

SME BANKING IN KENYA

MARCH 2016



SME banking in Kenya



The Kenya Financial Sector Deepening (FSD) programme was established in early 2005 to support the development of financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry, the programme's goal is to expand access to financial services among lower income households and smaller enterprises. It operates as an independent trust under the supervision of professional trustees, KPMG Kenya, with policy guidance from a Programme Investment Committee (PIC). Current funders include the UK's Department for International Development (DFID), the Swedish International Development Agency (SIDA), and the Bill and Melinda Gates Foundation.



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Abbreviations

ABC Bank	African Banking Corporation Ltd
BOA	Bank of Africa (K) Ltd
CBA	Commercial Bank of Africa Ltd
CBK	Central Bank of Kenya
DTB	Diamond Trust Bank (K) Ltd
FSDK	Financial Sector Deepening Trust Kenya
GT	Guaranty Trust Bank Ltd
HFCK	Housing Finance Co of Kenya Ltd
KCB	Kenya Commercial Bank Ltd
KRA	Kenya Revenue Authority
KSh	Kenya Shillings
LPO	Local Purchase Order
MFI	Micro-finance Institution
NIC	National Industrial Credit Bank Ltd
POS	Point of Sale
SME	Small & Medium Enterprise

Acknowledgments

The research was undertaken by a team of researchers guided by Ulla Balle, GrowthCap Partnership Development Manager and GrowthCap Associate, Duncan Oyaro. The key researchers, in alphabetical order, were:

- Beth Mwangi** of Ideal Business Link
- Boniface Ngahu** of SBO Research
- Caroline Mwazi** of Huru Consult
- Charles Ndambuki** of Gaps & Bridges Consulting
- Chris Odongo** of Wylde International
- Frank Waruingi** of SBA Consulting
- Moses Muiruri** of CoBS Consulting
- Mark Kimondo** of Sigma Business & Analytics
- Nabeel Hassanali** of Genesis Consult
- Sarah Kanaiya** of Integral Solutions

The researchers all delivered bank specific reports. This final summary report was written by Duncan Oyaro and Dr Pat Richardson, an international adviser to GrowthCap, supported by James Kashangaki, Head of GrowthCap and Inclusive Growth at FSD Kenya.

EXECUTIVE SUMMARY

The financial services sector's attitude towards Small and Medium sized enterprises (SMEs), is changing. SMEs form a significant part of the potential finance market in most countries, including Kenya. Despite the growing commitment of Kenyan banks to this market, in comparison to other sub-Saharan countries, access to finance is still considered to be a major constraint to growth and sustainability.

FSD Kenya has, since its inception in 2005, sought to catalyse the financial sector to address challenges faced by growing businesses. As FSD Kenya engaged with this market, it became increasingly apparent that there was a poor understanding of what the Kenyan SME finance landscape actually looked like. It was in this context that FSD Kenya's GrowthCap project embarked on a market study, in late 2014, to map out the Kenyan SME finance landscape.

The study was conducted in Nairobi and set out to provide a snapshot of what the prevailing SME finance market looked like in Kenya focussing primarily on three aspects of how the banks serve SMEs.

- **Who** did banks see as their SME clients? Did the banks have a clearly defined definition of the SME customer and were they indeed specifically targeting this market at all?
- **What** were the banks offering their SME clients? Did they have specially tailored products and services for SMEs or just variations of their corporate and retail banking offers?
- **How** did the banks deliver their services to their SME clients? Were there any differentiated channels of delivery for this particular group of business customers?

The research was conducted by a team of 10 local researchers, most of whom were small businesses themselves. It was undertaken in two phases: firstly, through desk based examination of published information and then a mystery shopping exercise, involving the researchers approaching the banks by phone and or through visiting branches to actively pursue support for their small businesses. The study included the top 30 banks, primarily tier 1 and tier 2 banks, licensed by the Central Bank of Kenya (CBK), representing a combined market share of 95.8% as of 2013.¹

The research faced a number of practical challenges in obtaining up to date accurate information from the banks throughout the study. The information that was obtained did outline the banks' services for SMEs, but more importantly it highlighted the lack of a clear and consistent offer to this sector and in many cases the very poor delivery of what little is offered. Banks were not fully living up to their value propositions on SME relationship management, having a customer centric approach as well as efficient Turn-around Times (TaTs), which is a way to describe the time taken from customer application to approval of the specific product.

The key conclusions and lesson from the research were as follows:

Who is the SME customer?

In most cases it was not clear who the bank regard as an SME and more particularly which SME customers they wished to target and serve.

Lessons

There is a missed opportunity here for banks!

- Banks need to present a clear and consistent message about who they see as their SME customers and how they can help these types of businesses, if they are to profile themselves as SME friendly providers in the financial market place.
- In order to serve SMEs effectively, banks need to identify different segments or subgroups within the overall group of SMEs. In this way banks can better understand the nature and needs of particular SMEs and which types of SME customers they, as a bank, should be focusing upon.

What is on offer to the SME customer?

