

THE INFLUENCE OF CREDIT CARDS ON THE GROWTH OF THE RETAIL BANKING BUSINESS IN KENYA

By

Michael Njuguna Kinuthia

A management Research Project submitted in Partial fulfilment for the requirement of the award of Master of Business Administration Degree, School of Business, University of Nairobi

September 2008



DECLARATION

This management project is my original work and has not been submitted for another degree in any other University or Institution of Learning to the best of my knowledge

Signed..........Date.....19th November 2008.....

Michael Njuguna Kinuthia - D61/P/8846/2004

This Management Research Project has been submitted for examination with my approval as the University Supervisor

Signed..........Date.....19/11/2008.....

Dr. Martin Ogutu,
Senior Lecturer
Department of Business Studies
University of Nairobi

DEDICATION

I dedicate this project to my dear and loving wife Jennifer and my lovely sons and daughter, Dennis Kinuthia, Mark Maina and Joy Njoki for the sacrifice, patience, encouragement and moral support they gave me while undertaking the program. I know you felt lonely sometimes as I disappeared into seclusion to read and prepare for the course yet I was supposed to have taken an outing with you.

ACKNOWLEDGEMENT

I wish to take this opportunity to express my sincere appreciation to my supervisor Dr. Martin Ogutu, Senior Lecturer, Department of Business Studies, University of Nairobi for his guidance and direction that has made it possible for me to complete the project.

Special thanks goes to Mr. Kassim Abdi for his tireless effort in ensuring that there were no grammatical mistakes and also taking time to proof-read the draft.

I cannot forget to express my thanks to Mr. Tom Ombasa, a former colleague at work for encouraging and motivating me to undertake this MBA program without whom I may not have seen the rationale and reason to sacrifice my time and energy.

To the various lecturers in the Business School, University of Nairobi, a big thank you for the commitment you gave me to make this a reality and God bless you as you continue to mould future leaders of this great nation of Kenya.

TABLE OF CONTENTS

Declaration.....	ii
Dedication.....	iii
Acknowledgement.....	iv
List of Tables.....	viii
List of Figures.....	ix
Abstract.....	x
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background.....	1
1.1.1 Credit Cards in Retail Banking Environment.....	2
1.1.2 Retail Banking Businesses In Kenya.....	4
1.2 The Research Problem.....	6
1.3 Research Objective.....	7
1.4 Importance of the study.....	7
CHAPTER TWO: LITERATURE REVIEW.....	9
2.1 The Business Environment In Kenya.....	9
2.2 The Nature of Retailing Business.....	10
2.3 Retailing In Banking Businesses.....	10
2.4 The Changing Retail Banking Business.....	12
2.5 Credit Cards.....	14
2.5.1. History of Credit Cards.....	14
2.5.2. The Nature of Credit Cards as a Medium of Exchange.....	15
2.5.3. Credit Cards Systems and Profitability.....	17
2.5.4. Current Credit Cards Industry Trends in the Kenya.....	19
2.6. Retail Business Growth Strategies.....	20
CHAPTER THREE: RESEARCH METHODOLOGY.....	23
3.1. Research Design.....	23
3.2. Target Population.....	23
3.3. Data Collection.....	23
3.4. Data Analysis.....	24

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATIONS	26
4.1 Introduction.....	26
4.1.1 Response Rate Analysis.....	26
4.2 The Respondents and Issuing Banks Profiles.....	26
4.2.1 The Position of Respondents.....	27
4.2.2 Duration in the Position by the Respondent.....	27
4.2.3 Length of Time of the Issuing Bank in Credit Cards Business.....	28
4.2.4 Types of Credit Cards Issued.....	28
4.3 Influence of Credit Cards on Growth of Retail Bank Business.....	29
4.3.1 Annual Percentage Increase of the Credit card Volumes.....	29
4.3.2 Percentage Contribution to Retail Bank Business Income.....	30
4.3.3 Cross-selling Opportunities to Retail Bank Business from Credit Card Base.....	31
4.3.4 Success Rate of Cross-selling Opportunities.....	32
4.3.5 Minimum Monthly Percentage Repayment.....	32
4.3.6 Revolved Balances.....	33
4.3.7 Percentage of Credit Cards Over the Limits.....	34
4.3.8 Percentage of Active Credit Card Accounts.....	34
4.3.9 Activation of Inactive Credit Card Accounts.....	35
4.3.10 Due Date Payments.....	36
4.3.11 Credit Card Influence on Growth of Retail Bank Business.....	36
4.3.12 Closure of Inactive Accounts.....	37
4.3.13 Action on Defaulters.....	38
4.3.14 Relationship Between Number of Credit Cards and Retail Bank Accounts.....	39
4.4 Factors for Introduction of Credit Cards.....	40
4.4.1 Reasons for Credit Cards Introduction.....	40
4.4.2 Challenges on Credit Card Business.....	41
4.4.3 Recruitment of Cardholders and Credit Card Use Enhancement.....	42
CHAPTER FIVE: SUMMARY, DISCUSSIONS AND CONCLUSIONS	43
5.1 Introduction.....	43
5.2 Summary, Discussions and Conclusions.....	43
5.3 Limitations of the Study.....	45
5.4 Recommendations for Further Research.....	45
5.5 Implications for Policy and Practice.....	45

REFERENCES.....	47
APPENDIX A: Questionnaire.....	51
APPENDIX B: List of Issuing Banks in Kenya.....	57
APPENDIX C: List of Banks in Kenya.....	58
APPENDIX D: Schedule of Fees, Charges and Card Usage for Issuing Kenyan Banks.....	59
APPENDIX E. VISA Report. Card Performance and Number of Issued Credit Cards.....	60
APPENDIX F: Credit Card Transactions Procedure and Fees levied by Issuing Banks.....	61
APPENDIX G: Card Terminologies and Definitions Used.....	62

LIST OF TABLES

TABLE 1:	The Positions of the Respondents.....	27
TABLE 2:	Length of Time in the Credit Card Business.....	28
TABLE 3:	Minimum Monthly % Repayment.....	33
TABLE 4:	Percentage of Active Cards.....	35
TABLE 5:	Due Date Payment.....	36
TABLE 6:	Credit Card Influence on the Growth of Retail Bank Business.....	37
TABLE 7:	Action on Defaulters.....	38
TABLE 8:	Calculated Linear Correlation Coefficient (r) Between the Number of Credit Cards and Retail Accounts.....	39

LIST OF FIGURES

FIGURE 1: Average Revenue Streams for Credit Card Issuers and Processors...	17
FIGURE 2 (a): Performance Ratios by Asset Concentration Group, Return on Assets (YTD)- December 31, 2004.....	18
FIGURE 2 (b): Net Interest Margin (YTD), December 31, 2004.....	19
FIGURE 3: General Electric Company (GEC) Growth Matrix.....	21
FIGURE 4: Duration in the Position by the Respondents.....	27
FIGURE 5: Types of Credit Cards Issued.....	29
FIGURE 6: Annual % Increase of the Credit Card Volumes.....	30
FIGURE 7: Percentage Contribution to Retail Bank Business Income.....	31
FIGURE 8: Cross-Selling Opportunities to Retail Banking from Credit Cards Base.....	31
FIGURE 9: Success Rate of Cross-Selling Opportunities.....	32
FIGURE 10: Revolved Balances.....	33
FIGURE 11: Percentage of Credit Card Over Limits.....	34
FIGURE 12: Activation of Card Accounts.....	35
FIGURE 13: Closure of Inactive Accounts.....	37
FIGURE 14: Reasons for Credit Cards Introduction.....	40
FIGURE 15: Challenges on Credit Card Business.....	41

ABSTRACT

The main objective of this research project is to establish whether Credit Cards usage can influence the growth of the Retail Banking Business. This was necessitated by the fact that many Kenyan financial institutions have entered into this credit card market with a lot of aggression since the beginning of this millennium. Before 1990, two financial institutions only always dominated the card market after two banks went under (Trade and Trust Bank who used to issue and acquire Visa and MasterCard credit cards). In addition, currently there is quite a lot of Credit Card coverage in both print and mass media.

Currently, there are 18 out of 45 retail banking businesses dealing with either acquiring or issuing of credit cards and the trend has been an upward one (Appendix B).

This research project focuses on the Retail Banking Businesses in the Kenyan market, but briefly mentions other non-financial retail business that have been involved in the card business. It limits itself to credit cards only and highlights other cards like debit, Loyalty, proprietary and charge cards for definition purposes since they are part of the retail banking but not covered in detail in this research work and are meant to enhance service delivery to customers and embrace use of technology- ATMs and Point Of Sale terminals.

A questionnaire to heads and senior staff of card centres was used to collect the relevant information. More information was sought directly from card associations, Central Bank of Kenya, respective issuing banks tariffs, application forms and brochures in the banking halls.

From the research it can be concluded that most banks dealt with issuance of both Silver and Gold Cards, and none issued Platinum cards. In addition, the research finding show that Credit Cards contributed substantial revenue and indeed they have a strong influence on the growth of Retail Bank Business. Most cardholders did not settle their monthly card bills in full, hence allowing the issuers to earn interest for the "rolled over" balances and the factors that made retail banks to introduce cards included cross-selling opportunities,

Customer request and as another income stream. Further, the research showed that banks followed up the inactive account holders with a view of activating while the cardholders who had problems in repaying their card debts were followed until they cleared and the remainder taken to Credit Reference Bureau for negative file listing.

It is recommended that further research on ways to reduce the impact of high fraud losses would be important as fraud was highlighted as a key challenge and concern for Credit Card industry growth. Investigation on card literacy and how to improve it for enhancement of recruitment and use of Credit Cards was noted as a concern, and hence a research on this area would be recommended. Since Credit Cards were noted to have contributed less than 10%, a study on how on factors that can lead to contribute more would be encouraged as the research found that the cards had a very strong influence on growth of retail bank business.

CHAPTER ONE: INTRODUCTION

1.1. Background

In the recent past, we have witnessed many Financial Institutions increasingly launch the credit cards under the Retail Banking Businesses while the media on the other hand have aggressively continued to have coverage on the card industry. The negative coverage has dwelt on the risks and losses due to fraud that have been incurred by the acquirers, the issuers and the cardholders, most recent coverage being in the Daily Nation of May 22, 2008. The number of the issuers has increased from 3 in the 1990's (Barclays, Trust and Trade bank) to the current 18 who are either issuing Visa or MasterCard branded cards (Appendix B).

The latest entrants into the market being Equity Bank and Stanbic Bank while Impenal bank introduced a co-brand with the Tamand Group, as I & M bank introduced another co-brand with USIU Alumni as reported in The Standard, Money Matters of May 5, 2008 while Barclays Bank went into co-brand with Nakumatt chain of supermarkets "Ivory" in quarter one of 2007 in a bid to hit the numbers. In addition, we have noted the aggressive cardholder recruitment campaigns and marketing promotions being done both by the card associations and local issuers, a good example being a letter from Nakumatt & Barclaycard of May 2008 inviting the customers to apply for Nakumatt-Barclaycard credit cards and win prizes. In addition, Muriu(2007), did research under "a survey of challenges facing the growth in use of plastic credit and debit card in Kenya" which could also be an indicator that credit cards are becoming prominently of interest.

Latest annual data covering the period up to Mid-2007, shows that the local retail banking opened 83 new branches, the number of ATMs rose to 737 while the number of either debit or credit cards rose to 1.66 millions, as reported in the Business Daily of 22 April 2008. Out of these, 90,993 are Visa credit cards as per Visa report covering to Q3, 2007 (Appendix E). Thus, there is a need to understand what credit cards are and the influence they have on Retail Banking business.

Retail banking business has been evolving at a high speed and as such competition for customers has become stiff. This has compelled the financial institutions in Kenya to diversify their products portfolios from the conventional transactional business to other products and services that utilise and appreciate the use of technology and also ensure

that they are in tandem with the trends in the world market. Another reason seeking the financial institutions to change the way they do their business is because the customers are increasingly becoming diverse, educated, demanding and exposed since the world has become a global village, but we do not know whether credits cards have a role to play in growth of the Retail Banking Business.

1.1.1 Credit Cards in Retail Banking Environment

Credit cards are part of consumer lending which is basically a form of unsecured borrowing and they can fall into four major associations of credit cards in the world market that is, Visa, MasterCard, Amex & Diners which are branded differently. In all the cases the cardholder is given a pre-authorized credit limit and is allowed to roll over a balance of what he/she has spent to the next cycle thus attracting an interest charge. Financial institutions offer a variety of plastic cards, some issue cards with their logos and support the cards by their own marketing effort for example Equity and Kenya Commercial bank otherwise, most operates franchises of either MasterCard or Visa cards. To become part of either group's system, a financial institution has to pay a one-off membership fee plus an annual charge determined by the number of its customers actively using the cards. MasterCard and Visa associations in turn handle the national marketing effort and all cards have to prominently display the MasterCard or Visa logos with the issuing bank's name appearing on the face, MacDonald & Koch (2006). The benefit of membership is that the individual bank's card is accepted nationally and internationally at most establishments without each issuer negotiating a separate contract with every retailer.

Credit cards are attractive and different from other retail banking products because they provide a higher risk adjusted returns compared to other types of loans. The card issuers earn income by charging cardholders fees, interest on outstanding balances and discounting the charges that merchants accept on purchases commonly referred to as interchange. Even though loan interests may vary, credit card rates are usually high and constant and do not vary with T-Bills variations. In addition, credit card lending involves issuing of plastic cards to qualifying customers and the cards have pre-authorized credit limits that restrict the maximum amount of debt outstanding at any time. The cards can be used to purchase goods or services from establishments referred to as "merchants" that accept card payment hence it is secure and convenient to have credit cards. In Kenya,

there are 4536 and 2350 merchants acquired by Barclays and KCB respectively. Further, the cards can be used for cash advance through the electronic banking devices, such as the ATMs or from the banking tellers if the desired withdrawal amount exceeds the set ATM limit or the ATM is not functioning.

The credit cards have become extremely attractive and many issuers view them as vehicles to generate a nationwide customer base. Hence, they offer extraordinary incentives to induce customers to accept cards in hope that they can cross-sell other products and services like mortgages, insurance and securities. Some banks also use the card relationship to solicit money market deposits. Credit cards are profitable as cardholders are not price sensitive as most look primarily on the minimum monthly payment required rather than the quoted interest rate according to MacDonald & Koch (2008). The cardholders enjoy the benefits of convenience of buying goods whenever they wish and many believe the periodic interest is too small to give up the spending convenience and that is why many more customers are being recruited to have cards.

A Stanbic Bank reports "Easy Aid" of 2008 on Credit Card process, defined a credit card as a means by which an individual can buy goods and services for immediate use and then pay for the purchases at a future date. It continues to advise that "the credit limit is a revolving limit and the customer may use the available credit as long as the minimum payment due is paid each month by the due date". While, Murlu(2007) states that "Cardholders use their credit cards to buy goods and services instead of cash and the issuers then debit the cardholder's card account with the transaction amount and ultimately send a statement to the cardholder at the agreed cycle period".

