INTRODUCTION

Banking industry is truly at crossroads. It is under increasing pressure to offer today, what customers would be expecting tomorrow (Rajadurai, 2003). In the essence, there is a paradigm shift from merely being profit-centric institution to differentiating oneself as identity-conscious and customer-centric institutions. Constant transformation has been witnessed in the banking industry of the world during the last decade. This transformation is expected to quicken their pace in the new millennium. Dynamics in communication, information technology and computer are taking place. The trend towards electronic delivery of products and services is occurring dramatically in financial services industry where the shift is partly as a result of consumer demand, but also a ruthless competitive environment (Monika 2001).

Over the last few decades, the new information technologies and the new communication infrastructures have become revolutionary forces changing business models, cost relations and not least the nature of customer’s relationship. Cross-border consolidation and expansion, involving distribution channels and share holders pressure, show a dramatic impact on the dynamics of retail banking around the world competition from the non-banking sector, fiscal and monetary policies, globalization of financial markets and systems, introduction of new products and services to the customers, increased mergers and charging practices are changing the 21st century banking in a remarkable way (Bartanann 2006). All this, has led to a new market place in the changed and flow of old players adopting and new players entering every possible segment of the market with faster, cheaper and more specialized services. The industry of universal banking is restructuring and the customer has never met a richer supply of information and services. The old relationship between bank and customers is changing. Faced with intensifying competition and declining profit margins, institutions are now looking beyond their existing business models to identify profitable opportunities for the future.

Information and Communications Technologies (ICTs) have changed the way of conducting business transactions and meeting the growing demands of customers for most organizations. (Boateng et al, 2006). The promise of ICT in the banking sector has been seen in terms of its potential to increase customer base, reduce transactions cost,
improve the quality and timeliness of response, enhance opportunities for advertising and branding, facilitate self-service and customization and improve customer communication and relationship (Garau, 2002). The new information technology is becoming an important factor in the future development of financial services industry and especially banking industry. Banks are forced with a number of important questions, for example, how to take full advantage of new opportunities and how e-development changes the ways customers interact with the financial service providers (Lustsik, 2003). A modern business will have to address the needs of organizations merchants and customers to cut cost while improving the quality of goods and services and increasing the speed of services delivery and use of computer networks to search and retrieve information in support of decision making (Dudeja, 2001).

The last decade has witnessed tremendous changes on the economic and banking all over the world. These changes will have to intensify in the coming years as countries move ahead with economic reforms to become more efficient and equip themselves to take full advantage of opportunities thrown up by liberalization. The most direct result of these changes is narrowing the spread of banks. Competition has been seen vigilant on account of advances in communications technology. Banks can reach their customer anywhere, anytime and customers are also able to get instant access to their accounts. With increasing competition among banks, customers are also becoming more discerning and demanding. To meet customer expectation, banks will have to offer a broad range of deposits, investments and credit products through diverse distribution channels including upgraded branches, ATMs, telephone and internet. The key to attract and retain customers, therefore, is laid on efficient customers services, including customized value added products to meet various needs of individual customers and also to meet the needs of diverse types of customers (Kaptan, 2002).

In preparation to meet these challenges, banks will have to become more customer centric, offering wide range of products through multiple delivery channels, become proficient in increasing assets and liabilities according to risk and return, invest in technology for better management system, product development, risk management, funds management and customer services. The key to meeting these challenges lies in
putting in place the necessary systems and skilled staff, training and equipments, the workforce and all out efforts to motivate and retain staff with expertise.

Electronic banking technology has also played a vital role in the process of transformation enabling banks to present the various products and services to customer through cheaper, convenient and easy channels. Widespread internet use is the basic pre-requisite for online banking. Katri (2002) quoted some e-banking development specialists( Ilison,2002;Suld 2002) who predicted that in the years to come, more attention will be focused on mobile phone based services, such as account balance inquiries by SMS payments via mobile phones (Figure 1.1) more government services will move into internet banking.

Figure 1.1

Losers and winners in the future e-banking

Source: Katri et. al, (2002)

At the current state, it’s already possible to fill in and send income Tax statement to tax agency and make inquiries to social security databases. According to specialists, the phone banking will remain as an additional distribution channel only. The future of TV banking is quite questionable, although some positive perspective may open after switching to digital TV. Offline banking is currently used by corporate clients, whose volume of payment is big enough to slow down online transaction speed, some corporate
also prefer to store all financial data in their own data base, not in bank data base. Banks are working to find a solution to this problem and direct all corporate clients to online internet banks.

This study deals with analyzing perceptions and observation of customers and bankers regarding e-banking. It also focuses on current status of e-banking, challenges facing e-banking business, and perception towards e-banking in India and Kenya.

1.1 Meaning of e-banking

In recent years, e-banking has emerged and it is almost taking the portion in the banking transformation process. With its introduction, customers are enjoying anywhere banking, reduction in use of cash, telephone banking, P.C. banking, internet banking, mobile banking, home or office banking etc. E-banking includes familiar and relatively mature electronically based products in developing markets, such as telephone banking, credit cards, ATMs, and direct deposit. It also includes electronically bill payment and products mostly in developing stage, including stored-value cards (e.g. smart card/smart money) and internet-based stored value products (Andam 2003).

