit card					
Electronic data Interchange					
SWIFT					
ATMs					

8.How do you create awareness to customers about the services that the bank is offering?

	More often	Often	Less often	Never
Flyers/pamphlets				
TV/Radio				
New papers				
Social events e g golf, dinner etc				

9.To what extent do you suppose the Government regulations influence provision of banking services? And is helpful?

	Yes or No	Helpful/Not helpful
To a very large extent		
To a large extent		
To a limited extent		
To a very limited extent		
Not at all		

10.How are customer concerns addressed?

	High priority	Average priority	Low priority	Nil priority
Staff training				
Personalized customer care				
Increasing use of IT in service delivery				
Pamphlets				
Advertising				
Revising fee structures				
Repackaging old products				
Introducing new products				

11.Why did your customers involved in international business choose to? Indicate by ticking against the reasons.

Market saturation at home	
Economies of scale	
To extend product life cycle	
Utilize excess capacity	
Exploit foreign market opportunities	
Dumping	
Prestige	
Stabilization of demand	

APPENDIX IV

DRAFT OF LETTER OF REQUEST TO FILL QUESTIONNAIRE

KISIA B.A
FACULTY OF COMMERCE
UNIVERSITY OF NAIROBI
P.O. BOX 30197
NAIROBI

DATE

TO WHOM IT MAY CONCERN

Dear Sir/madam

I am a graduate student at the faculty of commerce, University of Nairobi. Part of the requirement for successful completion of the requirement of the course is to write a management project.

My study is on the Factors that Influence Provision of Bank Services to International Business. I have enclosed a questionnaire for this purpose. The questionnaire is to enable me to collect the information that I will need for the management project which is due for submission to the University in...................2004. your cooperation in completing the questionnaire will be highly appreciated.

The information that you give will be treated with strict confidentiality. A copy of the findings may be availed to you upon request.

Thanking you in advance

Yours Faithfully

Kisia B.A (MBA student)

Supervisor

Dr. John Yabs

Dept of.............

University of Nairobi

APPNDIX V

QUESTIONNAIRE TO CUSTOMERS

1.My business has been operation for (tick as appropriate)

Less than 1year	
1-3 years	
4-10 years	
Over 10 years	

2.I have been a customer of National Bank for (tick as appropriate)

Less than 1 year	
1-3 years	
4-10 years	
Over 10 years	

3.The bank offers services that relate to international business, are you aware of them?

Yes	
no	

4.Below is the list of old banking services that support international businesses. if your answer to (3) above is yes, please indicate by ticking against the ones that you are currently using.

Letters of credit	
Foreign drafts	
Collections	
Telegraphic transfers	
Guarantees	
Foreign currency account	
Forward contracts	
Futures	
Performance bonds	
Information and advice	

5. Why did you choose to go international?

Market saturation at home	
Economies of scale	
To extend product life cycle	
Utilize excess capacity	
Exploit foreign market opportunities	
Dumping	
Prestige	
Stabilization of demand	

6.My concerns when choosing a provider for banking services are

	Very Important	Important	Fairly Important	Not Important
Efficiency				
Convenience				
Fee Structures (Prohibitive)				
Adequate Security				
Secrecy				
Functionality				
Privacy				
Availability of information on the product				
Availability Of Information On International Business				
New banking services				
Government regulation				
Open communication with bank manager				

7.To what extent does Government regulation affect the improvement of your business?

To a very large extent	
To a large extent	
To limited extent	
To a very limited extent	
Not at all	

8.State whether Government regulation is of great or less advantage to you.

Great advantage	Less advantage

9 State whether you would like any changes on the under listed services.

Service	Change desirable (yes/no)
Mail transfers	
Letters of credit	
Guarantees	
Performance bonds	
Telegraphic transfers	
Bank drafts	
Forward contracts	
Foreign currency accounts	

10. What improvements would you like to see in the services in (9) above?

	High Priority	Average Priority	Low Priority	No Priority
Efficiency				
Functionality				
Manageable Fee structures				
Avail more information				
Automation				
Security				
Privacy				
Secrecy				

11. Listed below are some automated services in support of international businesses.

12.

13. Please indicate your understanding of each one by ticking appropriately

14.

	Not Interested	Know about it	Understand how it functions	Using it here already	Would like to use it
Swift					
Credit card					
Debit					
RTGS					
ATMs					

12. What aspects need to be improved in the services in 9 above in order for them to deliver your requirements?

	Swift	Debit Card	Credit card	RTGS	ATMs
Efficiency					
Functionality					
Manageable Fee structures					
Avail more information					
Automation					
Security					
Privacy					
Secrecy					