In summary, it can be concluded that credit cards are a form of unsecured personal loans that are easily got, they form part of an income stream for retail banking business in which the banks earn interest from the rolled over balances, penalty fees, joining and annual fees, interchange for issuers and merchant discount rates by the acquiring banks. In addition, they facilitate both local and international trade in which cardholders can physically present the cards for payments at merchants who accept credit cards as a form of payment or order goods and service through the internet via a "card not present" transaction.

There are various types of charges or income streams to issuing banks at each stage of the card transaction procedure (Appendix F). The local banking industry regulator that is Central Bank of Kenya (CBK), directed that commercial banks should reduce their interest rates by 100 basis point (1%) at 8.75% on Treasury Bonds rates in the inter-banks borrowing. This was reported in the Sunday Nation Newspaper of April 5, 2008 and did not affect the interest rates charged on credit cards showing that credit cards interest is not regulated like other bank charges.

1.1.2 Retail Banking Business In Kenya

The retail banking businesses in Kenya play an important and crucial role of providing avenues in which money suppliers and those that demand the same may perform business transactions with ease. Naturally, the financial institutions receive funds / money from savers or commonly referred to as depositors and lend the same money / funds to the borrowers in the form of either secured or unsecured loans. In return they pay the depositors some meagre interest (between 4.5% and 7.5%) on deposit while earning huge interest (11.75% and 16%) and commissions from the borrowers. These loans would either be for commercial or personal, and the borrowers may consume the borrowed funds/ money or invest into their businesses. In most cases, Credit cards with pre-determined limits fall into the personal and unsecured loans category.

A retail banking business is defined as the financial institution that emphasise on acceptance of deposits and lending to individuals and there is no differentiation with commercial banking businesses that emphasises lending to businesses. Commercial Banks on the other hand are defined as financial institutions that accept demand deposits (non-interest bearing checking accounts) and make business loans MacDonald & Koch (2006). However, this has changed drastically and they are now involved in savings and loans, mortgage lending, stocks and insurance. Retail banks are said to be issuers if the card associations like the Visa, MasterCard, Amex and Diners license them to provide their personal and business customers with their respective branded cards. Their operations are usually regulated by the Association's international rules and policies of card usage. They earn a fee in form of Interchange from the acquiring banks for any transaction done by their cardholders at establishments who are also referred to as the Merchants and it is usually a percentage of the amount transacted.

In addition, a retail bank is said to be an acquirer if the card associations license it to recruit and process card transactions from businesses where cards are used as a form of payment. These establishments will usually have entered into an agreement with an acquiring bank to accept card transactions as a form of payment and are guided by the Visa and MasterCard international card acceptance policies and procedures. In this case the merchants / establishments pay the acquiring banks a service charge also referred to as Merchant Discount Rate which is usually a percentage of amount processed. The acquirers process transactions from the merchants and ensure that the cardholders are debited and the merchants are paid their card proceeds accordingly. They also provide merchants with periodical financial statements that show the date of transaction, amount deducted as discount rate or chargeback, proceeds of the card transaction transferred to nominated bank accounts and the dates when this happened. At the moment, there are 3 main acquirers in Kenya namely, Barclays, Kenya Commercial, and Southern Credit bank

The banking sector has continued with impressive growth and the overall profitability for January 2008 rose by 18.2% while the asset portfolio expanded by 26.8%. The banking sector performance indicators improved with a decline in the stock of non-performing loans and enhancement of capital adequacy ratios attributed mainly to fresh capital injections and retention of profits over the period. There were 45 financial institutions in January 2008 following the exit of Prime Capital and Credit which was acquired by Prime Bank Limited in December 2007 and entry of Gulf African Bank Limited in November 2007, this is according to the Kenya Monthly Economic Review for February 2008. Financial institutions are the most heavily regulated sector due to the critical important role they play in the payment system, in providing credit to individuals and businesses. In addition, financial institutions have insurance deposits. Before 1980s, most private banks operated free of Central Bank of Kenya scrutiny and this was the period characterised by many banks going into either receivership or liquidation. Thus, CBK started regulating the banking industry in order to ensure the safety and soundness of banks instruments, provide efficient and competitive financial systems, provide monetary stability and maintain the integrity of the nations payment system and further protect customers.

1.2 The Research Problem

Retail Banking Business has adopted different approaches in order to address the environmental challenges like competition, legal and technological advancements. Due to the turbulence in the industry, they have to constantly evaluate their retail banking services with an aim of creating a more focused strategy that help them meet the overall company objectives. This is being achieved through differentiation and value addition to their retail customer's product proposition.

Currently, retail banking business is not only competing at national level, but increasingly at both global and international levels. The number of the banking businesses has continued to increase and currently stand at 45, according to the Business Daily, Central Bank Of Kenya report dated April 22, 2008. The banking businesses are targeting the same clients and thus depressing the margins in the highly competitive industry. This implies that 'profitability of the banking businesses will be determined by the extent to which financial institutions develop appropriate strategies to "combat" the growing competitive forces' Mukule(2006). Several researches have been conducted on the banking industry by various researchers. Muriu (2007) did "A survey of challenges facing the growth in the use of plastic credit and debit cards in Kenya" which was on card usage and recommended amongst others that further research may be done on how organisations assess the needs, preferences and opportunities for client's education to increase adoption of technology-based financial services. Further, Mukule (2006) did another study on "Retail Marketing strategies adopted by commercial banks in Kenya", and found that competition was being felt at national and global levels as 52% of the banks were local and 48% foreign, 100% of the banks pursued product modification and 96% pursued introduction of new products as a strategy and this is where credit cards fit in. He recommended that commercial banks should pursue retail-banking strategies.

Kiluva(2006) on the other hand researched on "Ethics in the Kenyan banking industry- A case study of NIC Bank Limited" which was on ethics though he found that banking ethics had been done in the Western world. He recommended that a survey across the industry for future research would be good. Another research by Gakumo(2006) "Application of Porters generic strategies by commercial banks in Kenya" found that 60% of the commercial banks use Porter's Generic strategy with differentiation account for the rest

40%. He recommended that further research to determine the factors influencing the choice of particular options of the Porter's strategy would be encouraged. In addition, more research on retail bank businesses has been done world wide with different objectives and finding. Moreover, the credit cards introduction in the Kenyan banking business has generated a lot of coverage, interest, criticisms and commentaries from the society and media in general. Therefore, the researcher would like to add more to the body of knowledge with research to investigate the influence of credit cards on growth of retail banking business in Kenya as many banks are now venturing into this product line while the society reacts differently. Thus, the researcher would like to increase the knowledge by seeking responses to the following research questions:

- (i) To what extent do the credit cards influence the growth of retail banking business in Kenya?
- (ii) What factors have made the retail banks in Kenya introduce credit cards as a growth strategy?

1.3 Research Objectives

Having derved the research questions, then it is the purpose of this research project to get answers to the following objectives:

- (i) To determine the extent to which credit cards have influenced the growth of retail banking business in Kenya
- (ii) To determine factors that have made the retail banks in Kenya to introduce credit cards as a growth strategy

1.4 Importance of the Study

This study will be valuable to the following:

- (i) Potential financial institutions in Kenya that would want to venture into credit cards business for growth of their retail banking businesses as they will

understand the implications of credit cards, trends and possible challenges that they may encounter

- (ii) The academicians who would want to do further research on Credit Cards Industry and their contribution or impact in the retail banking businesses in Kenya
- (iii) The banking fraternity in articulating deliberate strategies that would be geared at winning new and retention of retail customers
- (iv) The retail banks who would want to introduce credit cards as a new product line in their products portfolio

CHAPTER TWO: LITERATURE REVIEW

2.1 The Business Environment in Kenya

All organisations strategy success depends on the environment in which the firms are located and therefore there is need to look at the factors that would affect the growth of Retail Banking Businesses in Kenya today. These factors would include the Kenyan economic development that has continued to be liberalised as witnessed between the years 2002 and 2007 and therefore the government has been moving away from direct participation in business where private investments can be implemented with less controls Yabs(2007). No wonder we have witnessed many foreign and local banks opening businesses in Kenya. Another factor is the Political environment and Kenya has had a relatively peaceful time until after the 2007 disputed elections that led to some violence that caused some scare to foreign investors.

In addition, the other factor affecting strategy success has been the industry competitiveness and due to the liberalization witnessed. The financial institutions have been competing within themselves hence deriving strategies that would make them have competitive advantages compared to the other players in the industry. Many have embraced technology which is also a factor affecting business environment and development of information in the country has led globalization strategies to be applied, the effects of world economies brought about by advancement of technology. Most financial institutions now use internet-based technology for service delivery channels with ease. The legal system has also been streamlined and it takes a shorter period to have a business licensed to operate in the country and also fair competition, employment, health and safety, and product safety laws have been enacted. Ultimately, the environmental factors like waste disposal and environmental laws and authorities like National Environmental Management authority (NEMA) have been enacted and enforced (Yabs 2007).

The level of Education in general has improved with the Universities being set free to operate, while attitudes to work and leisure has also improved considerably. Kenyans are now taking holidays and the lifestyles has really changed in recent times. All these agree

with the Political, Economic, Social-Cultural, Technology, Environment / Ecological and Legal (PESTEL) framework developed by Igor Ansoff in 1965. Kenyan people are industrious and therefore can attract investors and in addition different communities with different cultures have exchanged their ways of doing things and today these cultures have almost melted into one national culture, (Yabs 2007).

2.2 The Nature of Retailing Businesses

Retailing is defined as the sale of goods, and services to the ultimate consumers for personal, family or household use Mukule(2006), while Davidson and colleagues(1984) defined retailing as the final part of marketing process in which various functions of the seller, are primarily oriented to accomplishing the exchange of goods and services for the purpose of personal, family or household use. In addition, Davidson and colleagues (1984), further reports that consumers expect that retailers will accomplish three tasks that are required in an advanced economy as we observe today, and these are creating product and service assortment that anticipate and fulfil consumers needs and wants, offering products and services in quantities that are small enough for individual or family consumption and providing for ready exchange of value through efficient handling of transactions, convenient hours and location information that is useful in making choices and at competitive prices. The key areas of interest are "goods & services, consumers, personal, and domestic use" that is not for resale or to do business. This part is what has made the retail banking business very competitive and also experience cut - throat price competition.

Koller(1999) on the other hand reports that retailing includes all activities involved in selling goods and services directly to final consumers for personal and non- business use. This is similar to the nature of the credit cards that are usually made and issued to individuals or personal consumers and are used for domestic or personal purchases.

2.3 Retailing In Banking Businesses

Visa International (2000) reports that retail banking also known as the consumer banking traditionally refers to the provision of multiple financial services to personal consumers. Further, the report advises that retail banking should satisfy customer's needs like the

transactional banking and which include, Savings, borrowing (loans), making payments (providing access to own or borrowed funds), securing (insurance) and receiving financial advice for example on mortgages, pensions and insurance. Typically, credit, charge or debit cards meet the borrowing and making payments of customer's needs and that is why many retail banks place the card strategy as part of a wider retail banking strategy, (Visa international 2000).

Rose & Watkins(1997), defines retailing in banking business as the sales to individuals and not corporate market and hence retail banking can be defined as a typical mass-market banking where individual customers use local branches of large commercial banks. The services offered under retail banking businesses includes, saving and checking accounts, mortgages, personal loans, debit and credit cards. In addition, since the environment has become very competitive and turbulent, then those banks that intend to attract and retain customers must therefore provide them with a range of products or services in order to remain competent and relevant in the industry lest they get thrown out business by the market forces.

The customer's needs are getting sophisticated and diversified every day, as the world is becoming more of a global village due to advancement of information technology and the wide customer travelling. Therefore, the local retail banking business cannot operate in isolation from the world and hence they cannot afford to be rigid in their attitudes, structures, service delivery, management and approach to personal customers any more. That is why Stanger(1990) argues that banks must welcome the views and advices of their customers, while Mukule(2006) asserts that classifying customers into groups based on psychographic segmentation would help an organisation to develop a better understanding of the customers' desires, needs, anxieties and possible behaviour. This would provide an opportunity to be able to present tailor-made offers that address issues like developing group accounts for individuals who wish to conduct their business in a group such as self - help women groups.

The Banking Act, Cap 488 of Kenya, defines a bank as an organisation or company, which carries on, or purposes to carry on banking business. This means that a bank is an institution that predominantly deals with money or money-equivalent and collects deposits from savers and pays interest to the depositors, and in addition uses the savers deposits

to grant loans to borrowers who in turn pay the bank interest and fees at a premium. The commercial banks in Kenya offer both corporate and retail banking services and it is hard to differentiate the two as they are operated like departments in the banking institutions. The licensing of the banking businesses is done by the minister of Finance through Central Bank of Kenya (CBK), while the companies Act, the Banking Act and CBK govern and control the activities of the banking industry. Kenya Bankers Association (KBA) serves as the umbrella body that lobbies for the banking businesses interests and also addresses issues affecting its members.

The retail banking industry in Kenya started with the British colonialist and few Indian traders towards the end of the 1900 Century, Mukule(2006). Liberalization of the banking industry in Kenya that started in 1995 brought about most of the changes that impacted on the retail banking business either positively or negatively. One of the major positive change was the lifting of foreign exchange controls while the straining change was an increased competition intensity which made the banks to innovatively create products and services that meet and satisfy customers. This has an aim of attracting and retaining customers (Mukule 2006).

2.4 The Changing Retail Banking Businesses

The Retail Banking business in Kenya started growing since the first bank was established in the 1890's and has continued to develop while experiencing environmental turbulence ever since. The liberalisation of the industry in the 1995's led to diverse and variety of changes which include stiff competition from similar players and micro-finance institution for the limited customers. We have also witnessed the World Bank getting into the industry through IFC, its lending arm put adverts in the local Daily Nation newspaper of 28 May 2008, where they were inviting individuals with either business proposals or already transacting businesses and in need of financial support in the range of Ks.1.5m to 30m to contact them. This was rare before for the World Bank to go directly to customers but instead used to channel the funds through financial institutions yet their interest rates are far much below the normal banks. Due to this reasons and the need to remain competitive, financial institutions have been compelled to pursue growth strategies.

Visa International (2000), reports that the retail bank environment will continue to change and the impact of new technology will increase the pace of change. In addition, new competitors like utilities, retailers, telecommunication companies or software providers will own their own banks. This trend is slowly getting into the country and it has come through partnerships between banks and retailers, a good example being the Barclays and Nakumatt Holdings relationship where a co-branded Visa Credit card was launched in 2007. The changing banking environment is also strengthened by the report in the Daily Nation newspaper of June 19, 2008, business news section that reported that the Kenya Tourism Development Corporation (KTDC) was to be revived as a bank to advance loans to investors in the tourism industry.

