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THE USE OF FINANCIAL LITERACY DELIVERY CHANNELS TO ENHANCE USAGE OF MONETARY PRODUCTS AND SERVICES FOR FINANCIAL INCLUSION: CASE OF COMMERCIAL BANKS IN KENYA

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ABSTRACT

The focus on financial inclusion in developing nations such as Kenya has become more pressing in recent years. Its part in the economic success of these countries is without question. Financial inclusion entails the availability, accessibility, and usage of financial services. Data from the FinAccess report on Kenya revealed a high level of availability and accessibility but usage of financial services remains low despite its importance for inclusion. This lack of utilization has been linked to low levels of financial literacy. In Kenya, the number of people without the knowledge to use financial services is still increasing. This paper seeks to examine the financial literacy delivery channels utilized by full-service banks or commercial banks to promote financial inclusion in Kenya. The theoretical basis of this paper includes the resource-based theory, diffusion of innovation, motivation-need theory, prospect theory, and institutional theory. A descriptive approach was taken with positivism being the research philosophy. Primary data was gathered and a semi-structured questionnaire was distributed to 384 respondents from 11 counties, chosen from a target population of 10,717

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management employees at commercial banks. Measures of dispersion, multivariate regression, and bivariate correlation were used to analyze the data. The results showed that the use of financial education partnership and financial advisory services in the promotion of financial inclusion was low.

Keywords: Financial Literacy Delivery Channels, Banks, Financial Inclusion, Kenya

BACKGROUND OF THE STUDY

Financial inclusion is a cornerstone of every nation. Banks around the world, from advanced economies to emerging markets, have worked to make economic services more accessible and available, yet usage remains a challenge, especially in the developing world (International Monetary Fund [IMF, 2020]; KNBS, CBK, and FSD, 2019). The challenge comes from the financial consumers and involved the usage of economic services provided by banks and informed financial decision-making. This has exposed banks to credit risk and liquidity risk from credit access that end in non-performing loans (Lindahl, & Mokvist, 2020; Wamalwa et al. 2019). This is due to financial consumers not using the services offered by banks, which can lead to credit and liquidity risks resulting in non-performing loans (Lindahl, & Mokvist, 2020; Wamalwa et al. 2019). To address this, financial institutions have launched initiatives to increase financial literacy. In the United States, the banking sector has partnered with the government, private companies, and not-for-profit organizations to promote financial literacy education (Yilmaz, 2020). In Canada, the banking industry has made significant contributions to improving financial literacy for customers with more than 8 million US dollars invested in programs since 2010 (CBA, 2015). Meanwhile, South Africa offers a model for the rest of the continent, with its banking sector funding financial literacy programs through the 2012 Financial Sector Code. These programs include “in school to teach children to save initiatives”, as well as financial literacy competitions, digital platforms, workshops, and special programs to educate the financial consumer population (Garg & Singh, 2018; Sibanda & Sibanda, 2016).

STATEMENT OF THE PROBLEM

To benefit from financial inclusion on a global scale, having a bank account is essential as it is the starting point. In order for financial inclusion to have a greater impact on the economy, the three global indicators of access, availability, and usage must rise in tandem. Kenya has seen an increase in access and availability, however, usage of financial products and services remains low (Demirgüç-Kunt et al. 2018; Nizam et al. 2020; CBK, 2019; Finaccess, 2021). Approximately 60% of households and individuals are utilising digital or internet banking services, pensions, digital loans, traditional banking services, and insurance products (Finaccess, 2021). Usage of mobile bank accounts stands at 34.4%, digital app loans at 6.2%, insurance products at 23.8%, and pension at 12.5%, with a trend of decreasing usage of insurance, pension products, and digital loans. The adoption of banking technology has resulted in a decrease in the usage of traditional banking services such as checking and saving accounts, but this has not translated to an increase in other forms of banking. Furthermore, usage of traditional banking and mobile money services coincides with non-performing loans of 19.6%, 14.6%, and 13.1% in 2019, 2020 and 2021.The low usage also affects access to credit and investment (World Bank, 2021; Mwangi, 2019; KBA, 2019; Finaccess, 2021; Van Hove & Dubus, 2019). Unemployment stands at 5.7% and banks charged between 155-1,322 shillings for opening an account, and despite the low cost of account ownership, usage of financial services remains small. Of the population of 47.5 million 57% is in the productive age. From this group (18-64 years), 25million is employed in the formal and informal sectors. OF the 25 million 14.65 million have accounts with