The research found that there were very few differentiated products & services available that were actually tailored to the needs of SMEs.

Lessons

Again there is an opportunity here as both small businesses and the banks both need clarity about what is on offer and what benefits it brings.

- In order to do this, banks need to have a well-defined strategy in place to give clarity and guide their SME banking operations. It appears from the research that many banks lack a formal SME banking strategic plan that is SMART (Specific, Measurable, Achievable, Relevant, Time-bound) and as a consequence are not able to articulate any compelling competitive advantage in the SME banking market.
- Banks need to build on this strategy by segmenting their SME portfolio and developing and testing a well-researched SME value proposition that speaks to each segment's particular needs.
- Clear SME strategies and value propositions help to develop clearly differentiated products for that part of the SME market that a bank wishes to serve. SMEs require financial solutions that address their particular needs.
- All of the above will mean that a bank is better able to present themselves to new potential customers and develop more profitable relationships with them, i.e., their offers match their strategic intent towards SMEs.

¹ <https://www.centralbank.go.ke/images/docs/Bank%20Supervision%20Reports/Annual%20Reports/BSR2013AnnualReport.pdf>



How are services then delivered to SMEs?

The research found that the majority of banks did not appear to be serving SMEs very well. There is a gap between the 'website promise' - where there is one - and the reality of delivery on the ground.

Lessons

There is a need to improve all aspects of branch service delivery for SMEs.

- Banks need to live up to the SME value propositions they develop. Ideally, the banks should align their organisation to a business model that will deliver value to their SME customers both efficiently and effectively for both the bank and the customer.
- There is no one single operational model to follow, and each bank will have to make decisions about what and how products will be delivered to SMEs and how this business will be managed including what this means as regards delivery channels, credit processes and qualified personnel.
- Front line personnel at the branch level are the face of the bank for most SMEs. There is a need for the banks to inform and train front line staff so that they are able to effectively welcome, serve and or refer SME customers in a professional, informative and consistent manner.

- When a bank states that it offers SME relationship managers to look after their SME customers, these managers need to be competent and experienced to understand the financial needs of these SMEs and work effectively with this customer group to help them thrive and grow.
- It is important that not all SME clients should be relationship managed as this has significant cost and logistical implications. Ideally a bank should identify, during the segmentation process, those clients to whom it intends to offer a personalised level of service and those which will be effectively served through a portfolio managed process.

In conclusion

In summary the research shows that banks have 'some way to go' before they can claim to be effective providers of finance to SMEs in Kenya. At the same time there seems to be a great opportunity in Kenya for banks to serve a relatively underserved part of the business market i.e. the smaller growing business. So why doesn't this happen?

Is it because many Kenyan banks are making good profits from their current SMEs portfolios without taking too many risks or being particularly innovative in their approaches? There would appear to be no desire for change- or as John Kotter² would say '*there is no sense of urgency*' to change and or improve things.

This might be the current state of affairs, however as experience from other economies has shown; this will not always be the case. The challenge for the banks is who will be the best prepared when SMEs become more demanding of their financial service providers and start shopping around!

The report is presented in 5 sections. The first Section looks at SME finance in Kenya as a background to the research, followed by the second which presents the research approach. Section 3 looks at the findings from the desk based research, whilst section 4 discusses what was found through the mystery shopping exercise. The final section pulls together a set of conclusions and lessons that came out of the overall study.

² <http://www.kotterinternational.com/about-us/who-we-are/john-kotter/>

Section 1

BACKGROUND



Cube Movers, a Kenyan SME: Access to finance is considered to be a major constraint among businesses in Kenya.

FSD Kenya's GrowthCap project was launched in October 2012, as an innovative initiative designed to build capacity within Kenya's financial services community, to better serve the country's small and medium enterprise (SME) sector. GrowthCap's overall purpose has been to stimulate industry-defining change in the Kenyan SME financial sector by supporting banks and bankers to better understand the nature and needs of SMEs, and respond accordingly with appropriate financial services. The project has been working with a select group of banks, known as Action Research Partner (ARPs), to assist with the development of enhanced SME-centred solutions, services and processes based on good practice that has worked elsewhere in the world.

By embracing these changes, it is hoped that the banks will maximise their own commercial performance as well as helping to develop a market sector that is accepted as being crucial for both future bank profitability and Kenyan economic growth.

It is widely accepted that a vibrant, robust and growing SME sector is a vital component of any modern, healthy economy. This broad acceptance of the economic imperative of SMEs applies strongly to Kenya, where best estimates put the MSME³ market at approximately 7.5 million enterprises contributing around 44% to the Kenyan GDP in 2008 (up from estimates of 13.8% in 1993),

80% of the country's total employment and 92% of all new jobs. Despite this apparently large number of MSMEs relative to Kenya's population of around 46 million, the real situation is markedly different. Best estimates suggest that the actual number of formal SMEs is somewhere in the region of 250,000, with approximately 60% operating within the greater Nairobi area.