The market is being driven by customers' expectations that are moulded by education and media information, such that customers are demanding that they get contacted and served in new ways with new products and also they are expecting better and better service. These customers are also demanding that banks meet their individual needs, which means they will increasingly be served by those who know their needs best, and are using the delivery channels they prefer MacDonald and Koch(2006). The retail banking businesses is influenced by local habits which in turn are influenced by the intrusion of global media / TV, lifestyle values being adopted from neighbouring markets or change from a regulated command economy to a market- based liberalised economy

The Kenya Monthly Economic Review of February 2008, reports that the banking sector continued with impressive growth and the overall profitability for January 2008 rose by 18.2% while the asset portfolio expanded by 26.8%. Further, it reported that the banking sector performance indicators improved with a decline in the stock of non-performing loans and enhancement of capital adequacy ratios attributed mainly to fresh capital injections and retention of profits over the period. There were 45 financial institutions in January 2008 following the exit of Prme Capital and Credit which was acquired by Prime Bank Limited in December 2007 and entry of Gulf African Bank Limited in November 2007.

2.5. Credit Cards

2.5.1 History of Credit Cards

Credit cards emerged in the first half of the 20th Century and were initially used for identification purposes against non-cash purchases. Further, the launch of travel & entertainment (T&E) cards by Dinners club in 1950 was the turning point because bills from hotels, restaurants and airlines were reimbursed by the issuer and then billed to be paid in full by the customer. According to the Saturday Nation newspaper of July 12, 2008, Mr. Manyara Kirago a financial consultant in Kenya reported that the 'Traveletter' which was a forerunner of the modern credit card and this was a letter of credit used by executives and salesmen on the road just before the turn of the 20th Century in the US. Around this time Franklin National Bank based in New York developed what is recognised as the first credit card (Johnson, et al 2005).

MacDonald and Koch(2006), reports that Bank of America launched the blue, white and gold BankAmericard in 1958 and by 1965, and along with its own branch network, it had established a successful franchising system owing to high promotional activities and considerable effort in establishing a large merchant network. In this way BankAmeriCard customers were provided with a national and international network of service points that later became Visa International. With time, there was rapid expansion of merchant network and the right to issue Visa card extended to an increasing number of banks as well as non-banking institutions. Alongside the development, Visa and MasterCard evolved as independent payment organisations owned by issuing banks. In 1988, duality was introduced in which banks could issue both Visa and MasterCard credit cards, but could not issue American Express or Discover cards. The payment associations do not have direct contractual contact with customers or merchants, instead they provide all the mechanism that enable card transactions. In addition, the associations are not directly exposed to card fraud loses as it is the issuing bank that bears the incidence of the misused cost of fraud.

Johnson and colleagues (2006) reported that Barclays Bank was the first UK bank to recognise the potential of the credit cards. It was the same bank that was first to launch the credit cards in the Kenyan market in the late 1980's by issuing both Visa &

MasterCard that was followed up closely with signing up of merchants for acquiring of these card transactions. The trend has since changed as KCB followed suit in mid 1990's and there are now 18 banks issuing either Visa or MasterCard credit cards in Kenya.

2.5.2 The Nature of Credit Cards as a Medium of Exchange

Credit cards play an important role both to the consumers, the banking businesses and the Kenyan economy. It is a very important tool for exchange and transmission of funds from the cardholders to the businesses and also serves to improve customer service. A Credit card is defined as a financial instrument that allows the cardholder to obtain funds at an interest from a retail bank at her / his own discretion up to some set limit Edward and Robert(1997). In modern business transactions, credit cards are increasingly becoming an essential tool and it offers a cardholder convenience, safety, higher purchasing power and a range of fringe benefits as most cards are issued with a number of privileges Mbijiwe(2005). If a retail banking business strategy includes growing of its more affluent customer base as the main objective, then it may achieve this by offering a wider range of sophisticated products and services. The business opportunity for mass-market credit card may be valid purely in terms of revenue potential, Visa International (2000) reports.

If the spent funds are repaid within a certain period, which is usually a calendar month then the interest is not applied. Otherwise, the rolled or revolved amount always accrue interest charges, which lies between 2.5% and 3.5% per month in Kenya depending on the issuing bank as shown in Appendix D for different retail banking businesses in Kenya. A credit card can be differentiated from other common financial instruments by the entitlement it gives to the holder to decide the size of the loan and the speed at which it is repaid. Further, it has flexibility and is a readily available source of funds for consumption and can be used as a protection against the hardships of income loss.

Cards are generally linked to making payments and therefore cards in different forms have provided opportunities to, attract new customers for card itself or via the card to the bank, generate revenue through fees and interest (annual and joining fees, interest on rolled over balances, through transaction, interchange and penalty fees), meet service objectives, change or create a market perception and automate financial processes. It

can also lead to retention of existing customer base or use latest technology to gain a competitive advantage and know their customers better Visa international (2000) reports.

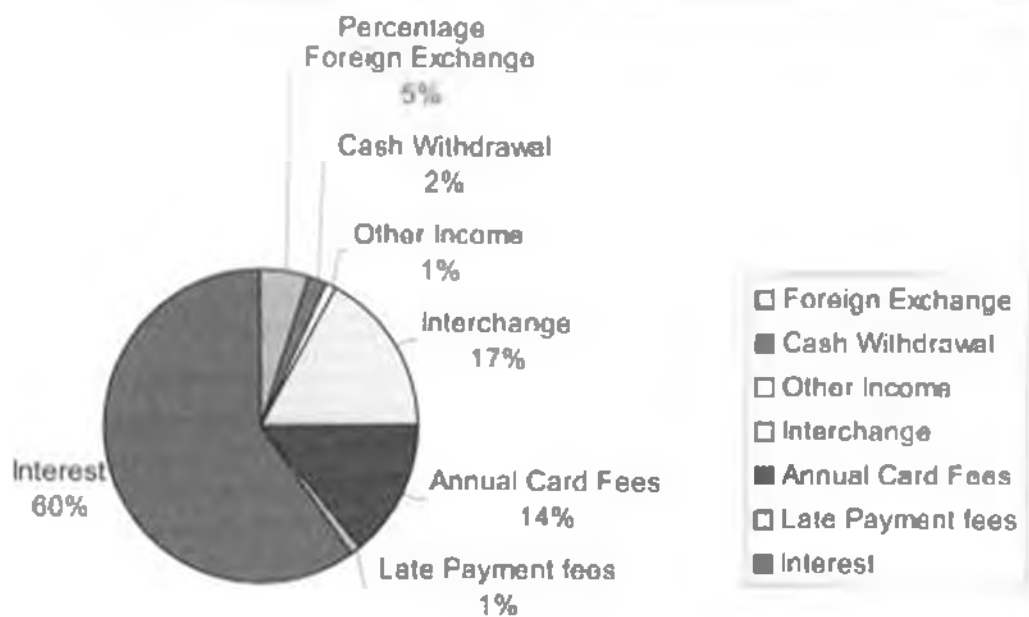
A survey done in 2004 in the US showed that banks returned to unusual competition to attract consumers by giving prizes to those consumers that opened new checking accounts MacDonald and Koch (2006). In Kenya many financial institutions have run promotions that included trips by Cruise Ships for two weeks, like Commercial Bank of Africa did in March 2008. In practice, Cards can be used to purchase literally anything from fuel to major capital expenditures. No wonder the card transactions have sharply reduced individual use of cash as indicated in a 2004 survey in the US which revealed that only 40% of cardholders paid the outstanding balances in full each month. Therefore 60% paid finance charges ranging as high as 37% per annum and credit card purchases accounted for an estimated 20% of the US GDP, (MacDonald and Koch, 2006).

Even though other interests rates may fall, credit card rates rarely do so and hence the spread between the rate charged and the banks' cost of funds widens MacDonald and Koch (2006). In order to generate more revenue, card issuers have been raising late-payment fees when they do not receive the monthly payment by due date whilst waiving the joining fees to attract more customers. Credit cards lending involves issuing of plastics to qualifying customers that have preauthorised credit limits that restrict the maximum amount of debt outstanding at any time. An individual can use the card to purchase goods and services from any establishment also known as the "merchant" that accepts the card and hence the individual determines the timing and amount of actual borrowing. In addition, many cards can be used in electronic banking devices like Automated Teller Machines (ATMs), and to make deposits or withdrawals from existing transaction accounts at a bank. This makes it an alternative to the conventional transactional banking approach. The recent regulatory and competitive environment has made credit cards extremely attractive and many issuers view credit cards as a vehicle to generate a nationwide customer base. Financial institutions offer extraordinary incentives to induce consumers to accept cards in hope that they can cross-sell mortgages, insurance products, and eventually securities, MacDonald and Koch(2006). Though credit cards interest rates are among the highest averaging between 2.5% and 3.5% many borrowers look primarily at the minimum monthly repayment required rather than the quoted interest rates. In addition, consumers simply like the convenience of buying goods

whenever they wish and many believe that the periodic interest is too small to give up the spending convenience.

Generally, credit cards are attractive to retail banks because they typically provide higher risk-adjusted returns than other types of loans. Card issuers earn income from three main sources (see figure 1) namely, by charging cardholders fees, interest on outstanding balances and discounting the charges that merchant accept on purchase which is usually referred to as "interchange" (Johnson, et al 2005).

Figure 1: Average Revenue Streams for Credit Card Issuers and Processors



Source: Adopted from Gerry Johnson, Kevan Scholes and Richard Whittington (2005), "Exploring Corporate Strategy" Text and Cases, page 891

2.5.3 Credit Card Systems and Profitability

The returns to credit cards lending depends on the specific role that a bank plays. A bank is called a card bank if it administers its own credit card plan or serves the primary

regional agent of the major credit card operation like Visa or MasterCard. In contrast, a non-card bank operates under the auspices of a regional card bank and does not issue its own card and hence do not generate significant revenues from credit cards MacDonald and Koch (2006). In addition, there are other fees apart from interchange that are applied like, excess fees when a cardholder exceeds the allowed limit at any given time, Late payment fees which is levied when a cardholder does not make the minimum payment by the due date and the unpaid fees which is levied in the event the payment so effected is not honoured. (Appendix F).

The figure 2 (a) and 2 (b), shows a summary of profitability data for FDIC-Insured banks categorised by asset concentration for different banks or lenders in the United States in 2004.

Profitability Measures for FDIC-Insured Banks with Different Asset Concentration

Figure 2 (a): Performance Ratios by Asset Concentration Group, Return on Assets (YTD)
December 31, 2004

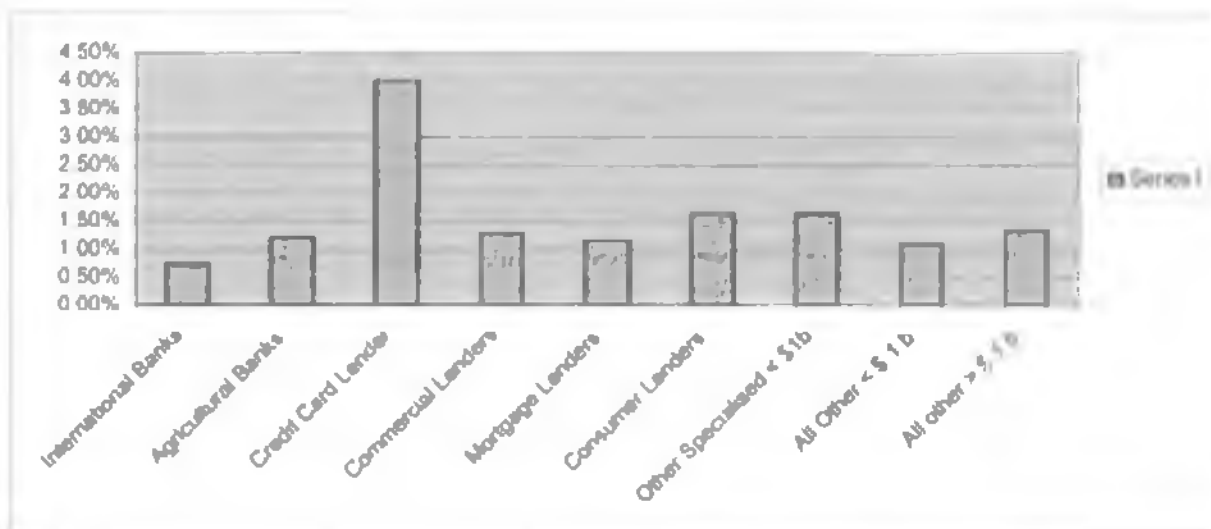
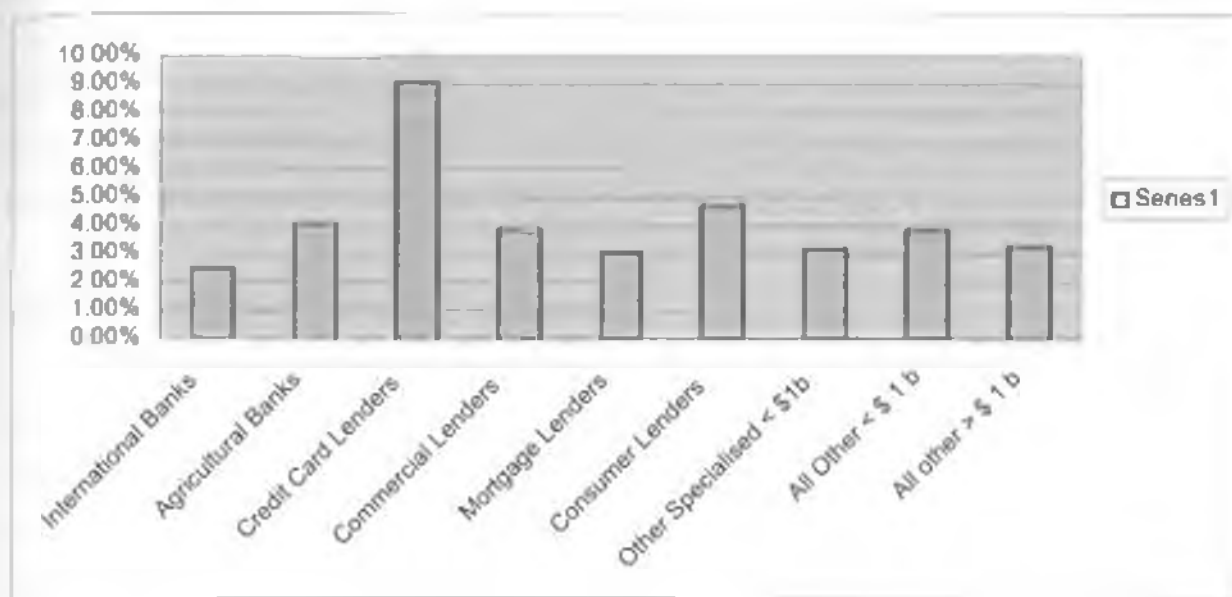


Figure 2 (b): Net Interest Margin (YTD), December 31, 2004



Source: Adopted from MacDonald, S. Scott and Koch, Timothy W. (2006) "Management of Banking" International Student Edition, 6th Edition page 415

The figures 2 (a) and (b), indicates that the banks labelled "credit card lenders" and "consumer lenders" both have the heaviest concentration of loans in credit cards and consumer loans, respectively. In addition, these two groups of banks in the USA, generated the highest returns on assets (ROA) compared with all other banks and this is a trend for today's many retail banking businesses that target individuals as the primary source of growth in attracting new business that reflects the attraction of consumer's deposits and loans. Thus, many financial institutions market their credit cards knowing that losses will increase but hoping to price this risk accordingly and attract enough affluent customers to offset the Charge-offs.