The new concept of e-banking has broken the barriers of branch banking. Customers whether individuals or corporate, no longer have to go to the bank to do their business, it can be done from home and office 24 hours a day 365 days a year using PC or the telephone and through the systems of internet banking (Gurusamy, 2001). Banking organizations have been delivering e-banking services to consumers and business remotely for years. Electronic funds transfer, including small payments and corporate cash management systems, as well as publicly accessible automated machines for currency withdrawal and retail account management are global fixtures. However, the increased world wide acceptance of internet as a delivery channel for banking products and services provides new business opportunities for banks as well as service benefit for their customers (Basel, 2003).
Many researchers have tried to define e-banking, and most of them do not find the difference between e-banking and internet banking. Some say e-banking means online banking or offering banking services through electronic channels. But according to this study e-banking is the provision of banking services through electronic medias/devices like computer, TV, mobiles etc. This means all those banking services provided electronically to customers are called e-banking. (Figure 1.2)
1.2 Origin and Development of E-banking system

1.2.1 Meaning of Banking

Banking industry is one of the oldest in the world (Verma 2006). Banking constitutes the fundamental basis of economic growth. The term bank is being used since long time but there is no clear conception regarding its beginning (Jain et al, 2002). In simple words, bank refers to an institution that deals with money. This institution accepts deposit from the people and gives loan to those who are in need. Besides dealing in money, banks these days perform various other functions, such as credit creation, agency job and general services. Bank, therefore, is such an institution which accepts deposits from the people gives loans, creates credit and undertakes agency work.

1.2.2 Origin of banking and its development

The origin of the banks is thousands of years and associated with an Italian “word Banco” (Gupta, 2004). The meaning of this word was to make exchange of money on the benches. During the ancient period, more lenders used to offer exchange facilities of currencies over these benches. Such a system of exchange of currency was quite common in India, Kenya, European nations and many other countries. Traders, tourists and pilgrims used to exchange currencies over these places for purchases of goods from the countries they used to visit. Money lenders also employed armed guards for the safety of their wealth with the passage of time. Trust of the people increased in the system and they started depositing their wealth such as gold and silver ornaments and other valuable articles with money lenders. In turn, money lenders used receipts of the articles and charged security fees in lieu of the services. These receipts worked as the medium of money exchange resulting into gradual increase in the practice and development of banking system. Gradually, with the increasing deposits, moneylenders began to think regarding utilization of idle wealth. They began to advance deposited wealth with them and started charging interest on it. Now, they stopped charging security fees from the depositors, and started offering some interests on their deposits. The practice was to charge higher interest rate from the borrowers and offer lower interest rate to the
depositors. The gap in the two interest rates used to be the earning of the moneylenders. This is how exchange of money grew with the passage of time.

After the passage of change in the old system, the money lenders or dealers started to offer some interests in place of issuing merely a receipt. They also extended the service of borrowings on a definite rate of interest. People who dealt with borrowing on a set rate of interest came to be known as “Sarrafās”. But they were not bankers because their sole objective on such lending was to earn interest to multiply their money.

As a matter of fact, banking system originated from Babylon and consequently adopted in other countries of the world. The old banking system flourished leading to the establishment of banking houses. Banking houses provided facilities of loan for the business on same rate of interest. Banking houses had to face lot of problems as the payment of interest on their borrowing was banned due to basic change in the system of administration. Banking system was paralyzed and had to suffer unexpected loss as a result of change. Industrial revolution during 18th century revived the banking system in a big way, following the establishment of industries at a large-scale which needed major borrowings to develop. The period of industrial revolution as marked with the significant increase in the system of banking.

The modern banking system traces its origin with the establishment of banks in Spain, in 1401 (Gupta, 2004). Another viewpoint says that the first banks were established in 1148 and first public bank was Bank of Venice in German which was established in 1157 (Jain, 2002).

Every economy now-a-days needs a strong, stable and well developed banking system in order to survive in the current competitive world. Economies around the world have turned to ways of improving their economics by developing well dynamic financial systems which will enable them survive. In the process of doing this, the banking system has been transformed to meet the demands of customers, hence researching new systems of banking like digital banking.