In Kenya there is relatively strong competition between banks to serve SMEs, as well as strong micro finance institutions (MFIs) that have become deposit taking micro finance banks, (MFBs) with the intention of serving the SME sector. While SME finance may still be perceived as risky, a recent FSD Kenya report⁴ noted that *"The banks' total SME lending portfolio in December 2013 was estimated at KSh332 billion, representing 23.4 per cent of their total loan portfolio"*

As stated above access to appropriate finance is considered to be a major constraint among smaller businesses in Kenya. SMEs rank access to finance as third behind *"Practices of Competitors in the Informal Sector"* and *"Corruption"* as key factors inhibiting their growth. Indeed, the 'Top 100' Survey 2013-14 conducted by KPMG⁵ found that *"firms continue to rely heavily on founder's savings, which underlines the difficulty of getting banks and other investors to back enterprises."*

3 The focus of this research and report are smaller businesses referred to collectively as SMEs or small and medium enterprises. However, many official statistics refer to a larger group of micro as well as small and medium enterprises which is why the term MSME is used. For a discussion of these different definitions see State of Practice of SME Banking August 2014. Download at <http://fsdkenya.org/publication/state-of-practice-of-sme-banking>

4 Finaccess Business – Supply Bank Financing of SMEs In Kenya's September 2015 report <http://fsdkenya.org/publication/finaccess-business-supply/>

5 <http://eastafriatop100.com/key-findings-of-top-100-mid-sized-firms-survey/>

It was in this context that GrowthCap in late 2014, undertook a study to explore the reality of the SME's experience of accessing financial services in Kenya and in doing so help towards mapping out the Kenyan SME finance landscape.

The study set out to provide a snapshot of what the prevailing SME finance market looked like focussing primarily on three aspects of how the banks serve SMEs.

- **Who** did banks see as their SME clients? Did the banks have a clearly defined definition of the SME customer and were they indeed specifically targeting this market at all?
- **What** were the banks offering their SME clients? Did they have specially tailored products and services for SMEs or variations of their corporate and retail banking offers?
- **How** did the banks deliver their services to their SME clients? Were there any differentiated channels of delivery for this particular group of business customers?

Section 2

THE APPROACH

The study of the SME Financial Landscape was undertaken by a group of 10 Kenyan consultants who took a two staged approach and examined 30 banks. The team (see Appendix 1.1 for their details) were all small business owners themselves and had a good knowledge of the Kenyan banking sector. They were guided in conducting the research, by a briefing session with the GrowthCap team prior to commencing the task, as well having a detailed questionnaire provided as a frame of reference for the key topics to be covered and what type of data was to be collected. The project team guided the research by holding several feedback workshops throughout the study period where the methodology was refined and improved.

The research approach involved two sequential sets of activities –the desk based research followed by the mystery shopping exercise.

- **Desk based research looking at published information.**

The consultants conducted the desk research as SMEs seeking to obtain information remotely when looking for financial solutions for their businesses. The researchers examined banks' web pages, online brochures, annual reports, published financials and news articles. In the absence of published information some resorted to telephoning the banks to find out what was on offer. The desk based research was conducted over a two-week period, culminating with each of the consultants presenting their findings to a joint forum. This reporting helped build the initial picture of the SME finance market.

- **Mystery shopping exercise**

Mystery shopping is a research approach that is used to test out the customer experience of getting information about and/or buying products or services from a particular provider. In this study, the

consultants were tasked with contacting up to 3 different branches of the banks they had researched during the desk based exercise. The aim was to validate the information they had gathered from the desk research and at the same time document the customer experience as an SME and potential customer approaching these banks.

The consultants approached the financial institution's staff on behalf of their own businesses or a proxy small business (usually a colleague's business) seeking to get access to financial services. They requested to be directed to the relevant staff capable of serving them as a small business. The attitudes and competency of the staff, the services offered, the quality of the information given by them or others and the overall experience at the branch as well as any contact and feedback given following the visit were all observed and noted as part of the research process.

The research initially considered 44 licensed banks (See Appendix 2), 12 licensed microfinance banks, as well as 184 licensed SACCOs. In scrutinising these institutions, the study found that although SMEs approach all of these institutions for financial services, SACCOs and microfinance banks had limited financial products targeted specifically at small businesses. This is not to say that growing SMEs do not benefit from financial services from these institutions, but it would usually be through the proxy of the entrepreneur himself or herself. The scope of the study was therefore narrowed to focus on the top 30 banks licensed by the Central Bank of Kenya (CBK) and primarily tier 1 and 2 banks that together have a combined market share of 95.8% as of 2013.⁶ The key data sought from each bank is summarised in Appendix 1.2.

⁶ <https://www.centralbank.go.ke/images/docs/Bank%20Supervision%20Reports/Annual%20Reports/BSR2013AnnualReport.pdf>



The research approach involved two sequential sets of activities –the desk based research followed by the mystery shopping exercise.

Section 3

THE DESK BASED RESEARCH FINDINGS

In any buying process, a customer has to be aware of what is on offer and see this 'offer' as being of interest to them before they consider purchasing it. The same applies when looking at financial services. Most small businesses are aware that banks provide credit and other financial services to businesses. The key questions for a business owner looking for support are 'Does this bank appear to help people like me? Can they help solve my problem? and 'How much is it going to cost?'