2.5.4 Current Credit Card Industry Trends In Kenya

The entry of organisations that are traditionally non-banking in the Kenyan Credit Card market like Chandarana Supermarkets, Nakumatt Supermarkets, USIU Alumni and Tamarind Restaurant to the card business poses an opportunity for retail banking businesses to grow their revenues through the cards. These organisations take the opportunity to leverage on their brand strengths, customer base, distribution channel or

other asset to facilitate their entry to the card business. The card activity may support the core business or simply provide a new revenue stream, Visa International (2000)

Deregulation removes barriers to entry and generally stimulates competition, thus making it easier for other industries to migrate into banking services, and this is what has facilitated other types of retail businesses to enter into this Credit Card Market.

2.6. Retail Business Growth Strategies

Decisions on the strategy to apply in an organisation, is usually determined at the corporate level. The expansion strategies being implemented in the country include conglomerate diversification, joint ventures, mergers and acquisition, while growth strategies have included market development, product strategies, innovations and concentration and deepening of specialisation. In this study we are exploring the Product strategies that is a form of growth strategy that a financial institution can embrace in order to expand its retail business Yabs(2007). Thus, a company should identify a strategy with actions that lead to the capture of emerging market opportunities and defend against external threats to its business prospects, Thompson and colleagues(2007). This would mean that the financial institutions should be flexible enough to adapt to the ever-changing turbulent markets if they are to remain relevant and competent in their market segments.

It would be futile to develop a strategy that may not be unique and meet the objectives of the firms and therefore it would be prudent to perform some tests of a winning strategy. These tests according to Thompson and colleagues(2007) include how well the strategy fits into the firm's situation, how much does the strategy help the firm to achieve a sustainable competitive advantage and finally whether the strategy results in a better performance of the firm. Campbell and colleagues(2002) further, observes that "change in society, market and economies has led to a shortening of product life cycles, and this has intensified the need for most organisations to innovate in terms of products they offer. New products can provide the mechanism whereby further growth can take place". Therefore, the retail banking businesses can have growth by introducing credit cards as new products and this could be as a result of customer demand and need or due to the industry dynamics.

Figure 3: General Electric Company (GEC) Growth Matrix

Market Attractiveness	High	A	B	C
	Medium	D	E	F
	Low	G	H	I
		Strong	Medium	Weak
		Competitive Strength		

Source: Adopted from Campbell, David, Stonehouse George and Houston Bill (2002) "Business Strategy, an Introduction" 2nd Edition, page 111

The figure 3, developed by Mckinsey and company in conjunction with General Electric Company in the United States Of America which is also referred to as the General Electric Company (GEC) growth matrix looks at the product market attractiveness and its competitive strength in determining what growth strategy an organisation may adopt. It indicates that there is a need for firms who want to introduce new products to identify the product's market attractiveness that is classified as either High or Medium or Low and its competitive strength of the firm which can also be classified as either strong or medium or weak before launching it.

The strategic businesses units are placed in the appropriate boxes and then the position is used to devise an appropriate strategy. The market criteria is set by the user and includes factors like market growth, profitability, strength of competition, exit / entry barriers and legal issues. The competitive strength would include factors like technological capability, brand image, distribution channels and financial strength. For products in cell A, the model indicates that the company would require to invest strongly as this is potentially in an attractive strategic position where distinctive competences can be harnessed to good opportunities. Those in B, the company could be aggressive and attempt to build strength in order to challenge or build selectively. In cell C, there are real

dilemmas in that there is the difficulty of competing well against stronger competitors and hence best strategic option would be to divest as the opportunity might be attractive to others. The model continues to advise that in D, would indicate that investment and maintenance of competitive ability, while cells E and F would indicate that risk minimisation and prudent choices of expansion would be necessary. Cell G and H, would indicate that management for earning while in I, it would require divestment or minimisation of investment. The model concludes by advising that extreme care should be taken in the judgements that would place products or strategic business units into any one category as the model do not consider synergies between different products and businesses.

Therefore, in the case of credit cards the market attractiveness can be said to be high due to its profitability being high, low legal regulations, good revenue generated and the market is also not fully exploited. The competitive strength of retail banking businesses in Kenya can be said to be medium as the technological capability, brand image, production and financial strength is average. Thus, a retail bank could be placed in cell B and hence should be aggressive and attempt to strengthen its presence in order to challenge its competitors or it could build selectively as per Campbell and colleagues(2002).

In conclusion, the goal of a growth strategy is to maintain a firm's relative competitive position in a rapidly expanding market and if possible to increase it, to grow with expanding market (Hill and Jone 2001).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

A Census survey approach was utilised for the retail banking business as the research targeted 18 issuing banks. Senior managers and heads of card centres were targeted as the respondents, they were deemed to have access to the required data. Easterby-Smith and colleagues (2000) report that knowledge of the different research tradition enables one to adopt the research design that caters for the constraints. These may be practical involving, say limited access to data, or may arise from a lack of prior knowledge of the subject.

3.2 Target Population

The target population of the research was the 18 retail banks that deal in the issuance of credit cards in Kenya. The list was obtained from the Kenya Debit and Credit Cards Association (KDCCA) minutes (Appendix B).

3.3 Data Collection

The research utilised both primary and secondary data, and a questionnaire (Appendix A), consisting of closed and open-ended questions that was used for collection of the relevant primary information. The questionnaire consisted of three sections, one on the respondent's and the issuing bank's profile, the other on first objective and the rest on the second objective of the research project.

The primary data was collected through "drop and pick later" technique to get the relevant responses. Further, telephone contacts were made for the follow up purposes to enhance response rate.

This size of respondents was considered adequate to represent the views of the issuing banks and is supported by Kothari(2003) who asserts that a researcher must prepare a list of respondents, plan how the respondents for the study would be selected and what their size should be so that they would be adequate to capture the views of all other elements.

Secondary data was compiled directly from the respective card issuer's tariffs and application forms that were readily available in the banking halls, minutes of KCDCA meetings, Central Bank of Kenya (CBK), newspapers & magazines, and from Card Associations reports.

3.4 Data Analysis

The researcher first sorted the data to ensure completeness, cleanliness and then entered the information into an excel worksheet where descriptive statistics method was used. Nachmias(1996) reports that data editing should occur both during and after coding phase and is done to check for errors, omissions and make sure that all questions have been responded to as required. Data cleaning involved proof reading of the information in order to identify and correct errors, wild codes and inconsistencies. Factual information about the past and present was employed to help understand the performance of retail banks, an approach also supported by (Ngau and Kimssa, 2004). Sekaran (1984) advises that it is important to prepare the data collected for analysis to ensure that the data obtained are reasonably good to allow the results to be meaningfully interpreted. He further advises that if more than 25% of the questions have been left blank, then it would be a good idea to throw out the specific questionnaire and not include it in the data set for analysis. Descriptive statistics was used to describe and summarize the data collected using frequency distribution, measures of central tendency, measures of variability and measures of association or relationship.

Frequency distribution using graphs and pie charts were used to show the distribution or count of individual scores for a specific variable. Grouped frequency was used to serve the purpose of combining or grouping scores into fewer categories for sensitive information. Thus, frequencies were given where relevant for each class interval. The measure of central tendency was used to compute summary statistics of variables studied, that is the relationship between number of credit cards issued and number of retail customers in a given retail bank.

The variances and standard deviation calculations were used to measure variability or dispersion which is used to describe the measures of variation in the data.

Measures of association was used to indicate the relationship between two or more variables like whether the number of credit cards is related to the numbers of retail customers in a given bank.

Linear Correlation Coefficient computations was applied to establish how one variable would be related to the other as Sekaran(1984) advised that correlation would be useful when one wanted to understand the nature, direction and significance of the bi-variant relationship which is the relationship between two variables. Correlation coefficient (r) was determined to identify the strength of the relationship between the number of credit cards and retail bank accounts.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter contains detailed research findings and an in depth discussion on the research findings. The research findings are presented using tables, figures and percentages. As discussed in chapter three, primary data was collected using closed and open-ended questionnaires administered using "drop and pick later" approach. The data collected was thoroughly checked to ensure accuracy, completeness, consistency and uniformity. These were then arranged to enable tabulation. The results were then presented in cross-analysis tables, graphs and charts to facilitate comparisons and interpretation where relevant.

The data collected was analysed and interpreted in line with the objectives of the study and the chapter has been divided into section 4.2 covering the respondent and bank profiles. Section 4.3 and 4.4 address the first and second objective of the study, which are, "the influence of credit cards on growth of retail banking business in Kenya" and "the factors that make retail banks in Kenya to introduce credit cards as a growth strategy" respectively.

4.1.1 Response Rate Analysis

Out of 18 expected respondents, a total of 14 responded, which represented a 78% response success rate. This size of respondents was considered adequate for analysis and to represent the views of the issuing banks and is supported by Kothari(2003) who asserts that a researcher must prepare a list of respondents, plan how the respondents for the study would be selected and what their size should be so that they would be adequate to capture the views of all other elements.

4.2 The Respondents and Issuing Bank's Profiles

This part of the research sought to investigate the profiles of the respondents and the issuing banks. This was considered, as it would assist in understanding the credibility of the data collected.

4.2.1 The Position of the Respondents

The objective for this part was to seek an indication of the positions held by the respondents to ensure that the information provided was reliable and credible. The result on the various positions held by respondent is as shown in table 1.

Table 1: The Positions of the Respondents

Position Held	Frequency	Percentage
Head of Card Centre	7	50%
Card Manager	3	21%
Section Head	3	21%
Supervisor	1	7%
Total	14	100%

Source: Research Data

The table shows that 43% (6) of the respondents were the heads of card centres, 29% (4) card managers, 21% (3) section heads and 7% (1) supervisors and therefore the collected information has a high level of accuracy.

4.2.2 Duration In the Position by the Respondents

The purpose of this question was to determine the length of time the respondent had spent in their roles by the time they were responding. The results on the length the position has been held by the various respondents is as shown by figure 4.

Figure 4, Duration In the Position by the Respondents



Source: Research Data

The figure 4, shows that 21% (3) had less than 2 years experience in their respective position. 64% (9) had between 2-5 years, 7% (1) between 5-10 years and 7% (1) had worked for more than 10 years.

4.2.3 Length of Time In the Credit Card Business

The question on this area sought to find out how long the issuing bank had been in the credit card business. The analyzed results are as indicated in table 2.

Table 2: Length of Time in the Credit Card Business

Length in Credit Card Business	Frequency	Percentage
Less than 1 year	1	7%
1 - 3 years	5	36%
3 - 5 years	1	7%
5 - 7 years	1	7%
7 - 9 years	0	0%
9 - 11 years	0	0%
Over 11 years	6	43%
Total	14	100%

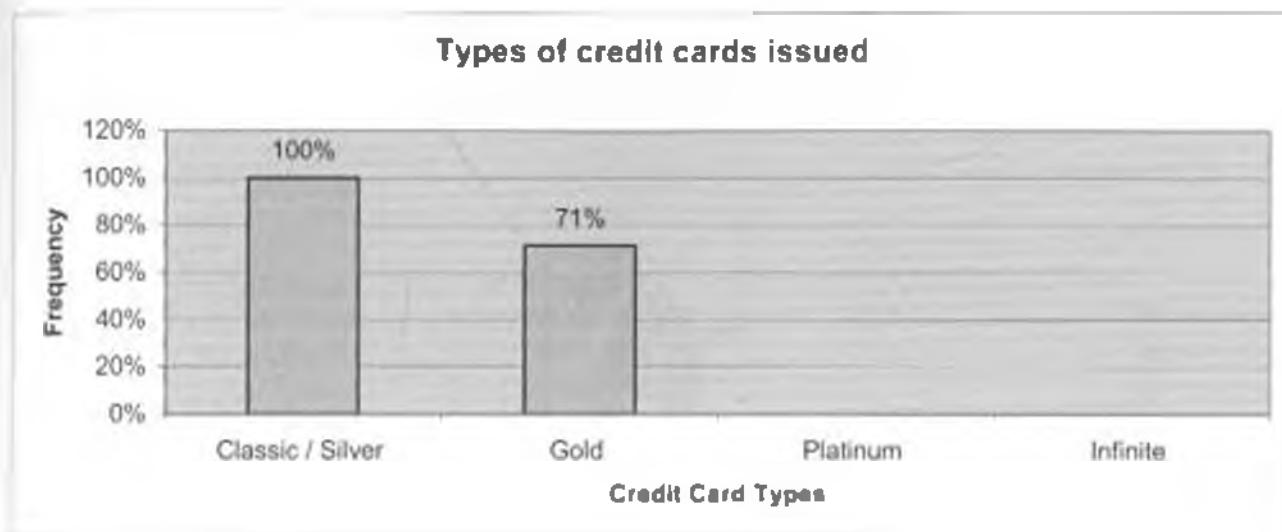
Source: Research Data

The respondents indicated that 7% (1) were in credit card business for less than one year, 36% (5) had 1-3 years, 7% (1) had 3-5 years and 43% (6) had over 11 years experience in card business. This information shows that most of the banks were in credit card business for over 11 years as represented in table 2 above.

4.2.4 Types of Credit Cards Issued

The objective of this part of the questionnaire was to determine the types of credit cards issued by retail banks in the Kenyan market. The results obtained were represented in the figure 5.

Figure 5, Types of Credit Cards Issued



Source: Research Data

Figure 5 depicts that all the respondents, 100% (14) had indicated that they offered classic/silver while only 71% (10) of the respondents indicated that they offered gold credit cards. Therefore, the credit cards issued by retail banking businesses in Kenya are mainly classic/silver and gold.

