The Effect of Retail Banking Strategy for Growth Sustainability of Commercial Banks in Rwanda; A Case Study of Ecobank Rwanda

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Abstract: Despite all the efforts by the banking industry, the main challenge is to increase satisfaction of customer. Customers have more options in choosing the banks than the past. Every bank is trying to retain and maintain their valuable customers at any cost, for sustainability. Banks are adopting different software and technological aspects to make their customers satisfied which costs banks big sums of their revenues on the other hand. This is therefore prompting the researcher to establish the effect of retail banking on the growth sustainability of commercial banks in Rwanda. The study was conducted in Ecobank for the period 2012-2017. The chief purpose of this study was to examine the effect of retail banking on the growth sustainability of commercial banks in Rwanda. Specific objective included to ascertain the effect of mobile banking and ATM on growth sustainability in Ecobank Rwanda; to assess the effect of internet banking on growth sustainability of Ecobank Rwanda; and to establish the effect retail agency banking on the growth sustainability of Ecobank Rwanda. The researcher adopted both descriptive and quantitative research designs. Questionnaires were addressed to 20 respondents selected from among the Ecobank staffs and an interview was held with 4 respondents from the bank’s top management. Data was analyzed using SPSS for Descriptive statistics to test the effect of retail banking components whereby correlation analysis and regression analysis were used to determine the nature and magnitude of the relationship among research variables. Findings of the study asserted that there is effective internet banking activities in Ecobank which positively affect the growth sustainability of Ecobank Rwanda since conferring to the research respondents it was mainly due to the adoption of retail banking at the Pan African bank. For the safety measures in the use of ATM, the administration of the bank should observe into the fact of using ATM transactions to watch over safety measures and commercial baking stakeholders are recommended to sensitize the general public on retail banking components. Finally, this bank is recommended to extend its retail banking services to other secondary cities of Rwanda. For public responsiveness, commercial baking stakeholders such as the ministry of ICT and MINECOFIN together with other responsible stakeholders in the government are recommended to sensitize the general public on retail banking components. This will enable the bank to increase the customer base. In order for the bank to raise its customer base, the bank is recommended to extend its retail banking services to other secondary cities of Rwanda. This would make awareness to more people since these cities are located near to the rural areas where there are masses.

1. Introduction

By early 21st century, financial institutions had become increasingly large with a more sophisticated and interconnected range of retail banking activities. This global financial system emerged during the first modern wave of economic globalization, marked by the establishment of central banks, multilateral treaties, and intergovernmental organizations aimed at improving the transparency, regulation, and effectiveness of international markets (Shekhar, 2013). The revolution of information technology has influenced almost every facet of life, among them is the banking sector. Service delivery in banks has greatly transitioned from visiting banking halls to making transactions without even being in the bank. The need to reach customers in low income areas gave rise to retail banking (Kwabena, 2013).

The UK has one of the highest rates of retail banking adoption in the world: around one-third of customers use mobile banking applications and mobile banking is now available to customers of all of the major banks. While there are differences in the sophistication and functionality of the mobile banking applications offered by the established banks in the UK, customers are typically able to check their balance, set up personalized alerts, send payments to another account using a mobile number, and locate their nearest branch or ATM. In its end-to-end digital transformation, Lloyds Bank, in the UK, focused on ten customer journeys, using agile delivery, deploying cross-functional customer journeys, and empowering product owners with responsibility. Lloyds also modernized its IT architecture to extend the use of micro services, and cloud environments. The results were dramatic. Between 2014 and 2016, the number of customers using Lloyds’ mobile channel grew from five million to eight million (McKinsey, 2017).

Platform companies that orchestrate these ecosystems will become the de facto interface for customers across multiple services; and financial services players are at risk of being reduced to white-label manufacturers for the platform player. Already, in China, digital attackers managed $6.5 trillion in transactions in 2015, five times the level just two years earlier, and exceeding the $6 trillion in offline point-of-sale transactions handled by traditional banks in 2015. Similarly, digital attackers increased their share of the unsecured lending market in China from 1 percent in 2013 to 25 percent in 2016 (Chironga et al, 2018).