1.2.3 The Development of Conventional banking to E-Banking

International trade has grown significantly in the post-war period and with the associated monetary flows. More recently, deregulation and globalization have led to a
spectacular growth in the value of non-trade related financial transactions (Harris 2002). Every transaction whether trade or non-trade related gives rise to obligations that needs to be settled through a transfer of money between the parties involved. Settlement of non-trade related and large value trade transactions are increasing, based on the electronic large value payment systems which have been developed since the 1960s. Together, this has led to a major expansion in payment and settlement system, which now handle payment volumes on a daily basis that collectively called dwarf economic output in the industrialized countries. In the past several years, many economists have considered the impact of the digital revolution on the money and banking system, and by extending the macro economy (Fullenkamp, 2004). Banking and investment have been revolutionized by rapid diffusion of the internet. The world of banking is moving away from the traditional bricks and mortar’s approach and is focusing on the potential of online banking (Unnithan 2002). Developments in banking system are bound to have a significant impact in and beyond financial market. As a response to globalization and deregulation of financial markets and increased competition from non-bank financial institutions online-only banks, many adopted a hybrid banking model, often referred to as Clicks and Mortar (Deitel et al 2001) or e-banking. This model is becoming increasingly popular because of its perceived ability to lower costs, create new revenue streams and augment existing distribution channels (Sciglimpaglia and Ely, 2002). For instance the many researches clearly have proved that e-banking delivery channel are less costly (Figure 1.3, 1.4 and. The figures 1.3 (Nitsure, 2003) shows the average cost of transacting trough ATM, P.C banking and Internet. It was found that Services through ATM are less costly (18%) of branch banking. Also Internet banking is cheaper since the cost of transacting through Net is only 12% of branch banking. E-banking started with the use of proprietary software and private networks, but was not particularly popular until the emergency of the web. The internet and other global on-line networks have created new commercial opportunities for networked commerce. Development of and internet electronic payment system provides opportunities for the creation of completely new sets of global and national trading relationships. The internet offers the possibility of open systems payment and settlement systems that operate in parallel to existing, more traditional bank-based networks.
Electronic banking and electronic commerce are now seen as inevitable aspect of financial services. The new global commercial market place permits goods to be ordered and paid for electronically irrespective of location (Harris et al, 2002). E-banking is based on technology that by its very nature is designed to expand the virtual geographical reach.
of banks and customers without necessarily requiring a similar “physical” expansion (Basel 2000). This requires new institutional structures as well as changes to existing outdated legal commercial and ethical systems. The changes brought about by electronic commerce are similar in scope to those experienced when medieval trade fairs were established in Europe in the 11th century. The comparison is particularly suitable, since the period saw the emergence of money of the banking institutional structures and payment instruments, which are now being reformed by the spread of e-banking (Harris et al, 2002).

The new concept of e-banking has broken the barriers of branch banking (Gurusamy 2001). Now, more and more people are using electronic banking products and services and because a large section of bank’s future customers base will be made up of computer literate customers. The banks must be able to offer customers with products and services that allow them to do their banking by electronic means.

1.2.4 E-banking cycle

The intensity of competition has forced banks to rethink the way they operate their business. They have to reinvent and improve their products and services to make them more beneficial and cost effective (Verma 2006).

Technology in the form of electronic banking has made it possible to find alternative banking practices at lower costs. More and more people are using electronic banking products and services, and because a large section of the banks are offering e-banking services. Further, customers base will be made up of computer literate customers, the banks must be able to offer these customer products and services that allow them to do their banking by electronic means. If they fail in this, they can simply not survive.

From an institutional perspective, the e-banking solution should increase profitability. This means careful consideration of functionality, building volume through segmentation, fees and charges, efficiently controlling development cost, distribution channels, and partnerships and developing multiple business cases (Cracknell 2004).
To achieve all above, care should be taken in choosing proper e-banking technologies and moving to every stage of e-banking cycle. There are four important stages in e-banking process which can collectively be considered as e-banking cycle (Verma, 2006) (see figure 1.3). This includes transforming core banking business process (i.e. offering services) building flexible, expandable e-banking applications linked with financial institution providing e-banking and central host; running scalable, available and safe environment by providing sufficient security and lastly leveraging knowledge and information gained through e-banking.

1.3 SWOT analysis of e-banking

SWOT analysis, means analysis and assessment of comparative strengths and weaknesses of a firm in relation to competitors and environmental opportunities and threats which a company may be likely to face (Maymand, 2005). SWOT analysis is as such, a systematic study and identification of those aspects and strategy that best suit the
individual company’s position in a given situation. The new banking capabilities collectively called e-banking, signify a brand new world of proliferating opportunities and threats. At the same time, what is a magnificent opportunity for millions of customers and business is a major and sometimes deadly threat for others. Banks will have to close down some branches and invest heavily on the new technology with a major aim of reaping heavily in future, retaining a dynamic clients, capturing a niche in the market and enabling competition, survival in the industry which shall focus all aspects before adopting appropriate technology.

Technology advances are double edged sword they create opportunity and they destroy opportunity. The strengths, weaknesses, opportunities and threat of e-banking as a medium of providing banking services, have been presented in the figure 1.4. The SWOT analysis has been done on the basis of the book Global Strategic Management by Maymand Mamoudi (2005) and e-commerce: strategy, technologies and application written by David Whitely, (2004)

E-commerce is a vehicle, to be used judiciously, to get competitive advantages and to make one’s presence felt in national and international banking arena. Moving to online or to e-banking business is not just a matter of reducing cost reaching out new efficiencies, performing tasks with greater speed and convenience, supplanting or replacing existing commercial transaction with electronic transactions to boost paper less concept of commerce and not doming anything physically or manually rather it is about establishing a presumptive dominance in the market place that will ensure long term competitive advantage.
Table 1.1
SWOT analysis of e-banking