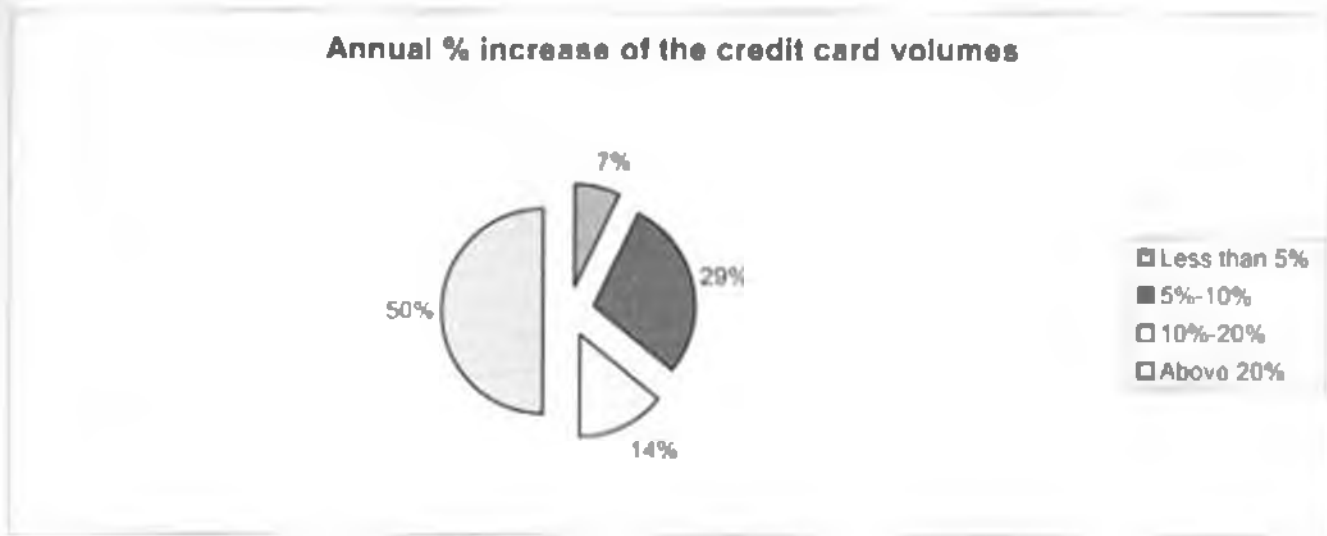
4.3. The Influence of Credit Cards on Retail Bank Business

This section sought to address the first objective of the research, "To determine the extent to which credit cards have influenced the growth of retail banking business in Kenya". The tool used to gather the data was mainly questionnaire and the data was then analysed using tables, charts, graphs, percentages and computation of the linear correlation coefficient (r) used for conclusion.

4.3.1 Annual % Increase of the Credit Card Volumes

The aim of this section was to find out rate of credit cards growth in order to understand whether the card industry had a noticeable trend. The results were as shown in figure 6.

Figure 6. Annual % Increase of the Credit Card Volumes



Source: Research Data

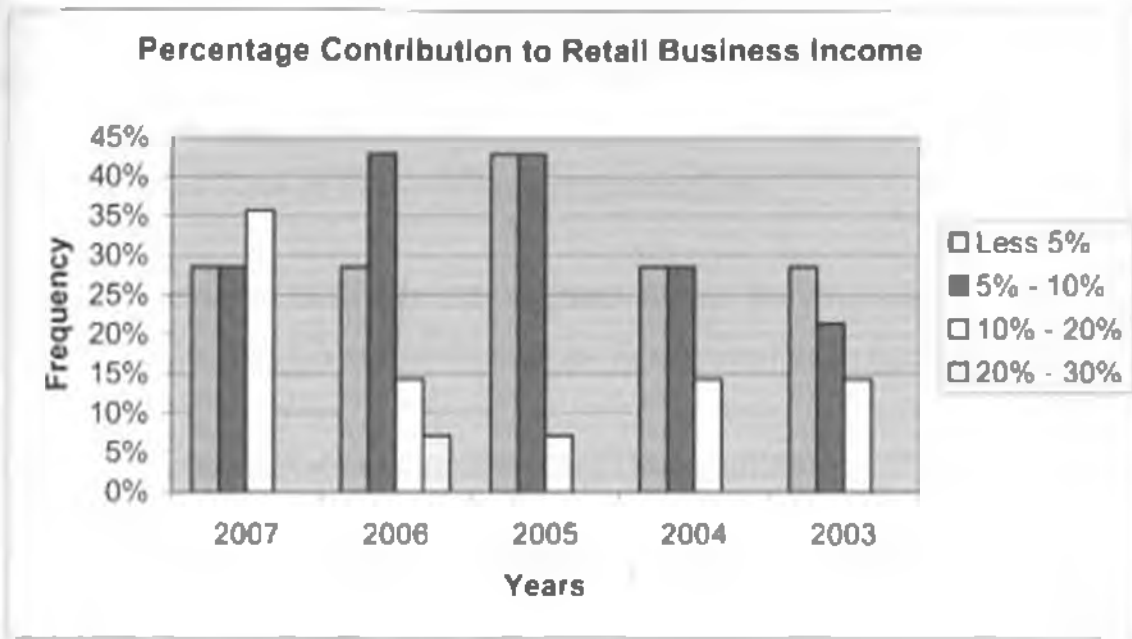
From figure 6 above, 7% (1) of the respondents indicated that the card volume increase was less than 5%. 29% (4) increased by between 5-10%, 14% (2) went up by between 10-20% while the rest 50% (7) was above 20% per annum. From this statistics, it shows that the majority of annual card increase of the issuing bank has been above 20% for the last 5 years.

4.3.2 Percentage Contribution to Retail Bank Business Income

The purpose of this section was to determine the percentage contribution of credit cards income to the retail bank business income.

According to the figure 7, the respondents indicated that the highest contribution of card income to the total retail income was between 5-10% with a mean score of 33%, less than 5% accounted for a mean score of 31%, 10-20% accounted for a mean score for 17% while the rest 1% of the mean score was between 20-30%. This was for the last five years as represented in figure 7 below.

Figure 7, Percentage Contribution to Retail Bank Business Income

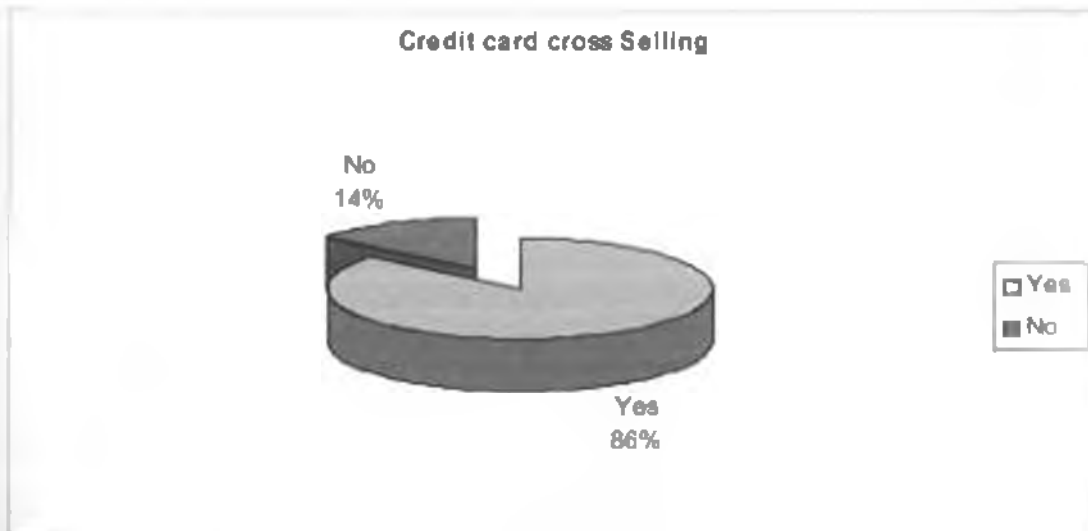


Source: Research Data

4.3.3 Cross-Selling Opportunities to Retail Banking from Credit Cards Base

This section aimed at determining whether the issuing banks ever used the credit card base to cross-sell the retail products and services. The analyzed data was as represented on figure 8 below

Figure 8, Cross-Selling Opportunities to Retail Banking from Credit Cards Base



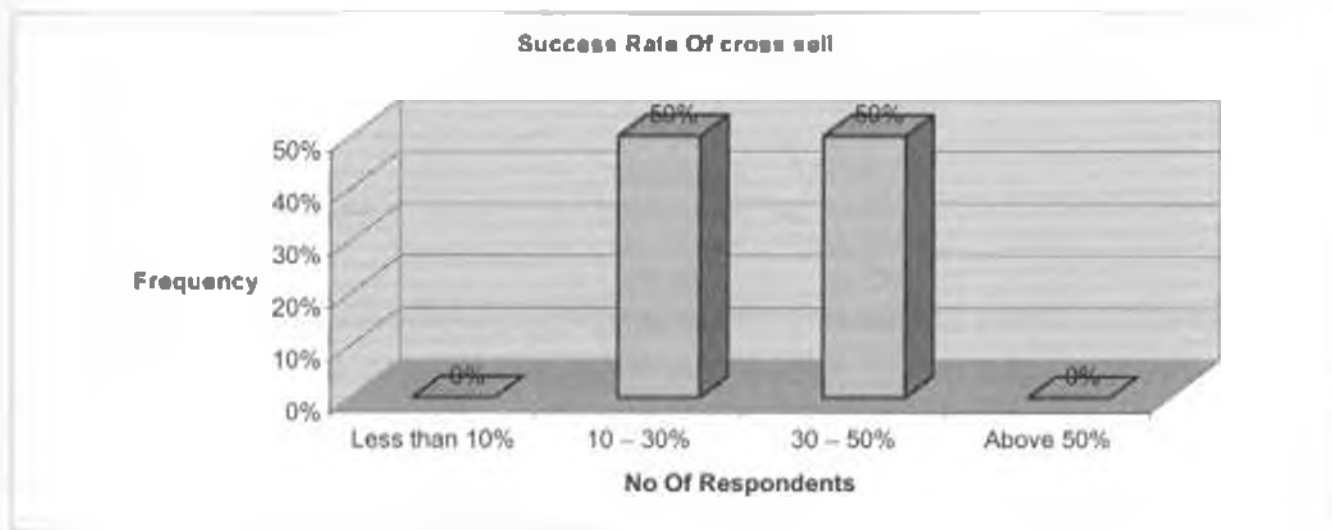
Source: Research Data

The majority of the respondents 86% (12) indicated that there had been cross-selling opportunities from the cardholder customer base to the retail banking customers, while the rest 14% (2) had not as depicted in figure 8.

4.3.4 Success Rate of Cross-Selling Opportunities

This part sought to determine the success rate of the cross-sell opportunities identified and the results from the respondents were as represented in figure 9 below.

Figure 9, Success Rate of Cross-Selling Opportunities



Source: Research Data

The success rate of cross-selling Opportunities for the 12 respondents was analyzed and the finding was 50% (6) for between 10-30% success rate and 30-50% respectively as depicted figure 9.

4.3.5 Minimum Monthly % Repayment

By nature of credit cards, issuing banks derive most of their income when the cardholders do not settle the monthly card account bills in full. This section sought to find out whether in practice the issuing banks follow this trend and the results from the respondents are shown in the table 3.

Table 3: Minimum Monthly % Repayment

Minimum Monthly % Repayment	Frequency	Percentage
5%	1	7%
10%	2	14%
20%	7	50%
100%	0	0%
Others	4	29%
Total	14	100%

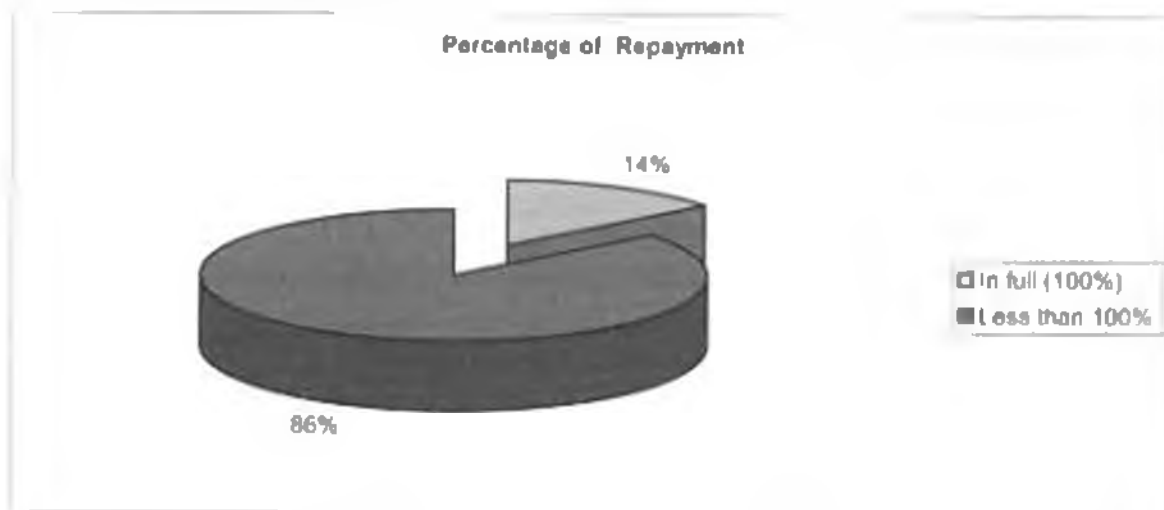
Source: Research Data

From the table 3, respondents indicated that, 7% (1) of the banks requires customers to pay at least 5% of the outstanding balance, 14% (2) requires payment of 10%, 50% (7) requires 20% while the rest 29% (4) required a minimum repayment to be higher than 20% but less than 100%.

4.3.6 Revolved Balances

This part was to determine what percentage of cardholders actually paid less than the full amount of the bill, since interest which is the main income stream in issuing business is levied when cardholders revolve some outstanding balance and the results of the respondents were as represented in figure 10.

