New Adaptation Linkages: Perception, Preferences and Obstruction to Banking Technology in Kenya

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ABSTRACT

Web technology is transforming all businesses into information-based activities and the rate of technological change is so high that emerging electronic commerce is already making fundamental changes in the economic landscape, affecting every aspect of how business is and will be conducted. There is substantial evidence to suggest that e-banking is being embraced by financial institutions in developed and emerging markets to the extent that explosive growth is almost at hand. This paper explores the adoption linkages in customer perceptions, preferences, and barriers to the adoption of banking technology in Kenya. The data for this study has been collected from bank customers using well structured and pre-tested questionnaires. The result indicated that necessity perception is positive and ATM, Mobile and Internet banking were mostly preferred compared to others whilst negative linkage was observed between barriers and adoption as Security, bank lag in adoption and unawareness were identified as the most reported barriers to adoption. It means that positive link enable adoption while negative link distract adoption. The findings implicate banks and other financial institutions to increase the campaigns which may develop positive customer perceptions and preferences at the same time look for alternatives of reducing the possible barriers posing the banking technology.

Keywords: ATM, Banking, Central Bank of Kenya, Cyber Banking, E-Banking, E-Finance, Internet Banking, Kenyan Banking, Mobile Banking, M-Pesa, Preferences, Technology

INTRODUCTION

Financial service industry as a whole is undergoing a period of unprecedented change (Sivanand & Geeta, 2004). These changes include increased competition among banks and other financial institutes, evolution of customer preferences, and technological advances that create inexpensive electronic distribution delivery channels like Automated Teller Machines (ATM) and Internet Banking (Garau, 2002; Lustsik, 2003; Katuri & Lam, 2003; Boanteng, 2006; Al-Hajri, 2008; Pikkarainen et al., 2006) and others like mobile banking. Mia (2007) asserted that the advent of e-Business accompanied with technological innovations and globalization is constantly propelling the businesses organization to redefine their business horizons in terms of value chain reengineering and restructuring business mod-
els. In the essence, the banking sector is now reengineering to adopt the changes and to be in the race of globalization. Many banks have put themselves in the World Wide Web to take advantage of the Internet’s power and reach, to cope with the accelerating pace of change of business environment.

The famous quote by Bill Gates that “banking is vital to a healthy economy, but banks themselves are not” is practically becoming true. Rotchanakitumnuai and Speece (2004) argue that many companies in the financial service sector have been quick to implement Internet capabilities, and electronic service is becoming a viable option for interaction between financial service providers and their customers. Many banks have implemented Internet banking to offer their customers a variety of online services with more convenience for accessing information and making transactions. From the banks’ viewpoint, implementation of technology in banking industry will lead to cost reductions, improve customer service, and create long-term profit. Businesses investment in web technology is driven by expectations that banking technology should provide better opportunities to establish a distinctive strategic position compared to the previous generation of information technology (Evans & Wurster, 1997; Singhal & Padmanabhan, 2008; Pikkarainan et al., 2006).

Necessity and Objectives of the Study

Many developing countries especially in Asia and Africa are on their early stages of technology adoption in various sectors. Despite the bottlenecks which affect these countries (Yibin, 2003; Yiu, 2007), some have significantly tried to put in place technologies which may enable financial system development. Also, in these countries there is scarcity of literature on this subject. This study is necessary since it will increase literature; reveal the true customer attitudes, preferences and the impediments they face in adopting banking technology while using the Kenyan sample. Many of the customers have different opinions regarding new technology adoption, hence it felt imperative examine the attitudes and preferences given to various banking technologies. From review of literature it has been revealed that there exist some impediments to adaptation of banking technologies. The objectives include:

- To study perception of bank customers towards banking technology.
- To study the preferences of banking technologies in Kenya.
- To study the barriers of banking technology.

EMERGING SCENARIO IN KENYA

Current Banking Structure

The banking sector is composed of the Central Bank of Kenya, as the regulatory authority and regulates Commercial Banks, non-bank financial institutions and forex bureaus. As at 31st December 2008, the banking sector comprised 45 institutions, 43 of which were commercial banks and 2 mortgage finance companies, and 120 Foreign Exchange bureaus (CBK, 2008). Commercial banks and mortgage finance companies are licensed and regulated under the Banking Act, Cap 488 and Prudential Regulations. Foreign exchange bureaus are licensed and regulated under the Central Bank of Kenya Act, Cap 491 and foreign exchange bureaus guidelines issued there under. Out of the 45 institutions, 33 were locally owned and 12 were foreign owned (Figure 1).

The locally owned financial institutions comprised 3 banks with significant government shareholding, 28 privately owned commercial banks and 2 mortgage finance companies (MFCs). The foreign owned banks comprised 8 locally incorporated foreign banks and 4 branches of foreign incorporated banks. Of the 42 private banking institutions in the sector, 71% are locally owned and the remaining 29% are foreign owned. All Foreign Exchange Bu-