Phanindra et al (2015) asserted that there have been a number of innovations Australia in the retail banking market in recent years with respect to products (such as the introduction of reward accounts), service (as part of the wider digitalization of retail banking); and new business...
models (for example by firms with only an online presence). When assessed individually, there is a considerable degree of variation in the development of each innovation and the extent to which each innovation has impacted (or is likely to impact) the market. Both the introduction of reward accounts and mobile banking (as part of the wider digitalization of retail banking) are well established. In contrast, other innovations, such as the use of account aggregation services, big data, and digital wallets, are in the early stages of development, particularly when considering their application to the wider retail banking market.

Netherlands is the seminal example of how to introduce agile into an organization at scale. Third, successful digital transformations depend on adapting or adding to a bank’s existing IT systems in multiple ways; for example, introducing a library of micro services or APIs, using cloud computing at scale, and leveraging technologies such as robotics and artificial intelligence. Partnering for reach and innovation the second response to digital disruption involves a bank partnering with a telco or a fintech to transform its reach and accessibility to customers, and in product innovation. Partnerships can make sense for banks seeking a cost-effective model to serve low-income segments. It is a less resource-intensive option, making it a suitable play for a bank facing constraints in financial resources or talent (Naale et al, 2016).

Africa’s retail banks have compelling reasons to embrace digital transformation. Firstly, African banking customers are among the most enthusiastic adopters of mobile and digital channels of any developing region. Second, a number of disruptive competitors, including numerous mobile money players and digital attackers such as Tyme Bank in South Africa or Alat in Nigeria, are emerging and posing a threat to revenue share. Third, advances in technology are raising the bar and the opportunity for innovation; these include increased affordable computing power for processing big data; the rise of artificial intelligence and machine learning; robotics lowering the cost of automation; and block chain. Finally, ecosystems, which have emerged most notably in China, are likely to become more of a feature in the African economy, and banks will need to have the digital sophistication to play a role as they develop retail banking sector (Shashikant, 2012).

Commercial banks in Kenya are profit making institutions and thus profit can be termed as the measure of growth sustainability; thanks to strong retail banking that the country has embraced with the government support to the young innovators. Growth is the degree in which financial objectives are being accomplished in an organization. Several financial ratios have been developed to measure profitability. They include Return on Asset (ROA), Return on Capital (ROC), Return on Investment (ROI) and Return on Equity (ROE). Bank regulators and analysts have used ROA and ROE to assess industry performance and growth sustainability in market structure as inputs in statistical models to predict bank failures and mergers and for a variety of other purposes where a measure of profitability is desired (Arisa & Muturi, 2015).

Good business environment as well as sound regulatory framework of the banking sector facilitated the entry of regional banks in Rwanda as well as the retail banking sector network extension. As a result, the level of financial inclusion in Rwanda increased by 24% to 73% in 2012 from 48% in 2008 (FinScope, 2012). BNR (2016), to reduce transaction costs as another barrier of financial inclusion, digital financial services were introduced in Rwanda, such as mobile payments, mobile banking and internet banking. This has contributed to expand financial services in the country between 2012 and 2016. The use of digital financial services boosted access to formal non-bank financial services to 42% in 2015 from 19% in 2012. For example, in 2015, 74% of adults in Rwanda (2.8 millions) use mobile money. As mentioned, formulation and adaption of economic policies is important in achieving sustainable economic development. It is about how leaders adjust strategies and choices to changing circumstances.