Figure 10. Revolved Balances



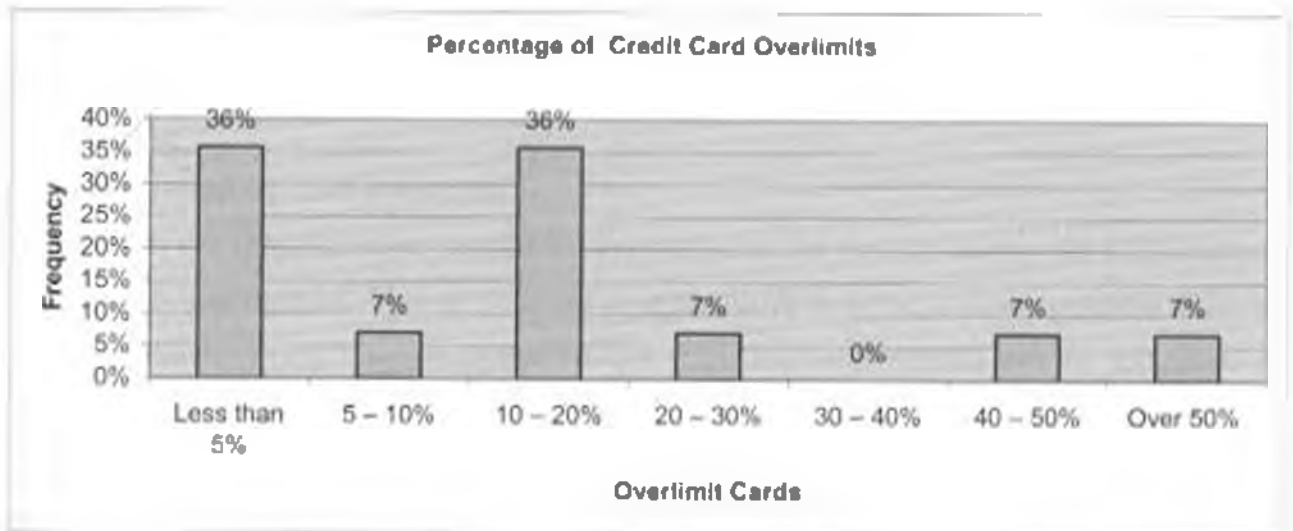
Source: Research Data

According to the respondents as shown in the figure 10, majority of the customers, 86% (12) pay less than 100% of the entire billed amount while the rest 14% (2) pay in full and the finding is in line with the issuing practice.

4.3.7 Percentage of Credit Card Over Limits

This part of the question sought to find out the percentage of cardholders who exceeded the marked limit. The information was vital in order to understand whether the issuing banks benefited from the penalties levied on cardholders when they exceed the marked card limit, which is also another income stream. The results were analyzed and represented in figure 11.

Figure 11, Percentage of Credit Card Over Limits



Source: Research Data

The figure 11 shows that 36% (5) of the respondents indicated that less than 5% and between 10-20% of the cardholder exceeded the marked limits respectively, while 7% (1) indicated that they exceeded between 5 - 10%, 20 - 30%, 40 - 50% and over 50% respectively.

4.3.8 Percentage of Active Cards

Maintaining inactive accounts in the issuing banks records has a cost element and therefore it was important to determine what percentages of dormant account existed in

the bank's record. The results from the respondents were analyzed and represented in table 4.

Table 4: Percentage of Active Cards

Percentage of Active Cards	Frequency	Percentage
Less than 5%	0	0%
5 – 10%	0	0%
10 – 20%	1	7%
20 – 30%	1	7%
30 – 40%	2	14%
Above 40%	10	71%
Total	14	100%

Source: Research Data

The table 4 indicates that over 40% of cardholders base are active for , accounting for 71% (10) of the respondents, 14% (2) of card accounts are active at between 30-40% active while the rest at 7% fall between 10-30% and 20-30% each respectively.

4.3.9 Activation of card accounts

This part of the questionnaire sought to find out what the issuing banks did with inactive accounts in their record. This is because it costs more to bring a new customer than to retain an existing one. The analyzed results from the respondents are as indicated in figure 12.

Figure 12. Activation of Card Accounts



Source: Research Data

The figure 12, shows that majority of the respondent at 86% (12) confirmed that they had programs to activate dormant card accounts while the rest, 14% (2) did not.

4.3.10 Due Date Payment

When cardholders fail to pay the minimum amounts due on the expected date, late payment fees is levied, which is another avenue for revenue to the issuing banks. This part sought to find out what percentages of the cardholders who did not pay on due dates and the results are indicated on table 5.

Table 5: Due Date Payment

Due Date Payment	Frequency	Percentage
Less than 5%	4	29%
5 – 10%	4	29%
10 – 20%	3	21%
20 – 30%	3	21%
30 – 40%	0	0%
Above 40%	0	0%
Total	14	100%

Source: Research Data

According to table 5, 29% (4) of the respondent indicated that less than 5% and between 5-10% of the cardholders did not pay on due dates respectively. In addition, the table indicates that 21% (3) of the respondents indicated that between 10-20% and 20 – 30% respectively of the cardholders did not pay on due dates.

4.3.11 Credit Card Influence on the Growth of Retail Bank Business

This part aimed at establishing whether the respondent felt that credit cards had a direct influence on the growth of retail bank business. The results were analyzed and represented in table 6.

Table 6: Credit Card Influence on the Growth of Retail Bank Business

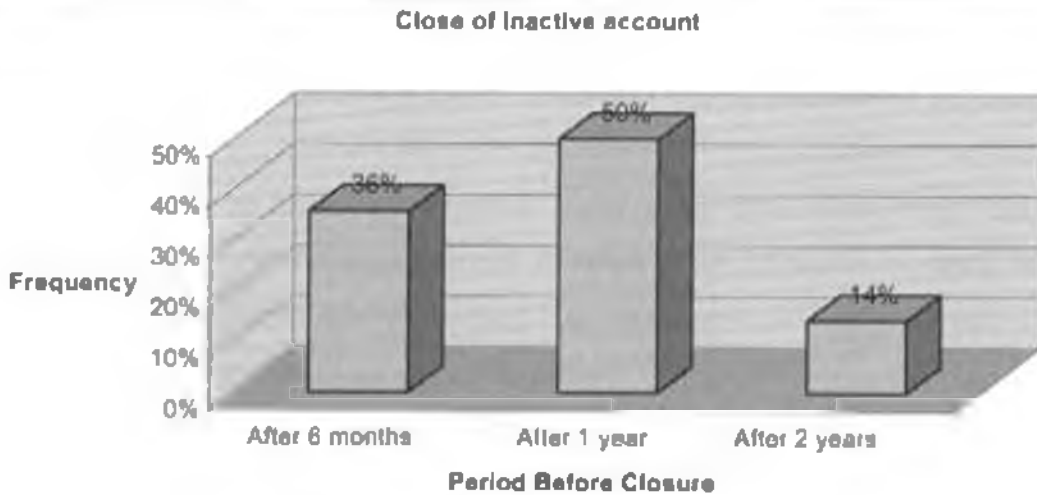
Credit Card Influence on the Growth	Frequency	Percentage
Yes	8	57%
No	6	43%
Total	14	100%

The table 6 shows that the results analyzed from the respondents indicates that 57% (8) of them agrees that credits cards have influence on the growth of retail business while the rest 43% (6) indicated that there is no influence.

4.3.12 Closure of Inactive Accounts

The purpose of this part was to determine how long the issuing banks took to close inactive card accounts, since there is a cost in maintaining such accounts. The results from the respondents are as indicated in figure 13.

Figure 13, Closure of Inactive Accounts



Source: Research Data

The figure 13, shows that 50% (7) of the respondents indicated that most of the issuing banks closed inactive accounts after 1 year. 36% (5) close after 6 months while 14% (2) after 2 years.

4.3.13 Action on Defaulters

In practice some cardholders fail to settle the amount owing at all and this section sought to find out how the issuing banks dealt with them. The result from the respondents was analyzed and represented in table 7.

Table 7: Action on Defaulters

Action on Defaulters	Frequency	Percentage
Follow Up	12	86%
Wnte off	3	21%
Credit Bureau Reference	6	43%
Total	21	

Source: Research Data

The table shows the actions taken to defaulters according to the respondents and include follow ups until the amount is paid and the method was used by 86% (12), 21% (3) of the outstanding balance are written-offs while the rest 43% (6) are referred to credit reference bureaus for blacklisting. The data collected was not mutually exclusive. This is represented in table 7.

4.3.14 Relationship Between the Number of Credit Cards and Retail Accounts

The question sought to establish whether there exist any relationship between the number of credit card and the total number of retail bank accounts for each respondent bank. This was determined by computing the "Pearson product moment correlation coefficient" for each respondent as shown in table 8.

The Formula for computation of the Linear Correlation Coefficient (r) also referred to as "Pearson product moment correlation coefficient" is represented as

$$r = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{n(\sum x^2) - (\sum x)^2} \sqrt{n(\sum y^2) - (\sum y)^2}}$$

Where r the linear correlation coefficient, n the number of years as indicated by the respondent, x is the number of credit accounts and y is the number of retail bank accounts for each respondent

Credit card	Retail Accounts			
x	y	$x \cdot y$	$x \cdot x$	$y \cdot y$
23,000	750,000	17,250,000,000	529,000,000	562,500,000,000
18,500	620,000	11,470,000,000	342,250,000	384,400,000,000
17,000	585,000	9,945,000,000	289,000,000	342,225,000,000
9,000	473,000	4,257,000,000	81,000,000	223,729,000,000
67,500	2,428,000	42,922,000,000	1,241,250,000	1,512,854,000,000

Source: Research Data

Table 8: Calculated Linear Correlation Coefficient (r) Between the Number of Credit Cards and Retail Accounts

Respondents	Correlation Coefficient(r)
A	0.975819017
B	0.997945987
C	1
D	0.790901723
E	0.998034402
F	0.893402091
G	0.887040876
H	0.991086987

The respondent's data was analysed, and computation of the Linear Correlation Coefficient (r) (which measures the strength and direction of a linear relationship between two variables) done. The table shows that strong relationships of 0.79 and above was obtained, which indicate that the two types of accounts are strongly related and hence they have an influence on each other. Only 8 respondents were in a position to fill this part of the questionnaire while others sighted confidentiality of such data and hence did not respond despite several follow-ups.

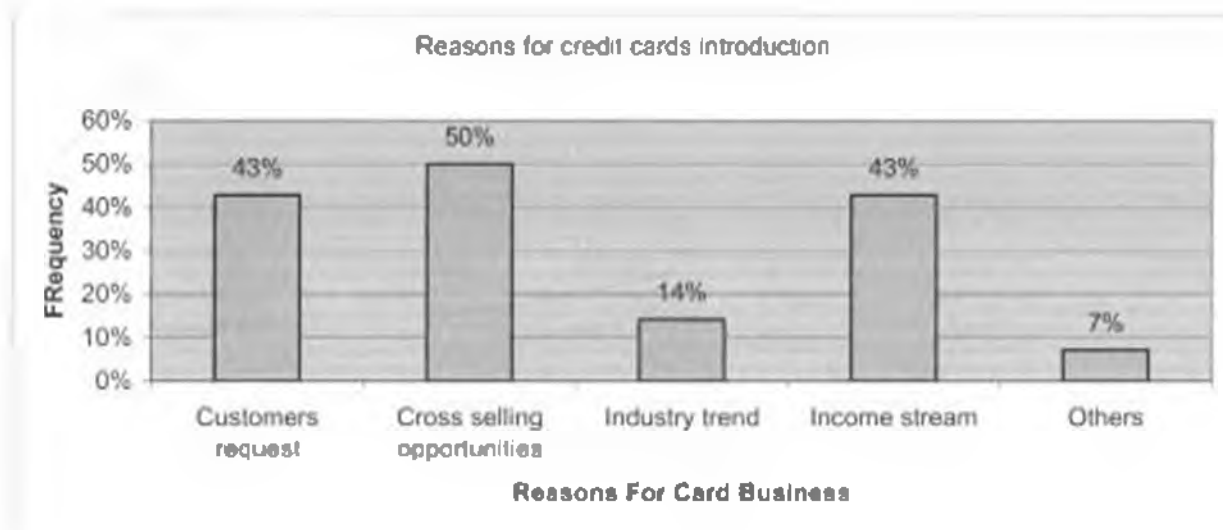
4.4 Factors for Introduction of Credit Cards

This section sought to address the second objective of the research, "To determine factors that have made the retail banks in Kenya to introduce credit cards as growth strategy". The tool used to gather the data was mainly questionnaire and the data was then analysed using tables, charts, graphs and percentages.

4.4.1 Reasons for Credit Cards Introduction

Different businesses introduce new products and services for various reasons. This part sought to find out why an retail bank would introduce issuance of credit cards. The results from the respondents are as represented in figure 14.

Figure 14, Reasons for Credit Cards Introduction



Source: Research Data

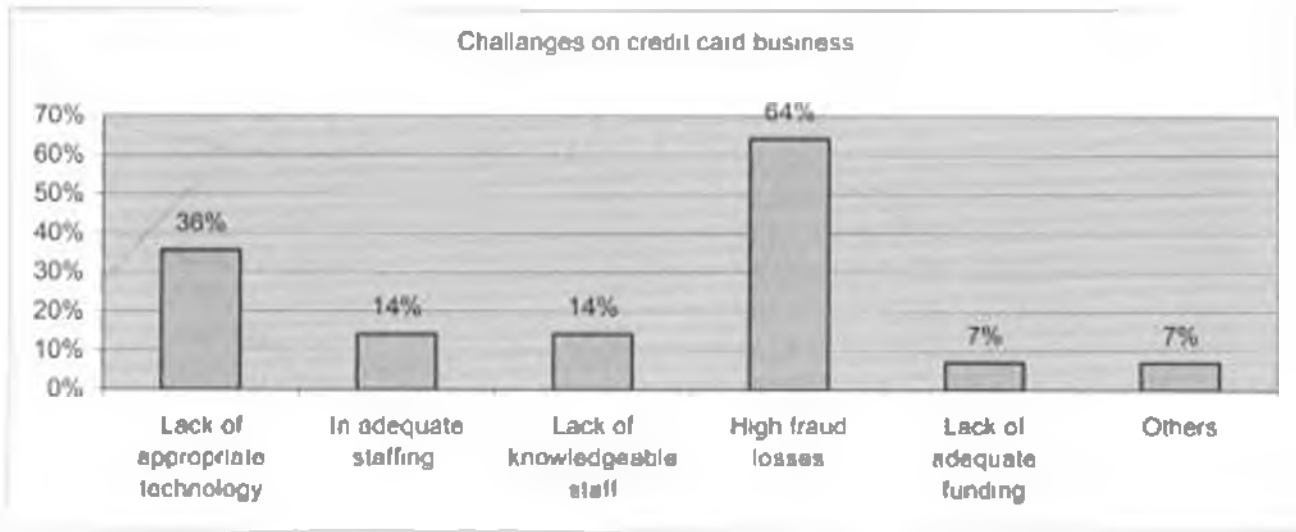
The figure 14 analyzed from the respondent's feedback shows that retail banks introduced credit cards due to various reasons. The major one was the "cross-sell" opportunities that the credit cards created for the retail banking business. The respondents indicated 43% (6) as due to the customer's request, 50% (7) as a channel for "cross sell" opportunities, 14% (2) to follow the industry trend, 43% (6) another income

stream. Only 7% (1) introduced the cards due to public image. Some respondents had more than one reason for the introduction of the credit cards and hence the data was not mutually exclusive.

4.4.2 Challenges on Growth of Credit Card Business

The objective of this part was to understand what challenges the issuing banks face while growing the credit cards business. The result from the respondents was analyzed and represented in the figure 15.