The desk research set out to find out to what degree these questions could be answered by first examining how the banks presented themselves in the market place through their websites and the written word i.e through brochures, reports, adverts, leaflets, etc.

3.1 HOW DID BANKS SEE SMEs AS CUSTOMERS?

Defining what constitutes an SME lays the foundation for how a bank defines its SME strategy - i.e. what it wants to achieve with this group of businesses, what it perceives as their needs and hence what it will offer as regards products and services. There are several ways of defining an SME including but not limited to:

- Sales turnover
- Number of employees
- Loan size
- Account turnover

According to the Kenyan Micro and Small Enterprise Act, Government of Kenya (GoK), 2013) and MSME Bill 2009 such business are classified as shown in Table 1:

Table 1: Government definition of SMEs

Group	Number of employees	Business turnover in KSh
Micro	<10	<500,000
Small	10-49	500,000 to 5M
Medium	50-99	5M-800M
Large	100+	800M+

Banks are interested in the financial capabilities of their customers and so tend to define businesses by sales turnover and size of loan requirements. The desk research found that few banks seemed to see or refer to SMEs explicitly as a customer group on their websites or in their literature. The term SME, if mentioned, was frequently 'hidden behind' corporate business or business banking 'tab's on the front pages of websites. In only 3 cases - or 10% of the 30 banks studied did a bank actually specify what they understood as an SME client group up front.

- **Guaranty Trust Bank Ltd (GT Bank)**— stated on their website under an SMEs that "SMEs are those business with an annual turnover up to KSh. 400 million". See <http://gtbank.co.ke/home/sme>
- **National Industrial Credit bank Ltd (NIC Bank)** had a more detailed 3 level definition in their literature:
 - Lower tier SMEs: those business with turnover below KSh. 15million
 - Middle tier SMEs: those businesses with a turnover between KSh. 15m and KSh. 50million
 - Upper tier SMEs: those businesses with a turnover above KSh. 51million".
- **Eco Bank Kenya Ltd (ECO bank)** in their literature defined SMEs as "corporate and non-incorporated businesses with only a local presence and a credit turnover of between USD 20,000 – USD 5 million per annum." See <http://www.ecobank.com/upload/20141106105905631455KT2kRQ9WZR.pdf>.

These three definitions vary greatly including businesses with turnovers ranging from KSh. 15 million to those under KSh. 500 million. This band of turnover alone inevitably includes an extremely wide and hence varied set of different types of businesses, which in turn will have a diverse set of needs as regards financial services.

3.2 AN SME VALUE PROPOSITION?

A value proposition is an outward-looking description of the offer that a financial institution makes to its target clients⁷. Only 4 or 13% of the 30 banks studied appeared to make an attempt at a value proposition for their SME clients at the time of the research. These different propositions are presented below as they are expressed by the banks:

- **National Bank of Kenya Ltd :** "We have organized our business to offer solutions in order to meet the requirements of our SME customers through a dedicated relationship management approach."
- **Guaranty Trust Bank Ltd :** "We have a broad range of products available, from current account, to loans to internal settlement services across many of our banking channels. Getting started is as simple as talking to a relationship manager about where you're going. Your personal relationship manager is backed up by specialist teams with years of experience in banking, specializing in several industries. So we know where you're coming from. Your business is important to us and we would like to create a customized solution just for you!"

⁷ Reid, D., Miller, M., Oyaro, D. (2015). Value Proposition Guide. Nairobi, Kenya: FSD Kenya <http://fsdkenya.org/publication/value-proposition-guide/>

- **Jamii Bora Bank Ltd (Jamii Bora Bank) :** *“We are a different Bank, we know where we came from and we know where we are going – we want to take our members, customers and stakeholders along with us. We view prosperity and success as a renewable resource that needs to be shared with the entire community. To this end, we shall continue to offer better and tailor-made solutions to our old and new members with the overall aim of improving their lives and livelihoods.”*
- **Chase Bank Ltd (Chase Bank) :** *“We are in business. We started small. This is why we understand your business, big or small.”*

3.3 WHAT PRODUCTS AND SERVICES WERE THE BANKS OFFERING SMES?

Having established that few of the banks appear to clearly define and position themselves in the SME market, the research then looked at whether these institutions offered any specific products and services to SMEs.

Looking at desk based sources the researchers were unable to obtain any information about products relating to SMEs for 5 of the 30 institutions. The remaining 25 banks fell into one of two broad groupings - those that appeared to offer some differentiated SME products and services and those that offered either their corporate or retail banking products to their SME clients.