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commercial banks while 10.35 million are still financially excluded. Evidence is scarce on the number of accounts owned by each individual employed since there is no regulation on the number of accounts to own in any branch of a commercial bank (Financial Sector Deepening [FSD], 2019; ILO, 2022; KNBS, 2019; Plecher, 2019; World Bank, 2021; Finaccess, 2021). The Central Bank of Kenya in 2019 mandated financial institutions to actively engage their customers in financial literacy to enhance their financial knowledge (CBK regulation, 2019). Regardless of CBK involvement, usage remains an issue and the number of individuals lacking the ability to use financial skills for financial services usage continues to rise. The percentage of the inhabitants without financial literacy knowledge increased from 62% to 69.3% from 2014 to 2019. An average of 41% of the population has limited financial knowledge of the borrowing cost of the various types of loans and this has increased indebtedness (Klapper et al. 2015; Wamalwa et al. 2019; Finaccess, 2019). Failure to address the usage problem is increasing poverty. The number of poorest counties in Kenya has increased to 15 from 10 in 2019/2020 (Dumolga, 2022; Ngugi, 2021; KM, 2022). Previous studies on financial literacy in Kenya and elsewhere like Wafula, (2017), Mwathi et al. (2017), Grohmann et al. (2018), and Bire & Sauw (2019), studied financial literacy on financial inclusion but there appears to be a scarcity of study done to analyze how financial literacy delivery channels affect inclusion. Taking into consideration that no country or institution can achieve optimum financial inclusion without financial knowledge, there is exigency to fill this knowledge gap that has been overlooked by other studies. Specifically, how the delivery channels of financial literacy influence financial inclusion in Kenya. The paper seeks to address the following research question: What is the role of commercial banks in promoting financial literacy for financial inclusion in Kenya?

THEORETICAL FRAMEWORK

This paper analyses the adoption of financial literacy delivery channels through the perspective of the resource-based view (RBV), diffusion of innovation theory, motivation-needs theory, prospect theory, and institutional theory. The proponent of RBV (Wernefelt, 1984) stressed the importance of resources in achieving organizational objectives. The utilization of partnership in pooling resources is capable of bringing a few major changes within the organization. Based on this proposition, the research analyzed financial literacy delivery channels as key resources that full-service banks can use to promote financial literacy to their target customers. Banks that have effective delivery channels have better resources and are more likely to succeed in their financial literacy education promotion compare to those with limited resources. Similarly, the type of financial literacy delivery channel that a bank uses relies on the available resources. Therefore, banks can only invest in delivery channels that they are capable of financing. The adoption of financial education partnership for the promotion of financial literacy and inclusion provides commercial banks with the needed opportunity to collaborate with other organizations to invest in financial inclusion programs. On the other hand, the diffusion of innovation promoted by Rogers (1962) argues that institutions must be open to the adoption of the latest technologies and innovations to achieve their goals. The advancement in technologies such as social media, websites, and you-tube has created platforms that full-service banks in Kenya can utilize for the promotion of financial literacy for inclusion. The study also adopted the idea of Maslow (1943) in his motivation-need theory where consumer awareness is financial literacy that satisfies the consumers' physiological and safety needs. Customer knowledge about a product affects every aspect of consumer purchasing behavior. Informing customers about products and services is cardinal in consumer behavior studies that specialize in satisfying needs (Ansari & Alhazemi 2016). The paper further borrowed the

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arguments of the proponents of prospect theory (Kahneman and Tversky, 1979) and institutional theory (Scott (2004).; where financial institutions are expected to develop initiatives such as financial advisory services to avoid the risk of losing their customers due to the lack of understanding of complex financial products and services. Their actions may contribute to achieving high financial literacy for financial inclusion. From a theoretical perspective, the adoption of financial education partnership, the use of digital financial platforms, consumers' awareness initiatives, and financial advisory services are viable financial literacy delivery channels that commercial banks can adopt to promote financial inclusion.