Figure 15, Challenges on Credit Card Business



Source: Research Data

According to the figure 15, the respondents indicated the major challenge facing the growth of credit card business as high fraud losses that accounted for 64% (9) of the respondent feedback. Lack of technology accounted for 36% (5), inadequate staffing 14% (2), lack of knowledgeable staff 7% (1), lack of adequate funding 7% (1) while others account for 7% (1), which was lack of credit card education to the market. Some respondents had more than one challenge facing credit cards and hence the data was not mutually exclusive.

4.4.3 Recruitment of Cardholders and Card Use Enhancement

The question was an open ended one that sought to find out the key issues that need to be resolved in order to enhance recruitment of credit cardholders and improve card usage. The analysis involved categorisation of the responses which were, improvement of customer education, enhance connectivity, introduce card legislation and reduce fraud levels

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Introduction

In this chapter the main findings of the research are discussed and conclusions drawn based on the research findings as covered in Chapter Four. The summary reviews the objective of the study and relates them to the findings.

A Credit Card is defined as a financial instrument that allows the cardholder to obtain funds at an interest from a retail bank at her / his own discretion up to some set limit, Edward and Robert (1997). The card plays an important role both to the consumers, the banking business and the Kenyan economy. It is a very important medium of exchange and a tool for transmission of funds from the cardholders to the business and also serves to improve customer service.

5.2 Summary

The research has indicated that most of the respondents had worked in their respective roles for a good period of time and most at senior levels of Heads of Card Centres. They further, indicated that their banks had been in credit card business for over a decade and all of them were dealing with Classic or Silver cards while majority of them also dealt in Gold credit cards. However, it was noted that none of the banks dealt in either Platinum or Infinite card that existed in the international card market.

The research finding has proved that indeed credit cards contributed substantially towards the total retail bank business revenue for the last 5 years and this showed that certainly credit cards have a strong influence on the growth of the retail banking business. This was further supported by the majority of the respondents who indicated that there were "cross-sell" opportunities from credit cardholder base to retail bank business with an encouraging success rate. In addition, the computation of the "linear Correlation coefficient (r) indicated that all the banks that responded had a strong relationship between the number of credit cards and retail bank accounts for the last 5 years. Further, the majority of the respondents agreed that indeed credit cards had an influence on the growth of the retail bank businesses. It was also worth to note that the annual credit card

volumes were increasing at an encouraging rate and that could be an indication of why many retail banks are venturing in credit card business.

It was noted that the local banks cardholders also behaved similarly to the nature of credit cards in which most of them did not settle their monthly card bills in full and hence interest which is the key value indicator was levied. Thus, majority of cardholders rolled over the balances to the benefit of the banks. In addition, majority of the cardholders exceeded the marked limits and also did not repay to the card accounts on time, hence penalty fees was applied which is another source of income in the card business. The analyzed data showed that majority of the issuing banks had excellent active credit card base and that they followed up the inactive cardholders with a view of activating them. For those cardholders who had challenges with paying their accounts, most of the issuing banks followed them up until they paid up and presented their names to the credit reference bureaux for earmarking so that they would not be issued with credit facilities by other banks. It was worth to note that the minority of the issuing banks rarely wrote-off any outstanding balances.

The factors that have made the retail banks in Kenya to introduce credit cards as a growth strategy was analysed and found to be diverse according to the respondents, however, the major reason was for the "cross-selling" opportunities that existed. The other major factor was due to the customer's request and thus it would be prudent for banks to introduce credit cards to compliment other retail products and services. The other major reason for credit card introduction was as another income stream for the issuing banks and as mentioned it contributed significant revenue to the banks. However, the high fraud loss was sighted as a major deterrent to the growth of the credit card business and hence banks need to critically review this area if the success of credit cards was to be maintained. There is need to improve appropriate card technology as this was highlighted as a challenge to the growth of card business in Kenya. Majority of respondents felt that there is no sufficient cardholder education, which was hindering the enhancement of cardholder recruitment and usage.

5.3 Limitation of the Study

The researcher experienced some notable challenges in the course of the study. These included reluctance by the respondents to provide specific and accurate figures as they were considered to be highly confidential and against the bank policies, while others did not respond at all 14% (4) despite several telephone follow-ups. In addition, time was another constraint as this was a cross sectional study and not a longitudinal study where there is enough research time.

5.4 Recommendations for Further Research

During the course of the study it was noted that further Research on ways to reduce the impact of high fraud loss would be relevant as it was highlighted as a key challenge and concern in the credit card industry growth. It would also add value to issuing banks if an investigation on the extent of card literacy towards the enhancement of recruitment and use of credit cards was done.

Study on how the credit card business can be improved in order to contribute more than 10% of the total retail bank business since it has a strong influence on its growth would be encouraged as well as a study on how to minimise credit cards from being inactive. Since it was noted that there was a strong relationship between the number of credit cards and the number of retail bank accounts, then a research on how to maximise returns on Cross-sell opportunities was be of value to the banks.

All the respondents indicated that they did not issue either Platinum or Infinite credit cards that are of greatest value, and therefore a research as to why the banks are unable to introduce the same would be of value.

5.5 Implications for Policy and Practice

The research has indicated that credit cards have a huge opportunity for cross selling the retail bank products and therefore the banks should be encouraged to explore ways of

making use of this avenue. The banks can use credit card base in order to grow their retail bank business or vice versa and promote both products and services simultaneously as they are highly related and moving to the same direction for synergy.

As a practice, the banks should encourage more research in the industry and be ready to provide the relevant information as long as it is for research purposes if they are to grow to the next level of card business. In addition, all the issuing banks should work together to assist in the drawing up of credit card legislation on how to deal with high fraud losses which was identified as the main challenge in credit card business.

References:

- Ansoff, Igor N. & MacDonnell Edward (1980). *Implanting Strategic Management*. Los Angeles: Prentice Hall
- Banking Act, Cap 488, pp 6, 10 – 12
- Campbell, David. Stonehouse, George & Houston Bill (Eds). (2002). *Business Strategy, an introduction*. Oxford: Butterworth Heinemann.
- Central Bank Of Kenya (2008) *Business Daily*, pg 15-18
- Central Bank of Kenya (2008, February). *Kenya Monthly Economic Review*, pg. 27-30
- Churchill Jnr, G.A. & Iacobucci, D.(2005). *Marketing Research, Methodological Foundations* New York: Thompson, South-Western Publishers.
- Cooper, Donald R. Schindler, Pamela S. (2003). *Business Research Methods*. Chicago: McGraw – Hill Irwin Publishers.
- Daily Nation. (2008, June 19). *Business News, Tourism Investors to get bank*, pg 27.
- Davidson, R. W., Sweeney, J.D. & Stampel W. R. (1984). *Retailing Management*. New York: John Willey & Sons.
- Frankfort-Namichmias,C and Namichmias,D. (1996). *Research Methods in Social Sciences*. London: St. Martin's Press, Inc.
- Gakumo, David N (2006). *Application of Porter's Generic Strategies by commercial banks in Kenya*. Unpublished MBA project. University of Nairobi.
- Harper, W.M. (Ed). (1991). *Framework Statistics*. New Delhi: Prentice Hall, Pearson Education.

Hill, Charles.W. L.& Jone, Gareth R. (2001). *Strategic Management Theory – An Integrated Approach*. New York: Houghton Mifflin Company.

Johnson Gerry, Scholes Kevan & Whittington Richard (2005). *Exploring Corporate Strategy*. Los Angeles: Prentice Hall.

Kerin, J.B. (Ed). (1999). *Methods of Business Research*. Reading, M A , Addison-Wesley.

Kinner, Paul R. and Gray, Collin D.(Ed). (2004). *SPSS 12 made simple*. New York: Psychology Press.

Kiluva, George W.(2006). *Ethics in Kenyan Banking Industry- a case study of NIC Bank Limited*. **Unpublished MBA project**, University of Nairobi.

Kothari C.R. (2003). *Research methodology: Methods and Techniques*. New Age International (P) Ltd Publishers.

Kotler, P (1999). *Marketing Management*. Millennium Edition. New Delhi: Prentice Hall.

MacDonald, S. Scott & Koch, Timothy W. (2008). *Management of Banking*. **New York**. International Student Edition

Mahinda, T.M. (1991). *Perceived Quality of Card Companies*. **Unpublished MBA project**, University of Nairobi

Mbijiwa, J M (2005) *Application of Multiple Discriminal Analysis Credit Scoring Model, for credit card consumers - The case of Barclaycard Kenya*. **Unpublished MBA project**, University of Nairobi.

Mukule, Masika (2006). *Retail Marketing Strategy Adopted by Commercial Banks In Kenya*. **Unpublished MBA project**, University of Nairobi

Muriu, S. Matiru (2007). *A Survey of Challenges facing the growth in use of plastic credit and debit cards in Kenya*. **Unpublished MBA project**, University of Nairobi

Ngau, Peter and Kumssa, Asfaw (2004). *Research Design, Data Collection and Analysis – A training manual* **United Nations Centre for Regional Development - Africa Office**

Otachi, B.M. (2005). *A survey of the extent of involvement in Corporate Social Responsibility by Kenyan Public Universities*. **Unpublished MBA project**, University of Nairobi.

Pearce II, John A. Robinson, R.B. Jnr. (2002). *Strategic Management - Strategy Formulation & Implementation*. New York: AITBS Publishers & Distributors.

Porter, M.E. (1980). *Competitive Strategy: Techniques for Analysing Industries and Competitors*. New York: The Free Press.

Sekaran, Uma (Ed). (1984). *Research Methods for Business*. New York: John Wiley and Sons Inc.

Stanger, B (1990). *A response to consumer Association's Paper What Bankers should provide for tomorrows Personal customers*. Retail Banking in the 1990's. London: Chartered Institute of Bankers

Strauss, Anselm & Corbin Juliet (1990). *Basics of Qualitative Research – Grounded theory, procedures & Techniques*. New York: Sage Publications

Strickland, A.J. (1996). *Strategic Management: Concepts and Cases* New York: Irwin Publishers.

Sunday Nation (2008, April 15). *Treasury Bills Trend*, pg 11-13.

Thompson, Arthur A., Strickland 111, A.J. & Gamble, John E. (2007). *Crafting & Executing Strategy. Texts & Readings*. New York: McGraw Hill-Irwin.

Thompson, Arthur A & Strickland 111, A.J. (1993). *Strategic Management, Concepts & Cases*. New York: McGraw Hill-Irwin.

Yabs, John (2007) *Strategic Management Practices in Kenya*. Nairobi: Lelax Global Limited.

Visa International Services Association (2000). *Strategic Business Planning and Marketing*.

Wasike, F.O. (2005). *Factors influencing responses to the threat posed by HIV/AIDS in Kenya – A survey of Motor Vehicle Industry*. **Unpublished MBA project**, University of Nairobi

APPENDIX A: QUESTIONNAIRE – The Issuing Bank

Dear Respondent,

I am an MBA student in the University of Nairobi, Business School and it is required that a student perform a research project in order to part fulfil the course requirements.

I would like to assure you that the questionnaire is for academic research purpose only in partial fulfilment of my Masters of Business Administration study and the information provided will be treated with utmost confidentiality

Kindly,

1. Give your answer briefly in the space provided for the open-ended questions.
2. Put a tick in the box provided against your appropriate response
3. Respond to the questions honestly and any other information in the space provided.

Thank you for taking the time to respond to the questions below. I appreciate your commitment and effort to ensure that the project is a success.

Regards

Michael N Kinuthia – MBA Student

SECTION A: GENERAL BACKGROUND INFORMATION

1. Name of the Bank:.....(optional)

2. Position held in the card centre

a) Head of Card Centre

b) Card Manager

c) Section Head

d) Supervisor

3. How long have you been in the above position

(a) Less than 2 years

(b) 2 – 5 years

(c) 5 - 10 years

(d) Over 10year

SECTION B: SPECIFIC INFORMATION

4. How long has the bank been in the credit card business?

(a) Less than 1 year

(b) 1 - 3 years

(c) 3 - 5 years

(d) 5 – 7 years

(e) 7 – 9 years

(f) 9 – 11 years

(g) Over 11 years

5. Which types of credit cards does your bank offer?

a) Classic / Silver

b) Gold

c) Platinum

d) Infinite

e) Others

Please specify.....

6. What has been your yearly % increase of the card volumes in the last 5 years

(a) Less than 5%

(b) 5%-10%

(c) 10%-20%

(d) Above 20%

7. What percentage of the total Retail banking business revenue did credit card revenue contribute annually in the last five year?

Contribution	2007	2006	2005	2004	2003
Less 5%					
5% - 10%					
10% - 20%					
20% - 30%					
30% - 40%					
40% - 50%					
50% - 60%					
60% - 70%					
70% - 80%					
80% - 90%					
90% - 100%					

8. Has your bank ever used the existing cardholder base details to sell its other products?

a) Yes

b) No

9. If the answer to question 8 above is yes, what was the percentage success rate?

a) Less than 10%

b) 10 - 30%

c) 30 - 50%

d) Above 50%

10. What is your minimum monthly % repayment?

a) 5%

b) 10%

c) 20%

d) 100%

e) others,

11. Out of your total cardholder base, what % repay their monthly card bills:

- a) In full (100%)
- b) Less than 100%

12. Out of your cardholder base, what % of the cardholders exceeds the marked Card credit limits?

- a) Less than 5%
- b) 5 – 10%
- c) 10 – 20%
- d) 20 – 30%
- e) 30 – 40%
- f) 40 – 50%
- g) Over 50%
- h) Other, please specify what %

13. Out of your cardholder base, what % are active that is use their cards regularly?

- a) Less than 5%
- b) 5 – 10%
- c) 10 – 20%
- d) 20 – 30%
- e) 30 – 40%
- f) Above 40%

14. What % of your cardholder base do not pay on the due date?

- a) Less than 5%
- b) 5 – 10%
- c) 10 – 20%
- d) 20 – 30%
- e) 30 – 40%
- f) Above 40%

15. Do the credit card have any influence on the growth of your retail banking business?

- a) Yes
- b) No

16. Do you have a program to activate the inactive card accounts?

- a) Yes
- b) No

17. After how long do you take to close an inactive card account?

- a) After 6 months
- b) After 1 year
- c) After 2 years

18. What do you do with those cardholders who fail to settle the outstanding card debt?

- a) Follow them until they settle
- b) Write off the amount
- c) Report them to the Credit Reference Bureau

19. Kindly fill the table below with accurate figures

Year	Credit Cards Base	Number of Retail Bank Accounts
2007		
2006		
2005		
2004		
2003		

20. The card business was introduced in the bank due to the following reasons:

- (a) Customers request
- (b) Business strategy to cross-sell other retail products
- (c) Banking industry trend
- (d) As income stream for the retail banking business
- (e) Others please elaborate.....