Gopinath (2015) revealed that the advancement in technology has played a vital role in improving service delivery standards in the banking industry. In its simplest form, Automated Teller Machines (ATMs) and deposit machines now allow consumers to carry out banking transactions beyond banking hours. FinScope (2012), as most Rwandans own mobile phones, banks have also introduced mobile banking to cater for customers who are always on the move. Mobile banking allows individuals to check their account balances and make fund transfers using their mobile phones. This was popularized in Rwanda first by Ecobank; customers can also recharge their mobile phones via SMS. E-banking has made banking transactions easier around the World and it is fast gaining acceptance in Rwanda.

Ecobank Rwanda (2013), the current technology in the bank plays a vital role of helping financial managers to retrieve data, process them and then analyze them to make effective and efficient growth sustainability decisions unlike in the past where most banks including Ecobank Rwanda itself used to face fatal difficulties. Therefore, the researcher wishes to carry out a study on retail banking, strategy for growth sustainability in commercial banks in Rwanda and Ecobank Rwanda will be used as a case study. The bank powers a wide range of solutions for mobile and digital devices that are fast, safe and easy to use.

2. Statement of the Problem

Banking industry has changed drastically not only in Rwanda but world at large. From traditional banking where customers used to walk to bank, take and fill the form and after that standing in the line for depositing and withdrawing the money. Like other service industries, banking is also a customer focused service industry, where the attention or we can say that focused attention is on differentiate customer services as compare to the competitor’s strategies. BNR (2016) revealed that there has been tremendous innovation, improved, performance and efficiency of services such as online banking, mobile payments & banking. Rwanda’s internet usage and adoption that has incredibly increased with more using internet in different aspects, including
financial services, business transactions, and data management.

However, while monitoring compliance with liquidity requirements, the BNR performed quarterly stress tests mainly to test resilience of banks when faced with liquidity shocks and it realized that banks depend on low number of customers. The test showed that, the first banks would become illiquid when 27 percent of deposits are withdrawn and 14 out of 17 banks met minimum liquidity requirements when 20 largest depositors pulled out 50 percent of their deposits. From these results, it appeared that banks were not liquid enough to the extent that it would require acute and very adverse shocks for banks to be liquid (BNR, 2016). The results of the tests indicated how important involving retail banking as a strategy is to the entire banking industry in Rwanda and how dangerous is to rely on the corporate clients. In addition, instability of the performance ratios is one of the major issues for the commercial banks in Rwanda mainly due to the cost of money. Rwandan banking sector’s Return on Assets (ROA) and Return on Equity (ROE) declined respectively from 2.4 percent and 13.1 percent to 1.7 percent and 9.2 percent. It is alleged that the strong decline of non-operating incomes by 34.9 percent was a major cause for this drop in profits and reflected the significant drop of income from recovery. Strong increase in operating expenses also played part to push down banks’ profits. At the end June 2016, return on equity reduced; and also operating expenses increased by 14.8 percent, from 9.3 percent registered in the same period of 2015. Based on the above therefore, the researcher was prompted to establish the effect of retail banking on the growth sustainability of commercial banks in Rwanda.

3. Objective of the Study

To assess the effect of internet banking on the growth sustainability of Ecobank Rwanda.

4. Research Design

The main objective of this study was to establish the effect of retail banking on the growth sustainability of commercial banks in Rwanda in particular Ecobank Rwanda. This study applied both descriptive and quantitative research designs. The main objective of descriptive research is to provide information on characteristics of the chosen population or phenomenon. Descriptive research was considered prior to be quantitative research design as it provides an overall overview as to what variables to test quantitatively.

5. Target Population

The population of interest in this research constituted of Ecobank Rwanda staffs. In line with this, the target population was 24 employees of Ecobank Rwanda, head office working in Finance, Consumer banking (retail banking, distribution channels, agency banking, CASA and marketing units), Commercial banking-SME and Credit Risk department. Of the 24 research population, there were four (4) members of the management team who serve as the heads of the department.