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<tr>
<th>Strengths</th>
<th>Opportunities</th>
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<tr>
<td>• Global accessibility of customer reach</td>
<td>• Expanding market reach and increased sales</td>
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<td>• Closer relationship amongst the financial institutions.</td>
<td>• Generating visibility</td>
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<td>• Easy interacting</td>
<td>• Strengthening business relationship</td>
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<td>• Reduced cost</td>
<td>• Cost reduction</td>
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<td>• Time to market</td>
<td>• Better bank image</td>
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<td>• Customer loyalty</td>
<td>• Market transparency</td>
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<tr>
<td>• Provide service offered by competitors</td>
<td>• Increase revenue</td>
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<tr>
<td>• Attract new customers</td>
<td>• Fast spread of other technologies mobile and internet</td>
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<td>• Facilitate the offering of more services</td>
<td>• Fast penetration of computer technology in other banks.</td>
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<td>• Retain customers</td>
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<td>• Future focus</td>
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<td>• Customer loyalty</td>
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<td>• Security of e-banking</td>
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<td>• Loss of data privacy</td>
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<td>• Loss of services</td>
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<td>• Loss of control</td>
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<td>• Financial illiteracy</td>
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<td>• Technological illiteracy</td>
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<tr>
<td>• Slow penetration of technology in other parts of the world (i.e. digital divide)</td>
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<tr>
<td>• Economic and financial divide</td>
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<tr>
<td>• Copyright</td>
<td>• Channel conflict i.e. disinter mediation may happen</td>
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<tr>
<td>• Resistance to change on the point of customer</td>
<td>• Local to global competition</td>
</tr>
<tr>
<td>• Legal issues. There is no legal framework that is bundling the world wide basis</td>
<td>• Customer acceptance</td>
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<tr>
<td>• Loyalty</td>
<td>• Loyalty</td>
</tr>
<tr>
<td>• Security of e-banking</td>
<td>• Pricing</td>
</tr>
<tr>
<td>• Loss of data privacy</td>
<td>• Lack of preparedness</td>
</tr>
<tr>
<td>• Loss of services</td>
<td>• Restrictions on technology usage</td>
</tr>
<tr>
<td>• Loss of control</td>
<td>• Cyber crimes and other technology crimes</td>
</tr>
<tr>
<td>• Financial illiteracy</td>
<td>• Electronic funds</td>
</tr>
<tr>
<td>• Technological illiteracy</td>
<td>• Fast changing technologies from one to another and better one i.e. technology expectancy</td>
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<tr>
<td>• Slow penetration of technology in other parts of the world (i.e. digital divide)</td>
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1.4 Benefits of e-banking

Banks globally have realized that flexible solution powered by newer generation technologies are keys to achieving business ability to innovate, ability to respond and ability to differentiate.

There are so many benefits of adopting e-banking technology. They can be divided into four as shown below:

Benefits to the customers:
Chapter 1

- Anywhere banking: No matter wherever the customer is in the world, online-banking is just a web-site away. Balance enquiry request for services, issuing instructions etc, request for services, issuing instructions etc from anywhere in the world are possible.
- Anytime banking: Managing of funds in real time and most importantly, 24 hours a day, 7 days a week.
- Convenience acts as a tremendous psychological benefit all the time
- Cash/card free banking through PC banking. E-banking expands the domain of access to the banking services
- Brings down cost of banking to the customer over a period of time.
- Cash withdrawal from any branch/ATM
- On line purchase of goods and services including on line payment for the same

Benefits to the banks
- E-Banking is innovative, secure, addresses competition and presents a bank as, technology driven in the banking sector market.
- Reduces customer visits to the branch, thereby, human intervention. This impact tells upon establishment costs of the bank
- Inter-branch reconciliation is immediate thereby, reducing chances of fraud and misappropriation. Online banking is an effective medium of promotion of various schemes of the bank and marketing tool indeed.
- E-banking can act as a revenue earner through promotion activity by corporate consumers. Integrated customer data paves way for individualized and customized services.
- E-banking provides competitive advantage to the bank.
- E-banking provides unlimited network to the bank and not limited to the number of branches. Any PC connected to modem and telephone having internet connection can provide banking facility to the customer. Any ATM on the road-side can provide cash withdrawal needs of the customer.
- By connecting all branches through WAN (Wide Area Network) any where banking facility can be provided.
- By connecting ATM and POS terminals on-line, risk of overdrawing can be eliminated in case of ATM, credit and debit cards.
Load on branches can be considerably reduced by establishing centralized data base and by taking over some of the accounting functions.

E-banking channels like ATM can be better monitored and planned by establishing a centralized data warehousing and using latest data mining tools. Also e-banking has a scope and potential for better profitability.

Helps in establishing better customer relationship, retaining and attracting customers.

**Benefits of e-banking to traders and merchants**

- Increase in business because of increased purchasing power of the credit card holders and ease with which purchasing can be done.
- Less need for merchant/traders to provide credit facility to their customers.
- Making e-commerce a reality and globalizing the trade.
- Development of global and loyal clientele base. Assured immediate settlement/payment.
- Avoid all the cost and risk problems involved in handling cash
- Providing services of international standard at low transactions cost

**Benefits of e-banking to government and nation**

- Globalization of trade through e-commerce
- Providing global market to the national products and services
- Establishment of e-banking will promote experts and increase inflow of foreign exchange
- Promotion of e-banking and e-commerce will eliminate the risk of carrying heavy cash
- E-banking will improve transparency in transactions.
- E-banking and e-commerce will increase government revenue through non-avoidance of tax and reduced operational cost of collecting tax.