EMPIRICAL LITERATURE REVIEW

Authors have researched the significance of the study variables. For instance, Mross and Reiter (2019) showed that financial education partnership initiatives for financial literacy training between learning institutions and commercial banks improved student knowledge of budgeting and other financial concepts hence addressing their financial inclusivity. Moreover, Hendrickson, Croymans, and Jokela (2017) used a partnership with organizations, university libraries, and communities for financial literacy month to assess financial literacy promotion for youth. The use of university organizations to collaborate with communities and libraries to promote financial literacy for young people had succeeded in American society but such has not taken place in Kenya. Closely, Hill *et al.* (2020) established that financial literacy partnership between schools and communities helps to expand financial literacy among people, improves individual financial knowledge for personal financial management, and increases their confidence in making financial decisions. On the other hand, Kuchciak and Wiktorowicz (2021) reported that various forms of online platforms provide different financial literacy programs on bank activities. The findings confirmed the study by Pranata et al. (2018) who found a link between digital platforms and monetary inclusion. Nevertheless, the outcomes of Koori et al. (2020) revealed that suppliers of financial services are satisfied with the adoption of digital financial platforms. Banks have ensured that banking and branchless banking services are provided to customers using online platforms that are easy to access, reliable, convenient, less costly, timely, and accessible.

Additionally, Reifner and Herwig (2016) study on consumer awareness found that consumers need timely information to manage their finances and guidance to make them confident in dealing with purchases, credit access, social credit, stock, and all other activities of the financial markets. The survey findings corroborated with the study of Chariri et al. (2018) and Wulandari (2018) who reported that investors' financial literacy strength features a significant and positive impact on investment fraud detection and consumer protection. These findings confirmed the results of Engels, Kumar, and Philip (2019) who established that individuals' financial literacy skills were capable of their protection in fraud identification in using financial services. Moreover, a study carried out by Girardone and Migliavacca (2018) stated that the education and experience provided by financial advisors, the willingness of the investors to learn, and the period covered for the advice improve the cognitive abilities of investors. Rentková and Mariak (2018) revealed that increases in clients' financial skills from financial advice would improve their decision-making.

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RESEARCH METHODOLOGY

For this study, a descriptive survey research design was adopted. The population was composed of 10,717 managers and management employees from commercial banks in Kenya and the unit of analysis was 1,502 branches of the 40 licensed commercial banks. 10,717 managers at the branch level across the country were the unit of observation. The sample size was computed using the model proposed by Cochran (1977); the maximum variability of 0.5 was used as the population numbered more than 10,000. The formula to acquire the sample size was then applied, resulting in the sample size indicated below:

$$n_0 = \frac{Z^2 \; pq}{e^2}$$

Where: n = Sample size for large population
Z = Normal distribution Z value score, (1.96)
p = Proportion of units in the sample size possessing the variables under study, where for this study it is set at 50% (0.5)
e = Precision level desired or the significance level, which is 0.05 for the study
The substituted values in determining the sample size for a large population are as follows;

n= 384

The sample size was 384 respondents. The study used a stratified random sampling technique to get a sample of 384 respondents comprising 199 from large banks, 120 from medium-sized banks, and 65 from small banks. The study collected and analyzed primary data as well as secondary data. The former was gathered using semi-structured questionnaires to managers at the branch level in eleven counties across the country, and the latter from CBK, KNBS, FSD reports, and bank annual reports. For data analysis, descriptive statistics were employed to compute mean and standard deviation, while inferential statistics involving multivariate regression and bivariate correlation were applied to work out the connection between the study variables using advanced SPSS computer software version 23.

RESEARCH FINDINGS AND DISCUSSSIONS

This study involved one population, which was the branch managers of commercial banks. A total of 384 questionnaires were distributed, and 274 of them were collected, resulting in a response rate of 71.4%. This rate was found to be satisfactory, as Gordon (2002) stated that a response rate of 60% was enough for social science research and Fincham (2008) suggested that a response rate of 60% was adequate for analysis. The successful response rate was attributed to the physical drop-and-pick method that gave the managers 1 to 3 weeks to complete the questionnaires with their various sections.

Financial literacy delivery channels adopted by Commercial banks in Kenya

Analysis was conducted to find out whether full-service banks in Kenya had adopted the financial literacy delivery channels that include financial education partnership, use of digital platforms, consumer awareness initiatives, and financial advisory services in the promotion of financial inclusion. The results are shown in Figure 1.