Those offering differentiated SME products

Fifteen, or 50%, of all the 30 banks analysed stated that they had finance products for SMEs, differentiated from those for their retail and corporate clients. These institutions included:

<ul style="list-style-type: none"> ▪ Commercial of Africa Ltd (CBA) ▪ African Banking Corporation Ltd (ABC bank) ▪ Chase Bank Ltd ▪ National Bank of Kenya Ltd ▪ Kenya Commercial Bank Ltd (KCB) ▪ Guaranty Trust Bank Ltd (GT Bank) ▪ National Industrial Credit Bank Ltd (NIC Bank) 	<ul style="list-style-type: none"> ▪ Jamii Bora Bank Ltd ▪ Ecobank Kenya Ltd (ECO) ▪ Standard Chartered Bank (K) Ltd ▪ Co-operative Bank of Kenya Ltd ▪ Diamond Trust Bank (K) Ltd (DTB) ▪ Housing Finance Co of Kenya Ltd (HFCK) ▪ Cfc Stanbic Bank (K) Ltd ▪ Gulf African Bank Ltd
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Figure 1 shows the range of products offered with the most common being as follows: **SME current account; SME term loans; and Trade finance facilities.**

The research team found it was difficult to obtain comprehensive information on these product offerings by desk research alone as illustrated by Figure 2 overleaf.

Of the 15 banks offering specific products, 4 restricted themselves to simply listing the range of products that they offered without giving any further details. Twelve of the banks presented the features of their SME finance products with information as regards terms, eligibility criteria, costs and application process.

Figure 1: SME product offering matrix

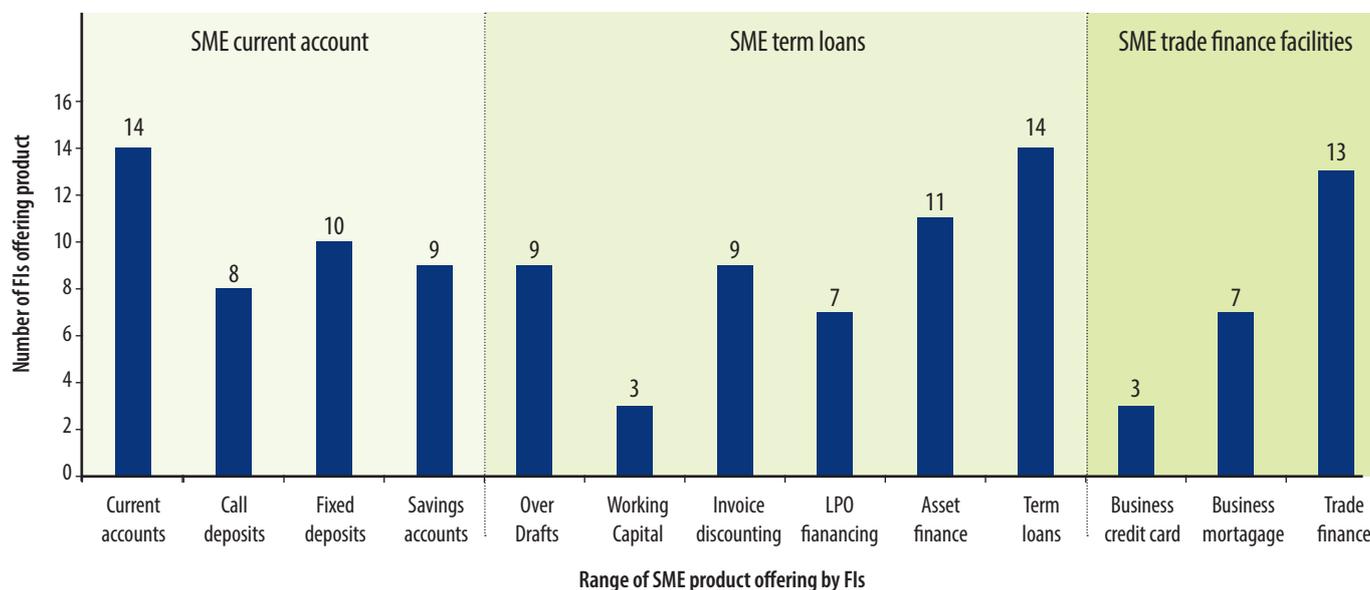
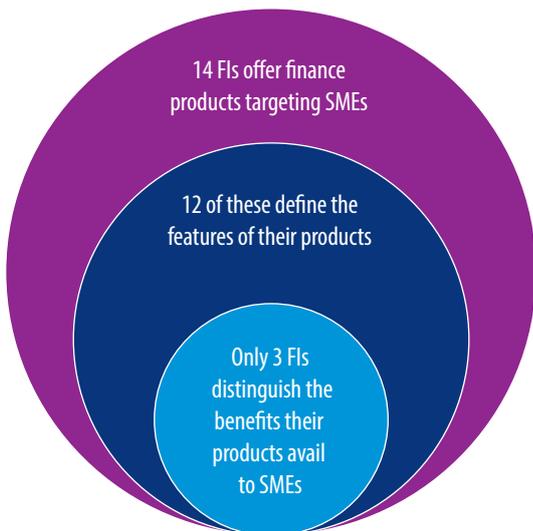


Figure 2: Level of information available on SME finance product offering



Only 3 of the banks –20% of the 15 offering SME products but only 10% of all the 30 banks studied – appeared to have made any attempt to outline the benefits of their products to their SME customers may derive from their products. Examples of how these benefits were presented are given below:

- **Commercial of Africa Ltd (CBA):** *“CBA’s Working Capital Finance product provides a flexible solution to business finance that caters to the seasonable business demand fluctuations of your industry.”*
<http://cbagroup.com/business-banking/business-banking/>
- **CfC Stanbic (K) Ltd** on Overdrafts: *“Overdraft facilities are available on business current accounts, giving you access to extra funds (up to a specified limit) to help you manage your day-to-day cash flow and working capital needs.”*
<http://www.cfstanbicbank.co.ke/kenya/Business/Borrowing/Business-Overdraft>
- **African Banking Corporation Ltd (ABC bank)** on Invoice discounting: *“This is a form of short-term borrowing often used to breach working capital deficit on your company’s working capital and cash flow position, it allows a business to draw money against its sales invoices before the customer has actually paid.”* <http://www.abcthebank.com/credit-facilities/>

Those offering corporate/retail banking products to SMEs

Some 10 or 33% of all the banks studied (or 40% of the 25 where desk based information was available) simply offered their retail or corporate finance products to SME customers as opposed to any specific SME product or service. Seven offered SMEs corporate finance products with the remaining 3 offering retail products.

Non-financial services

From the desk based review some 9 banks – 26% of the 30 banks examined appeared to offer some form of what might be termed ‘non-financial services’ to their SME customers.

Five banks (Kenya Commercial Bank Ltd (KCB), GT Bank, ABC Bank, NIC Bank Ltd, and Chase Bank) stated that they offered ‘relationship management’ to their SME clients that suggested some form of closer and more tailored approach to looking after their SME customers.

Barclays Bank of Kenya Ltd (Barclays Bank) and Co-operative Bank of Kenya Ltd both stated that they offered ‘business advisory services’ to their SME clients but gave no further details of what these advisory services comprised.

Diamond Trust Bank (K) Ltd (DTB) offered online SME business advisory toolkits which had been developed by IFC (International Finance Corporation). The toolkits provide online resources that include a set of guides videos and checklists on various business topics, aimed to help SMEs formalise and grow their businesses. Any SME appears to be able to access the toolkits free after registering on IFC’s/DTB’s SME solutions website <http://kenya.smetoolkit.org/kenya/en>.

Equity Bank Ltd, Barclays Bank and KCB Bank all stated that they have business clubs, where their SME clients can gain access to business advisory services through seminars and networking events, as well as meet other businesses like themselves.

KCB Bank and DTB presented the most accessible information about their SME specific services through their websites. View this webpage link for details of KCB’s SME Club at <https://ke.kcbbankgroup.com/business-banking/sme/>

3.4 HOW DID THE BANKS DELIVER SERVICES TO SMES?

In all the cases under review, the branch network was found to be the principle channel through which banks served their SME customers. The number of branches varied from bank to bank although the largest numbers were concentrated in and around Nairobi and Mombasa. (See Appendix 3 for further details)

The larger banks tended to have a wider branch network with a presence in smaller cities and towns. As Table 2 overleaf, shows 5 of the 30 banks studied were those with the largest branch networks throughout the country. Table 3 shows the number of branches for all of the banks studied in the research demonstrating the diversity of banks and their coverage.

Table 2: Top 5 Banks in Kenya re number and distribution of branches

Bank	Market Presence	Branches
Kenya Commercial Bank	Nationwide	177
Equity Bank	Nationwide	153
Co-operative Bank	Nationwide	134
Barclays Bank	Nationwide	120
Diamond Trust Bank	Nationwide	98

Table 3: No. of bank branches per bank

Branches	Banks
More than 100	4
50 - 100	3
25 - 50	9
10 - 25	11
Less than 10	3

The desk research also revealed that both Barclays Bank and Standard Chartered Bank (K) Ltd stated that they had SME dedicated spaces in their branch network offering additional facilities and more tailored services to SMEs. This included services such as SME dedicated staff, set appointments with less queuing for attention and more comfortable environments for discussion between bank staff and the small business owner and access to Wi-Fi, refreshments, etc.

Nearly all of the banks (24 out of 30 or 80%) offered mobile banking solutions (either based on USSD or mobile apps) as well as online banking options to their SME clients. Both service options aim to help reduce the need for SME owners to physically visit a branch and queue to conduct simple transactions.

Only 8 of the 30 banks (just over a quarter at 27%) stated that they had an agency banking network that offered smaller businesses, especially those outside major cities, to better access to their services.

3.5 SUMMARY

In summary the desk research revealed that most of the 30 banks studied did not present a clear profile and messages about their services to the SME sector.

- Half of the banks said that they had SME specific services and products but very few (3 or 10%) give basic information about these with little reference to the benefits of these products and service for the SMEs.
- Only 4 of the banks presented what might be seen as an SME value proposition but even in these cases the message put forward was very general.
- Nine of the banks appeared to offer some form of non-financial services which in most cases referred to relationship management, advisory services and business clubs in quite general terms. DTB and KCB were the most deliberate in presenting their SME business toolkits and SME business club offers on their websites.
- The primary channel for delivering services to SMEs appeared to be through the banks' respective branch networks, although the majority of the banks (80%) also offered online and mobile banking options for basic transactions.