E-banking has also some limitations though every financial institution is running towards it. This includes the following:

- Cost of technology: This is a major factor which troubles banks because they have to invest too much in the new technology.
• Customer acceptance of the technology is also another limiting aspect. This is so because most of customers are not familiar with the technologies and this may forces a bank to invest in educated customers.

• Lack of preparedness. The banks are not only behind that bend in developing customer friendly on-line, but most of them are woefully unprepared for and blissfully unaware of the underlying changes in banking and personal finance being heralded in by internet development.

• Restrictions on usage of technology limit the e-banking technology adoption. For example in India, the agreement signed between the IBA and the bank union does not provide any elbow room more than enabling computerization of 70% of business (Gurusamy 2001).

• E-banking is vulnerable to cyber crimes and other new technology and electronic technology.

1.5 Banking System in Kenya

The banking industry is a key section in any economy and as prime movers of economic life; banks occupy a significant place in every nation. The banking sector in Kenya operates in a relatively deregulated environment, where foreign banks entry was never a substantial issue, as the banking system after independence consisted only foreign-owned banks. Their dominance has been eroded since then, but they still account for substantial part of the system. A variety of reforms of the financial system were introduced in the early 1980s to the mid-1990s. In east Africa, Kenya’s banking system continued to play a larger role in the economy than Tanzania and Uganda. The Kenyan commercial banks portray a cartel-like feature. Market intelligence (2000), indicated that out of 48 commercial banks operating in the country by then, 10 banks owned 75% of the total assets in the industry, indicating that the industry is not competitive. The rickety banking sector is dogged by a high portfolio of bad debts which stood at 28.3 percent of total loans by August 2003. Due to heavy political interference in their operations over the years, the state owned banks hold the bulk of the non-performing loans in their books.
1.5.1 Historical Perspective of the Kenyan banking Industry

Kenyan’s banking industry can be back dated to 1896, when the first banks was established following the British occupation of the country and the construction of the Kenya Uganda railway (NSE, 2001). Significantly, this was National bank of India, which subsequently became the National and Gridlays Bank. It was followed by the standard banks of South Africa in 1910 and the National bank of South Africa in 1916. In 1926, the National bank of South Africa merged with the Anglo Egyptian bank to form Barclays bank the predecessor to one of the largest banks in Kenya. For the next 50 years until the early 1950, there were no significant changes in the banking sector until several continental and foreign banks started entering the Kenyan banking sector.

Nedelandsche Handel-maatshappil, predecessor to the present day ABN-AMRO bank, entered in 1951 followed 1953 by Bank of India and Bank of Baroda (both from India), while a Pakistan bank, Habib, bank, established a branch in 1956. Ottoman bank from turkey was registered in 1958, and the commercial bank of Africa, stared in 1962 through Tanzania. It is noteworthy that all these banks (albeit with changed names or ownership) are still operating in Kenya today. Soon after independence in 1963, two Kenyan banks were quickly set up: the Co-operative bank of Kenya (1968) to look after other national interests, since all other banks were either or foreign controlled. In 1969, the business of ottoman bank was taken over by the National and Grindlays bank and in 1971, the national and Grindlays banks itself was split into two separate banks in which the Kenya government had substantial, if, not majority, ownership. The Kenya commercial banks and Grindlays Banks (now the Stanbic bank was formed after the acquisition of the government’s shares, by the South African multinational bank were strong. Until this time, banking was the preserve of foreigners with the minor exceptions of the three “government” banks named above. The ordinary Kenyan did not have what might be viewed as genuinely national banking institution.

From 1977 or thereabouts, Kenyan nationals started venturing into banking through non-bank financial institution (NBF’s) i.e., finance houses and building societies. Initially, there was skepticism about the ability of their institution service in the intensely foreign environment. The skepticism was well-founded since indigenous nationals lacked
capital, entrepreneur capacity required for banking and managerial skills to run independent banking institutions. Entry into this area was made deliberately easy as a matter of policy by government in order to encourage the deepening of the financial system in the country.

Banks had to do something about the spectacular growth of NBF’s, if they were to remain competitive. There were three ways by which they could have remained competitive. Either they could offer better and more attractive services to keep out new comers into the field, or they could create financial institutional of their own to compete will the NBF institutions; alternatively they could appeal to government for a policy shift so that the NBF institutions would no longer be able to service in a changed policy environment.