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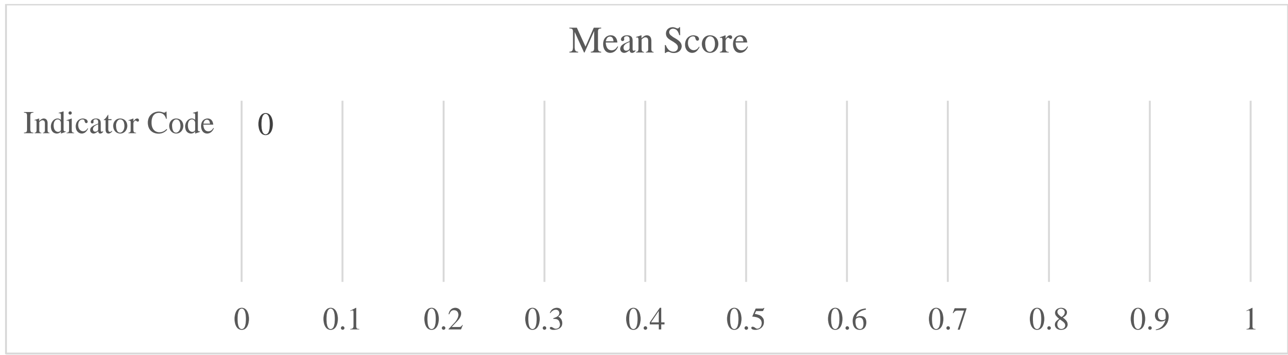

Figure 1: *Financial literacy delivery channels adopted by full-service banks in Kenya*

The study results presented in Figure 1 show that the most commonly used financial literacy delivery channel by commercial banks in Kenya to promote financial inclusion was consumer awareness initiatives (mean score =3.96, 79.2%). These consumer awareness initiatives included the use of targeted SMS and Email, providing accurate knowledge to customers on products and other services provided, frequently educating consumers on their rights and responsibilities, and ensuring that all customers are aware of consumer protection regulations (appendix 3). The second most commonly used financial literacy delivery channel according to the study findings was the use of digital platforms (mean score=3.67). The study findings showed that 74.3% of the commercial banks in Kenya indicated they had adopted the use of their websites and portals, social media pages, and less online teaching resources to promote financial literacy and inclusion among the consumers of their products and services.

Finally, the findings indicated that financial advisory services (mean score of 3.29, 65.8%) and financial education partnership (mean score of 3.43, 68.6%) were the least adopted channels for promoting financial literacy by Kenyan banks. The findings implied that there was low use of financial advisory services such as the provision of credit and debt counseling advisory services, cash management training, financial planning services, investment planning, retirement planning services, tax planning advisory services, and insurance planning advisory services among commercial banks. Similarly, commercial banks least relied on partnership with other financial institutions, government, and institutions of learning to promote financial literacy for financial inclusion. These results of low usage of monetary services agreed with the study by Sibanda and Sibanda, (2016) in South Africa who reported that banks' sponsorship of financial literacy programs for the unbanked was challenged by limited funding opportunities, which caused the supply of financial knowledge by banks to be low within the developing world. Additionally, banks in Kenya annually spent more cash on banking technology than their customers' financial literacy education for improving usage of the banks products and services (Mutua, 2018; Van Hove and Dubus, 2019).

Effect of Financial Literacy Delivery Channels on Financial Inclusion

The results show the multivariate regression model had r=0.683 and r-squared (coefficient of determination) = 0.467. The findings implied that financial literacy delivery channels (financial advisory services, financial education partnership, consumer awareness, and digital platforms) accounted for 46.7% of the variation in financial inclusion in commercial banks in Kenya. The results of the ANOVA of the model fitted to check the effect of financial literacy delivery channels on financial inclusion show f-statistics =58.828, p-value =0.000 which was but 0.05. The study, therefore, did not reject

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the null hypothesis that the model fitted had the goodness of fit.