6. Data Collection Instrument

While the study was being carried out, primary data were collected through self-administered questionnaire and structured interview. In designing questionnaires that was addressed to the Ecobank Rwanda twenty (20) staff in the specified departments, the researcher used Likert scale to measure the staff’s appreciation level on retail banking effectiveness and growth sustainability level. Using Likert Scale, the staff indicated whether they strongly agree (SA), agree (A), Undecided (U), Disagree (D), or Strongly Disagree (SD). The items for the said scale are gathered for related research study of Kothari, (2004) where these authors used Likert Scale to measure such variables mentioned above.

As a way of complementing the information provided by employees, the interview was conducted with four (4) heads of departments. Also, secondary data which were mostly collected from the bank’s different but relevant reports were also used to measure the bank’s growth sustainability while comparing what was collected from questionnaire and interview.

7. Research Findings and Discussion

7.1 Effect of internet banking on the growth sustainability of Ecobank Rwanda ltd

Concerning below result presentation, the researcher intended to make a full study on the evaluation of sustainability progress that Ecobank Rwanda ltd has reached in relation to retail banking as strategy the bank employed among others.

| Internet banking helped Ecobank to increase the number of clients | 20 | 100.0 | 0 | 0 | 0 | 0 | 0 | 0 | 20 | 100 |
| Internet banking enabled Ecobank in diversifying products | 20 | 100.0 | 0 | 0 | 0 | 0 | 0 | 0 | 20 | 100 |
| Ecobank improved its profitability due to the Internet banking | 16 | 80.0 | 3 | 15.0 | 1 | 5.0 | 0 | 0 | 0 | 20 | 100 |
| Internet banking has assisted Ecobank to increase its liquidity | 18 | 90.0 | 2 | 10.0 | 0 | 0 | 0 | 0 | 20 | 100 |
| Ecobank stabilized its financial efficiency | 20 | 100.0 | 0 | 0 | 0 | 0 | 0 | 0 | 20 | 100 |

Source: Researcher (2018)
After data collection, respondents revealed to the researcher as presented in table 1 as regards to agreement of study respondents on the effect of internet banking on growth sustainability following the practices which stated that retail banking has increased the customer base at Ecobank Rwanda, and this was strongly agreed at 100.0%. Retail banking enabled Ecobank in diversifying products was strongly agreed at 100.0% and whereas 100.0% strongly agreed that Ecobank stabilized its financial efficiency. However, 15.0% of the respondents were undecided on the fact that Ecobank improved its profitability due to the retail banking.

Research results are reinforced by Barahona and Elizondo (2012), using an ATM, telephones, internet and agents, bank customers can access their bank deposit or credit accounts in order to make a variety of transactions such as cash withdrawals, check balances, or credit mobile phones. If the currency being withdrawn from the cash machine is different from that in which the bank account is denominated the money will be converted at an official exchange rate. Thus, commercial banks earn much from such services from the clients while motivating them to use these services indirectly at their convenience.

From the researcher’s point view therefore, since all the statements that the research involved were both agreed and strongly agreed, it is enough to note that there is evidence of the existence of the fact as far as the positive effect of retail banking on the growth sustainability in Ecobank Rwanda.

8. Conclusion

This research’s interest was to understand the effect of retail banking on growth sustainability in commercial banks in Rwanda, a case study of Ecobank Rwanda. Grounded on a sample of 20 staff, 4 heads of departments and review of other important reports, the objective of this study is to assess the effect of internet banking on the growth sustainability of Ecobank Rwanda. The study asserted that there positive effect between internet banking and sustainability of Ecobank.

9. Recommendation

For public responsiveness, commercial banking stakeholders such as the ministry of ICT and MINECOFIN together with other responsible stakeholders in the government are recommended to sensitize the general public on retail banking components. This will enable the bank to increase the customer base.

In order for the bank to raise its customer base, the bank is recommended to extend its retail banking services to other secondary cities of Rwanda. This would make awareness to more people since these cities are located near to the rural areas where there are masses.

References

[2] BNR (2016), Retail Banking Directions: Opportunities and Challenges. Mumbai,