The first option of better service was never taken seriously. In fact, the same pedestrian approaches to banking were in evidence well into the 1990s. The third option, which no bank will acknowledgement having played part in was infant employed with increasing vigor from about 1984 with the simple expedient of requiring all Parastatals and public bodies both not to deposit any of their institutional funds without approval of their institutions and to demand their deposits from their institutions and place them in reputable banks, or to purchase treasure bills if they had surplus funds. This requirement extended to local authorities and co-operative unions. (NSE 2001)

Thus, in a stroke, what was promising to be healthy and vibrant alternative financial system was partially responsible for the banking crisis in Kenya in 1984/86. The official reasons given for this approach were protection of “depositors” money. Given the structure and ownership of many of these NBF institutions, there were some people who believed that their presumed failure and subsequent take over was not as innocent as many were made to believe. On an overall focus, it is noted that before independence in 1963, Kenya had only seven banks and all of them were multinational banks, later the government which were intentioned earlier in our discussion and more foreign banks opened branches or appointed representatives. In early 1980’s the first privately owned local banks were set up. Since then the growth of bank in Kenya has been rapid totaling over 45. (www.bisnetworld.net) Bank in Kenya continued to close down due to liquidity crisis and imposition of tough new laws to safeguard public deposits. For example two
banks closed their doors in 1986 and three did the same in 1996 due to liquidity problems.

1.5.2 Current Structure of the Banking Sector in Kenya

The banking sector currently comprises of 45 institutions, 41 of which are commercial banks, 3 mortgage finance companies, one non-bank financial institutions and one building society as at December 2006 (CBK report 2007). However, Gulf African banks Ltd commenced banking business in November 2007 which increased them to 46 institutions by December 2007 (Monthly Economic Review, 2008).

Out of the 45 institutions in December 2006, 34 are locally owned and 11 Multinational Banks (MNBs) (Figure 1.6). The MNBs comprised of 6 locally incorporated and 5 branches of foreign incorporate institutions. As depicted in figure 1.6, local banks dominates the Kenyan banking sector in terms of numbers, but only account for 48.2% of the sector’s total assets, closely followed by the foreign owned banks with 43% of the sectors assets.

**Figure 1.6**

Structure of the Banking system in Kenya

![Structure of the Banking system in Kenya](image)

Source: CBK report 2006

1.5.3 Branch network in Kenyan banking sector

The Kenyan banking industry has not been expanding branch networking amid the introductions of branchless banking system, which include the use of EFTs, ATM cards, SMS banking etc. Table 1.2 and Figure 1.7, reveals that Kenya had a total branch network of 575 by 2006, an increase of only 89 branches from 2002, when the Kenyan
banking industry’s total network was 486. Further it is indicated that Nairobi province has a large number of branch network while North-eastern province has never opened any branch since the year 2000. It has maintained 4 branches in the whole province. This indicates that many Kenyan are left un-banked throughout the country, as banks have the culture of concentrating their branches in major cities. Also, it can be said that they have been slow because of rapid rise of alternative of electronic financial products through mobile phones and personal computers (PCs).

Table 1.2

Growth in branches of Commercial Banks in Kenya

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<tr>
<td>Central</td>
<td>79</td>
<td>65</td>
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<td>69</td>
<td>71</td>
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<td>204</td>
<td>212</td>
<td>214</td>
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<td>71</td>
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<td>18</td>
<td>18</td>
<td>19</td>
<td>19</td>
<td>19</td>
<td>18</td>
<td>29</td>
<td>40</td>
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<td>486</td>
<td>512</td>
<td>532</td>
<td>534</td>
<td>575</td>
<td>740</td>
<td>887</td>
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</table>

Source: CBK Annual reports (2000-2007)
1.6 Banking Systems in India

Banking business in India is regulated and its development closely monitored by RBI, a central bank of the country. The banking sector is dominated by scheduled commercial banks (SCBs). Today’s gamut of banking sector comprises of Public Sector banks, private banks, foreign banks, rural regional banks and co-operative banks. Among commercial banks, State Bank of India is still the largest in the country with a market share of 20%. ICICI and its two subsidiaries merged with ICICI bank, creating the second largest bank in India. Higher provisioning norms, tighter asset classification norms, dispensing with the concept of ‘past due’ for recognition of NPA’s, lowering of ceiling on exposure to a single borrower and group exposure etc, are among the important measures in order to improve the banking sector.

A minimum stipulated Capital Adequacy Ratio (CAR) was introduced to strengthen the ability of banks to absorb losses and the ratio has subsequently been raised from 8% to 9%. Retail banking is the new mantra in the banking sector. The home loans alone account for nearly two thirds of the total retail portfolio of the bank. The Economic
times on 4th November (2006) estimated that, the retail segment is expected to grow at 30-40% in the coming years. Net banking, phone banking, mobile banking, ATMs and bill payment are the new buzz words that banks are using to lure customers.

Indian banks started their mechanization/computerization initiatives in 1980s predominantly guided by the bipartite agreement between the management and staff unions. Banking would survive only when its customers will survive. India’s system has served outstanding achievements to its credit. The most important feature is its reach in every area and not confined to only metropolitan cities. In terms of branches Indian banking sector is one of the largest in the world. The most important is that it has been playing a vital role in the economic development of the country.