Table 1: Multivariate Regression Analysis

		Unstandardized Coefficients		Standardized Coefficients		
	Variables	B	Std. Error	Beta	T	Sig.
COEFFICIENTS	(Constant)	0.807	0.201		4.014	0.000
	Financial Education Partnership	0.145	0.057	0.157	2.536	0.012
	Digital Platforms	0.174	0.066	0.167	2.625	0.009
	Consumer Awareness	0.200	0.063	0.196	3.180	0.002
	Financial Advisory Services	0.295	0.063	0.294	4.677	0.000
ANOVA		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	69.914	4	17.479	58.828	.000b
	Residual	79.924	269	0.297		
	Total	149.838	273			
MODEL SUMMARY	Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
	1	.683a	0.467	0.459	0.54508	

This paper finding showed that financial literacy delivery channels, which include financial education partnership, the use digital financial platforms, consumer awareness initiatives, and adoption of financial advisory services significantly and positively, promoted financial inclusion. The regression results showed that financial literacy delivery channels had a higher explanatory power on financial inclusion in Kenya. These findings concurred with the results of the study by Mutua (2018) and, Van Hove and Dubus (2019) who pointed out that banks in Kenya concentrated totally on technology and innovation (agent banking, mobile banking, and mobile bill payment services) because it is the most vital drivers of financial inclusion among the population. This has influenced the proliferation of full-service banks' electronic products and services on the markets (CBK, 2017 & CBK, 2018). The findings were corroborated with those of Wangwe (2018) who established that consumers' awareness in Kenya had influenced consumers purchasing behavior, shaped their attitudes, increased their loyalty, and enabled corporate entities like banks, Coca-Cola, and others to spend less on marketing their products. Similarly, Abong *et al.* (2021) argued that in Kenya consumers' level of education positively correlated with consumers' awareness, prices, product quality, consumption, and production. Further, sources of information increased awareness and monetary incentives. They concluded that lack of adequate information and unavailability of products are constraints. Girardone and Migliavacca (2016) acknowledged that knowledge transfer from financial advisors is positively related to a rise in the financial literacy knowledge of the investors. Magda-Nicolae and

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Jeraşu (2015), reported that individuals and businesses seeking many sorts of financial advisory services were significant and influenced their performance and expand their products and services for financial inclusion.

CONCLUSION

The research concluded that Kenya had made strides in increasing the availability and accessibility of financial services, but usage of such services remained low and hindered financial inclusion. To address this issue, the study identified financial education partnerships, digital financial platforms, consumer awareness initiatives, and financial advisory services as useful channels for promoting financial literacy and inclusion. It was observed that commercial banks had employed financial education partnerships and financial advisory services to increase financial literacy. To further boost financial literacy, the banks should consider organizing lectures in educational institutions, conducting seminars, implementing nationwide campaigns, and other activities. Additionally, the use of digital financial platforms, such as websites, online portals, and social media pages, as well as online games and courses were found to be effective channels for promoting financial literacy. The study also found that targeted SMS, email, accurate information on products and services, education on consumer rights and responsibilities, consumer protection and consumer protection regulations, and consumer awareness had all played a role in improving financial inclusion in the country. Moreover, the study noted that financial advisory services were a crucial part of promoting financial literacy and that full-service banks in Kenya should increase their adoption of them. If banks are able to expand their services beyond insurance planning advisory, they could unlock the full potential of this delivery channel and increase the usage of monetary services.

RECOMMENDATIONS

The following recommendations were made by this study;

1. In order to advance practice, the study suggests that bank administrators employ aspects of financial education partnership that are not currently in use. Ideas include financing educational initiatives, collaborating with other financial organizations and academic establishments by arranging lectures, and becoming involved in a countrywide effort to advocate financial literacy. This requires the bank administrators to make contracts with educational organizations, international entities, and development partners such as the World Bank, African Development Bank, and the International Monetary Fund, which may offer financial education partnership as a way to boost financial literacy for financial inclusion.

2. The study recommended that CBK must streamline existing policies to allow commercial banks to fully adopt digital platforms in promoting financial literacy.

3. Commercial banks should work together to acquire more resources for consumer education initiatives. Their respective boards of directors should push for regulatory changes to any existing regulations that might limit their ability to conduct consumer awareness activities. This would raise the financial literacy of the general population.

4. The banking industry in Kenya should strive to expand its use of financial advisory services, such as cash management training, financial planning, investment planning, retirement planning, tax planning, credit, and debt counseling. Doing so would be beneficial in increasing the rate of financial inclusion in Kenya.

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