Section 4

THE MYSTERY SHOPPING FINDINGS

Having built an initial picture of the SME financial landscape through desk based resources, the consultants set out to actively approach the banks by walking into and or phoning at least three branches for the banks they studied. In this way the mystery shopping element of the research covered over 70 branches throughout the Nairobi area.

Through this second phase of research, the mystery shoppers set out with 3 tasks; to validate the information they had gathered from the desk based sources; to seek additional information about SME products and to assess the actual experience of service to SMEs in the branches.

4.1 WHO DID THE BRANCHES SEE AS SME CLIENTS?

Defining SMEs customers

By directly asking staff in the branches about whether they served SMEs, the mystery shoppers were able to obtain additional information from a further 9 banks which meant that a total of 12 banks in the study provided clear explanation of what they regarded as an SME customer. This comprises only 40% of all the 30 banks studied.

Even amongst these 12 banks that gave some form of SME definition, there were variances in what criteria were used and the limits used to define an SME across the different institutions with some institutions using sub divisions and definitions of the SME category as a whole. In some cases, the definitions given varied from branch to branch within the same banks.

Table 4 shows the main criteria used to define SMEs was sales turnover or size of loans actual and how the value limits used varied considerably. In 5 cases the banks do not define a small business as such, but simply specify what they regard as small and medium sized businesses as distinct from their corporate clients. Of those banks that define their SME clients, 6 do so using sales turnover and these values range from 1 KSh million to 30 KSh. million. The 3 using loan size specify values from 1KSh million to 50KShh million.

The research confirms that there was not a clear and commonly shared view of what constitutes a small or medium sized business customer amongst many of the banks in the Kenyan market place. The absence of a clear statement in this respect means the banks are not sending clear messages to the SME community of what they can do for entrepreneurs and their businesses.

Table 4: SME definitions obtained from the mystery shopping exercise

Financial Institution		Sales turnover (KShs)	Loan size (KHz)	No. of Employees
NIC Bank	Small	5M - 30M	-	-
	Medium	>30M	-	-
Gulf African Bank	Small	>3M- 250M	>1M- 45M	-
	Medium	>250M	>45M	-
CFC Stanbic	Small	-	-	-
	Medium	<250M	-	-
CBA	Small	-	-	-
	Medium	-	<300M	-
Equatorial Commercial Bank Ltd (ECB)	Small	-	-	<5
	Medium	<250M	>50M	>50
ABC Bank	Small	-	-	-
	Medium	<200M	-	-
Chase Bank	Small	>6M- 250M	2M - 50M	-
	Medium	>250M	50M - 350M	-
Equity Bank	Small	1M - 10M	-	-
	Medium	10M - 100M	-	-
GT Bank	Small	-	-	-
	Medium	<400M	-	-
Standard Chartered Bank (K) Ltd	Small	>8M	-	-
	Medium	<500M	-	-
I&M Bank Ltd	Small	10M - 25M	-	-
	Medium	25M - 50M	<300M	<30
ECO - Bank	Small	-	>USD 20,000	-
	Medium	-	<USD 5M	-

4.2 SME VALUE PROPOSITIONS

The desk based research identified 4 banks that had expressed some form of value proposition for their SME clients. The mystery shopping research validated these findings but revealed no additional information in this respect from any of the other banks.

The overall impression was that where banks talked about serving SMEs at all, they were distinguishing themselves and adding value to their SME customers by how they delivered their services to this client group. That is by having SME relationship managers; by adopting customer focused or customer centric approaches in dealing with small business owners and by delivering quick turnaround times (TaT) on any activities. All of these forms of 'added value approaches' were tested and discussed below.

4.3 DIFFERENTIATED SME PRODUCTS AND SERVICES

The mystery shopping largely validated the findings of the desk based research as regards the differentiated SME products and services which the banks stated that they offered.

Financial products and services

As Figure 3 shows, more of the banks claimed to offer SME differentiated products and services and they also appeared to offer a wider range of products than found from the desk based research. The 5 core products identified by the desk research together with savings products were still the most commonly quoted to the researchers when they went into the branches. However, several of the mystery shoppers noted when they asked for further details about products and services there seemed to be a disconnect between

what was said on many bank websites and what the staff were aware of in the branches. For example:

- In one branch the staff member talking to the researcher said the bank had no SME products and did so whilst standing in front of a poster that stated they had.
- In another branch the staff member was not aware the bank had a website never mind what was offered on the site.