1.6.1 Historical Perspective of Indian Banking

The earliest bank in India was the Bank of Hindustan which was established in 1770. In the 19th Century the Presidency Banks (Bank of Calcutta in 1806 Bank of Bombay in 1840, and Bank of Madras in 1843) were set up under a charter. Private Banks was allowed in 1900. In 1921 these banks were amalgamated to form the imperial Bank of India. In 1935 the Reserve Bank of India (RBI) was constituted as the apex bank of the country. Up to 1949, it was a private ownership bank, and then with the passage of the Banking Regulations Act 1949, it came under government control. State bank of India came into existence and become the Bank of the government of India in 1955 with RBI taking control of the Imperial Bank of India. State bank of India, in turn took over the shares in the private banks floated in the erstwhile princely states. Thus the first phase of nationalization of the banking sector took root in 1949 and culminated in the nationalization of banks in the year 1969.

From 1947 when India became an independent state to the first nationalization period was marked by the banking developments. From 566 banks in 1951, the number came down to 86 in 1971, as weaker banks were emerged with the healthier ones. The department of banking was set up under the Ministry of Finance. In 1974, priority sector norms were introduced and commercial banks were given five years to meet the norm of 33 or 1/3 percent of credit. The lead bank scheme was formulated for making banks responsible for the credit need to specific districts. The twin structure of rural branches of
commercial banks and co-operative banks however was not sufficient to meet the needs of the rural economy and hence Regional Rural Banks were promoted in 1975. For commercial banks also the accent was on branch expansion into the semi-urban and more importantly the rural areas. Priority sector target was raised to 40% for the commercial banks and the focus of lending changed to rural and agriculture lending with social banking becoming the norm in place of profitable commercial banking. Then in 1980, six more banks were brought into the nationalization fold. The measure bore fruits with rural branches increasing to more than 45% of the total branch network in 1979 from 22.2% in 1969.

The priority sector lending increased 15% to 30.6% during the same period. In 1991 the liberalization wave did not leave the banking sector unchanged. Unprofitable branch expansion, non-performing priority sector lending and loan melas had left large gaps in the banks balance sheets. High regulatory requirements had also taken their toll and most banks were completely in the red. Capital was infused operating restrictions were relaxed, competition was promoted, but most importantly the profit motive in banking system which has succeeded is a product of these external and internal changes.

After two decades since the nationalization of 14 large banks in 1969, no new banks had been allowed to be set up in the private sector even though there has been and is still no legal barrier on the entry of new private sector banks. Progressively over this period, the public sector banks had expanded their branch network considerably and catered to the socio-economic needs of large masses of the population, especially the weaker sections and those in the rural areas. While recognizing the importance and role of public sector banks, there was increasing recognition of the need to introduce greater competition which can lead to higher productivity and efficiency of the banking system. Therefore, new private sector banks are allowed to be set up with a view of inducing competition and market oriented system. Currently the money market is so competitive due to the advance of information technology and the use of cyberspace to offer financial services. Those that transform their business to be customer-based will reap heavily since the customers are dynamic with the fast changing environment. Also many banks in India these days have started diversifying their business horizons while targeting to satisfy the fast changing demands of consumers.
1.6.2 Current Banking structure in India

The banking system occupies an important place in a nation’s economy. A banking institution is indispensable in a modern society. It plays a pivotal role in the economic development of a country and forms the core of the money market in an advancing economy. In India though the money market is still characterized by the existence of both the organized and unorganized segments, money market have grown significantly and are playing an increasingly important role. Amongst the institutions in the organized sector of the money market commercial banks and commercial cooperative banks have been in existence for the past several decades. The Regional Rural Banks came in to existence since the middle of seventies. Thus, with the phenomenal geographical expansion of the commercial banks and the setting up of the RRBs during the recent past, the organized sector of money market has penetrated into the rural areas as well.

Besides the aforesaid institutions which mainly served as sources of short term credit to industry, trade, commerce and agriculture, a variety of specialized financial institutions have been set up in the country to cater for the specific needs of industry, agriculture and foreign trade. Among the banking institution in the organized sector, the commercial banks are the oldest institutions having a wide network of branches, commanding utmost public confidence and having the lion’s share in the total banking operations. Initially they were established as corporate bodies with share- holdings by private individuals but subsequently there has been a shift towards state ownership and control. Today 27 banks constitute the strong Public Sector banks in Indian Commercial Banking sector (Uppal and Rimpi, 2006). Up to late sixties, they were mainly engaged in financing organized trade, commerce and industry but since then they are actively participating in financing, agriculture, small business and small borrowers also.

The commercial banks operating in India fall under a number of sub-categories on the basis of ownership and control of management. Foreign commercial banks are the branches of the joint stock banks incorporated abroad but operating in India. These banks besides financing the foreign trade in the country undertake banking business within the country as well. The RBI Act has divided the banks into scheduled and non-scheduled commercial banks. According to RBI Ac 1934, a scheduled bank is that bank which has
been include in the second scheduled of the Reserve Bank of India. To be eligible for this concession a bank must satisfy the following three conditions: It must have a paid up capital and reserves of an aggregate value of at least Rs. 5 lakh, It must satisfy the RBI that its affairs are not conducted in a manner detrimental to the interest of its depositors, and it must be a corporation and not a partnership or a single owner firm. RBI gives these banks credit and many other facilities. Commercial banks have to keep fixed properties of their demand deposits and time deposits with the RBI. They have to submit deposits of their business to RBI.