21. From your own observation, what are the key challenges facing the card business in your bank?

- (a) Lack of appropriate technology
- (b) Inadequate staffing levels
- (c) Lack of knowledgeable and experienced staff
- (d) High fraud losses
- (e) Lack of adequate funding from the business
- (f) Others, Please explain.....

22. From your own experience, what one key issue needs to be tackled in the card industry in order to enhance recruitment of credit cardholders

.....

APPENDIX B: LIST OF KENYAN BANKS ISSUING CREDIT CARDS & ALSO MEMBERS FOR KENYA CREDIT & DEBIT CARD ASSOCIATION (KCDCA)

1. BarclayCard - Barclays Bank of Kenya (Visa Cards)
2. CBA Card – Commercial Bank of Africa (Visa Cards)
3. CFC Card – CFC Bank (MasterCards)
4. Coop Card – Cooperative Bank of Kenya (Visa Cards)
5. DTB Card – Diamond Trust Bank (Visa Cards)
6. Equity Card – Equity Bank (Visa & Proprietary Cards)
7. Fidelity Card – Fidelity Bank (Visa Cards)
8. I & M Card – Investments & Mortgages Bank (Visa Cards)
9. Imperial Card – Imperial Bank (Visa Cards)
10. KCB Card – Kenya Commercial Bank (Visa & Proprietary cards)
11. National Card – National Bank of Kenya (Visa Cards)
12. NIC Card – National Industrial Credit Bank (Visa cards)
13. Paramount Card – Paramount Bank (Visa Cards)
14. Postbank Card – Post Bank (Visa Cards)
15. Prime Card – Prime Bank (Visa Cards)
16. Senator – Southern Credit Bank (Visa Cards)
17. Stanbic Card – Stanbic Bank (Visa Cards)
18. Stanchart Card – Standard Chartered Bank (Visa Cards)

Source: KCDCA Meeting minutes of 30 April 2008

APPENDIX C: LIST OF BANKS IN KENYA

1. African Banking Corporation Limited
2. Akiba Bank Limited
3. Bank of Baroda Kenya Limited
4. Bank of India Limited
5. Barclays Bank of Kenya Limited
6. Bank of Africa Limited
7. CFC Bank limited
8. Chase Bank Kenya limited
9. Citibank N.A.
10. City Finance Bank Limited
11. Commercial Bank of Africa Kenya Limited
12. Consolidated Bank of Kenya Limited
13. Co-operative Bank of Kenya Limited
14. Credit Bank Limited
15. Development Bank of Kenya Limited
16. Diamond Trust Bank of Kenya Limited
17. Dubai Bank Limited
18. East African Building Society Bank Limited
19. Equatorial Bank Limited
20. Equity Bank Limited
21. Family Bank Limited
22. Fina Bank Limited
23. First Community Bank Limited
24. Giro Bank Limited
25. Gulf Bank Limited
26. Guardian Bank Limited
27. Habib Africa Bank Limited
28. Habib A.G Zunch Bank limited
29. Imperial Bank of Kenya limited
30. Industrial Development Bank Limited
31. Investments & Mortgages Bank Limited
32. Kenya Commercial Bank Limited
33. K-Rep Bank Limited
34. Middle East Bank Limited
35. National Bank Of Kenya Limited
36. National Industrial Credit Bank Limited
37. Oriental Commercial Bank Limited
38. Paramount Bank Limited
39. Postbank Limited
40. Prime Bank Limited
41. Southern Credit Banking Corporation
42. Stanbic Bank of Kenya
43. Standard Chartered Bank Limited
44. Trans-National Bank Limited
45. Victoria Commercial Bank

Source: Central Bank of Kenya (2008)

APPENDIX D. Schedule of fees, interest and other charges levied by issuers in Kenya

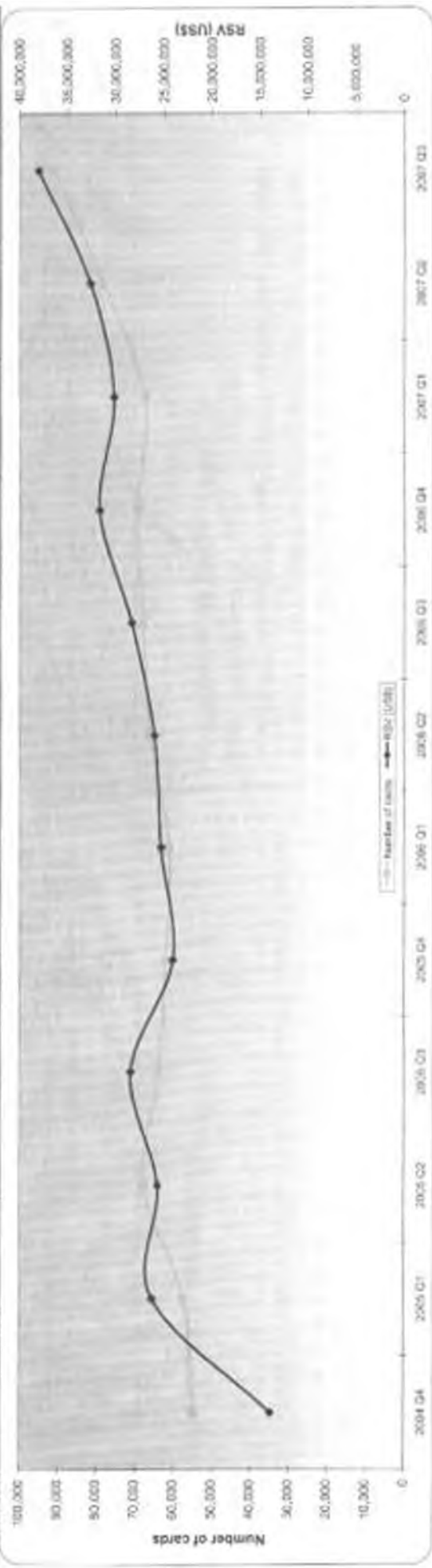
Bank	Types of Cards	Usage	Joining Fees Ks	A Subs.	Interest %	LPP Fee %	Int Free	Ex. limit charge -% or Ks
Kenya Bank	Classic	Local	NIL	3000	3.50%	10%	50	5%Min Ks 500
	Gold	&	6000	6000	3.50%	10%	50	5%Min Ks 500
	Company	International	3000	4000	3.50%	10%	50	5%Min Ks 500
Commercial Bank of Africa	Classic	Local	NIL	3000	3.50%	6%	50	Ks 2500
	Gold	International	NIL	5000	3.50%	6%	50	Ks 2500
	Company		3000	5000	3.50%	6%	50	Ks 2500
Kenya Commercial Bank	Classic	Local	NIL	4000	3.50%	5%	45	Ks 500
	Gold	&	NIL	6000	3.50%	5%	45	Ks 500
	Company	International	3000	4000	3.50%	5%	45	Ks 500
Bank	Classic	Local	Nil	3500	3.50%	5%	50	Ks 1000
	Gold	&	Nil	6000	3.50%	5%	50	Ks 1000
	Company	International	Nil	6000	3.50%	5%	50	Ks 1000
Bank	Classic	Local	1500	2000	3%	7%	45	Not allowed
	Gold	International	2000	3000	3%	7%	45	Not allowed
Bank	Classic	Both Local	Nil	3000	3%	5%	50	3%
	Gold	&	Nil	4000	3%	5%	50	3%
	Company	International	Nil	4000	3%	5%	50	3%
Industrial Bank	Classic	Local &	Nil	2000	2.50%	5%	45	5%Min Ks 100
	Company	International	3000	4000	2.50%	5%	45	5%Min Ks 100
Bank	Classic	Both Local	3000	2500	3%	3%	50	4%
	Gold	&	Nil	5000	3%	3%	50	4%
	Company	International	Nil	4000	3%	3%	50	4%
Merchant & Pagos	Classic	Both Local	2000	3000	3.50%	6%	45	Ks 1500
	Gold	&	3000	4000	3.50%	6%	45	Ks 1500
	Company	International	3000	4000	3.50%	6%	45	Ks 1500
Bank Trust	Classic	Local	Nil	2500	3%	5%	45	5%Min Ks 1500
	Gold	International	Nil	Free	3%	5%	45	5%Min Ks 1500
Bank	Classic	Both Local &	Nil	2500	3.50%	Free		4%
	Gold	International	Nil	6000	3.50%	Free		4%
Bank	Classic	Both Local	Nil	3000	5%	10%	50	Free
	Gold	&	Nil	5000	5%	10%	50	Free
Credit Factor)	Classic	Visa or	3500	3500	5% Visa &	7%	50	4%
	Gold	MasterCard	3500	3500	3.5% M	7%	50	4%

Source: Data compiled from the respective Bank's tariff and application forms in the banking halls (2008)

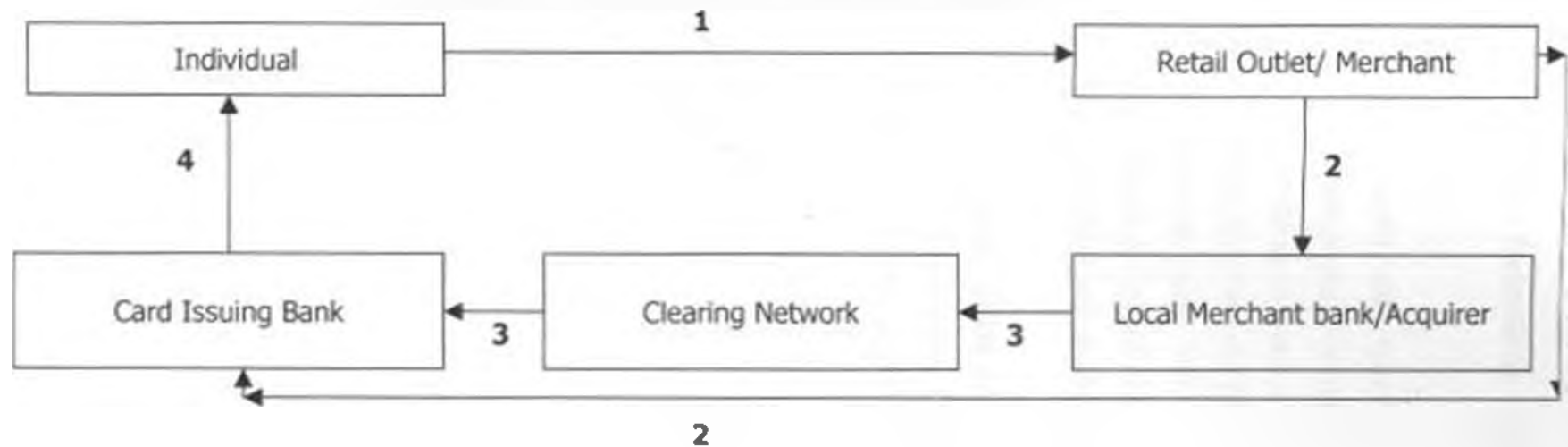
Source of information: Operating Cardholder Data. All values in US\$.

Table 2: Issuing Credit cards historical chart

	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3
Number of cards	54,855	57,287	67,718	63,773	62,025	61,169	66,105	67,970	69,246	67,490	78,116	90,993
RSV (US\$)	13,869,112	26,183,460	25,632,872	28,410,739	24,062,078	25,273,468	26,976,356	28,321,158	31,665,491	30,218,624	32,616,875	38,042,194
CSV (US\$)	18,152,555	33,196,597	31,927,122	35,011,216	30,387,093	30,306,565	30,721,357	33,891,041	39,346,972	36,057,035	39,394,230	48,196,051
RSV to CSV %	77%	79%	80%	81%	79%	83%	85%	84%	80%	84%	83%	79%
RSV per card	253	457	379	445	388	413	393	417	457	448	418	418



APPENDIX F: Credit Card Transactions Process



Steps for card processing

1. Individual uses a credit card to purchase merchandise from a retail outlet
2. Retail outlet deposits the sales voucher or electronically transmits the purchase data at its local acquiring bank
3. Local merchant or acquiring bank forwards the transaction information to a clearing network, which routes the data to the bank that issued the credit card to the Individual
4. The card-issuing bank sends the individual an itemised bill for the purchases

Fees Levied at each stage

1. No fees is levied
2. The merchant or acquiring bank discounts the sales receipt. A merchant discount rate like 5% indicates the bank would transmit to the retailer 95% of the Card proceeds
3. The card-issuing bank charges the merchant or Acquirer an Interchange fee equal to 1 to 1.5% of the transaction amount for each item handled
4. The card-issuing bank charges the customer interest and an annual fee for the privilege of using the card. Also, it can charge the cardholder penalty fees like excess limit or unpaid item
A card-issuing bank may also serve as a merchant bank

Appendix G - Definitions / Explanations of different terminologies as used in card business

Debit cards, also referred to as Visa Electron or Maestro are cards in which the individuals access and use their funds. They can be used either to withdraw cash from ATMs or for purchases at different establishment through a Point Of Sale terminal and the funds are immediately debited. Banks prefer that customers use debit cards over cheques because they have lower processing costs compared with cheques MacDonald & Koch(2006). In addition, acquiring banks earn merchant discounts when the cards are used at establishments.

Smart Cards, these are extensions of either Debit or Credit cards and contain a computer memory chip that stores and manipulates information. They can be used at establishments to pay for goods and services

Proprietary cards, also referred to as private label cards are cards issued by either banks or retail business outlets for loyalty program purposes only. They can be used either at the ATMs for cash withdrawal or in the establishment where they have been issued from

Commercial Banks are defined as a firm that both accepts demand deposits (non-interest bearing checking accounts) and make business loans MacDonald & Koch (2006). However, this has changed drastically and they are now involved in savings and loans, mortgage lending, stocks and insurance

Retail Banks, these are financial institutions that emphasise lending to individuals, while commercial banks emphasise business lending MacDonald & Koch(2006)

Issuers, these are the financial institutions licensed by the card associations like Visa, MasterCard, Amex or Diners to provide customers with their branded cards. Their operations are usually regulated by the Associations international rules and policies of card usage. They earn a fee in form of Interchange for any transaction done by their customers with cards, this is usually a percentage of the amount transacted

Acquiring, this is the process in which a financial institution is licensed by the international card associations to recruit and process card transactions from businesses where cards are used as a form of payment

Merchants, these are business establishments that have entered into an agreement with an acquiring bank to accept card transactions as a form of payment. In this case the merchants / establishments pay the acquiring banks a service charge also referred to as merchant Discount Rate which is usually a percentage of amount processed. They have to follow the Rules, procedures and policies laid by the card associations

Acquirers, these are financial institutions that process transactions from the merchants and ensure that the cardholders are debited and the merchants are paid their card proceeds accordingly

Chargeback, this is a disputed transaction by cardholder that is debited back to the merchant and in most cases turns out to have been fraudulent or not authorised by the cardholder

Interchange, this is an amount usually earned by issuers from the acquirer when their cards are used at merchant outlets and is a per cent age of the transaction amount.