Non-scheduled Commercial Banks are those banks of which the total capital is less than Rs. 5 Lakh. These banks are not included in the second schedule of RBI and it has no specific control upon these banks. But they have to send details of their business the every month to the India apex bank. Public sector in India banking reached its present position in three stages; Conversion of the then existing imperial Bank of India into the SBI in 1955 followed by the establishment of its seven subsidiary banks; Nationalization of 14 major commercial banks on July 19, 1969 and Nationalization of 6 more commercial banks on April 15, 1980.

Figure 1.8
Structure of the Banking system in India

Source: Trends and progress report of RBI 2008
Chapter 1

One of the new banks of India was later on merged with PNB. These 27 banks constitute public sector in Indian commercial banking. Public sector Banks Includes SBI Subsidiaries of SBI, and 14 Banks Nationalized in 1969 and 6 banks nationalized in 1980. In accordance with the financial sector reforms adopted in 1991 New Private Sector Banks have been permitted to be set up. According to Narasimhan Committee New Private Sector Banks should be allowed to be established in India. These New Private sector Banks will complement the overall financial sector reforms. They will provide a financially viable technologically up to date, customer friendly and efficiently competitive financial intermediation. The structure of the Indian banking sector is shown on figure 1.8 as at march 2008.

1.6.3 Branch network in Indian banking sector

Table 1.3 shows that branch banking is India is still experiencing impressive growth trends in the number of branches operating in the country. The table indicates that

**Table 1.3**

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural</th>
<th>Semi-Urban</th>
<th>Urban</th>
<th>Metro</th>
<th>Total</th>
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<td>10994</td>
<td>9181</td>
<td>67868</td>
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<td>32585</td>
<td>14843</td>
<td>11193</td>
<td>9316</td>
<td>67937</td>
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<td>11328</td>
<td>9402</td>
<td>68195</td>
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<tr>
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<td>32283</td>
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<td>9516</td>
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<tr>
<td>2004</td>
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<tr>
<td>2005</td>
<td>32115</td>
<td>15651</td>
<td>12368</td>
<td>10190</td>
<td>70324</td>
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</tbody>
</table>

Source: RBI, Handbook of Statistics on Indian Economy 2004-05 and other issues
1.7 Research Gap and Need of the Study

E-Banking is a mysterious and challenging ground which is emerging fast as a banking medium, providing banking products and services through e-channels, other than the “Brick and Mortar” banks. E–banking is a fresh wave engulfing all the areas and needs to be explored extensively if bankers wish to be successful in future. The review of literature indicates that not many studies have been conducted in India or Kenya which throws a light to the perception of customers and bankers towards e–banking and the challenges experienced and which comes along with the emerging technology. It is clear that the entry of e-banking has been barred due to some challenges and which are causing a halt to the fast advancing technology in the financial sector.

The review of literature also indicates that a good number of studies have been undertaken in developed economies like U.S.A., EU economies and other developing economies like Malaysia, Jamaica, South Africa and others. However, most of the studies are limited to internet banking, which is a single channel despite that e–banking includes all e-channels through which banking services are provided. Further, the review of empirical studies conducted on e-banking revealed that hardly any comprehensive study has been conducted either in Kenya or in India to examine the perception of bankers and customers, towards the concept of e-banking (for details see review of literature chapter 2). Though e-banking has a global reach, infrastructural, economic and psychological
difference occurs amongst the countries which are unique for each of them. This has been sought by attempting to compare India from Asian continent and Kenya from Africa continent. The present study is an attempt to examine the current status, of e–banking in the two countries. The perception of both bankers and customers will be empirically examined. It will also try to highlight and compare the challenges facing e-banking development in the two countries. The review of literature revealed that customer is not only satisfied by being delighted by innovation and new technology but psychological viewpoint is needed. This made it imperative to study the perception of the customers and bankers towards e-banking as a medium of delivering banking products and services.

1.8 Objectives

The major objects of this study were developed out of intensive review of literature. They include the following.

1. To study and compare the growth of electronic banking in India and Kenya
2. To study the perception of customers towards e-banking
3. To study the perception of bankers towards e-banking
4. To analyze and compare the challenges facing e-banking business in both countries
5. To make suggestions to improve the future of e-banking in the two countries on the basis of the findings.

1.9 Organization of the Study

This study has been divided into eight chapters (Figure 1.5). Chapter one deals with the origin and development of E-banking, SWOT analysis and Benefits of e-banking. Banking systems and Revolution of e-banking as been discussed and compared in the two countries. In chapter two, empirical, theoretical and conceptual studies from bankers’ as well as customers have been critically review to bring light to those aspects with need further research from other dimensions. Chapter three was dedicated to different methods and techniques used to in this study. The chapter describes how data was analysed and the limitation of the study. Chapter 4 deals with the emergency, growth, forms of e-banking. Also the current challenges have been explored in this
Chapter five presents analysis of e-banking trends in India and Kenya. In chapter six, perspectives of bankers has been analysed and compared between India and Kenya. Chapter seven deals with customer’s perception in which data collected through primary source was analysed and compared between India and Kenya. Chapter eight gives summary, policy implication of the research findings, and conclusion of the study. Also suggestion for further research has been given in this chapter as shown in figure 1.10.