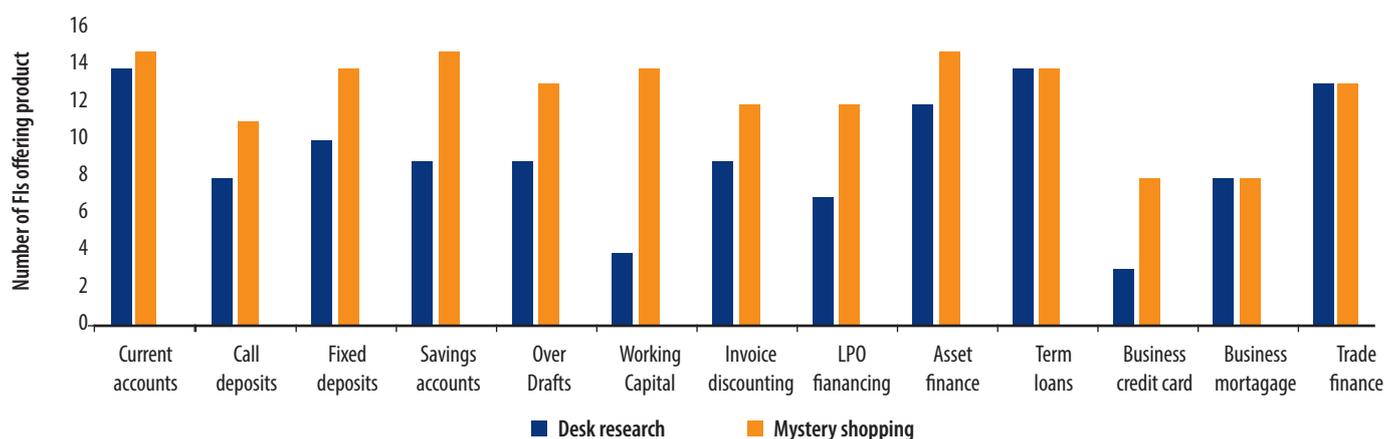
The SME finance products that were on offer were found to be similar across all of the banks. It was the pricing as well as the processes and channels through which the products were delivered that appeared to be the major distinguishing factors between banks as noted below.

Account opening requirements

The basic requirements for an SME to open an account were reported as follows:

- Certificate of incorporation or unincorporated SME's registration certificate
- Memorandum and Articles
- Resolution to open an account
- Kenya Revenue Authority (KRA) PIN certificate
- Passport Photos of directors
- Copy of ID
- Application form (completed or to be completed upon presentation)

Figure 3: Comparison on availability of product information



The following additional evidence was required by some banks although the degree to which some or all of these additional forms of evidence were required varied from bank to bank:

- Trading license
- Proof of address e.g. utility bill, tenancy/lease agreement
- Physical presence of all directors
- Introduction letter from a referee/current business account holder
- Certified up to date, 6-12 month bank statements (from another bank)
- Audited financial statements if the SME has been in business for more than 1 year
- Latest annual returns for the directors

The physical presence of all directors to sign documentation to open an account was seen as particularly burdensome requirement by some of the mystery shoppers, particularly one business researcher who had a fellow director who was working outside of Kenya.

Collateral requirements

Most of the banks require their SMEs to provide some form of collateral in order to access both their funded and non-funded facilities (guarantees, bid bonds etc.). Traditional forms of collateral that are accepted by banks include land title deeds, motor vehicle log books, guarantees, listed shares, as well as cash in the form of deposits. One financial institution in particular accepted alternative forms of collateral, such as household goods, which could be more accessible to smaller less formal SMEs.

One institution was reported to offer an unsecured facility of up to KShs 3 million to its SME clients. This was a cash flow based product where the cash flows generated by the client's business, as measured by the account turnover, together with their willingness to repay are the key factors considered by the bank in making a lending decision.

Non-financial services

The mystery shopping research validated the nine banks who said they offered some form of non-financial services to their SME clients through one or more of the 3 types of support noted below.

- Business clubs: membership of an SME business club was offered by 4 institutions and principally offered to SME clients at a fee. In Kenya, SMEs use business clubs mainly for business linkages, trips as well as for networking purposes. Other extras, such 'premium' or 'select banking', which involve some form of preferential treatment over other customers, are usually included with these memberships.

- Business support/advisory services: These are delivered primarily using external partners such as consultancy firms or development/donor agencies. Some take the form of training where SME clients are taken through courses such as business skills, financial management and record keeping.
- DTB in conjunction with the IFC has developed and promotes SME business toolkits that businesses may access and utilise from their website as noted earlier.

4.4 SME SERVICE DELIVERY CHANNELS

The desk based research confirmed that the main delivery channels through which the banks delivered services to their SME customers were their branch networks. The mystery shopping research focussed on testing out service at these branches but also aimed to gather more information about the online mobile and agency offerings.

Branches

In the desk based research two of the banks studied stated that they had dedicated SME spaces within some of their branch network. The mystery shopping revealed that a further 7 banks had such facilities in some of their branches. Altogether, 9 banks – less than a third of those studied – recognise SMEs as a distinct target group of customers worthy of some differentiated space for service delivery within their branches. In some cases, these units were called select banking units rather than SME units.

Such spaces are intended to provide more comfortable surroundings for these clients with free access to Wi-Fi, with refreshments and more experienced staff than elsewhere in the branches. These dedicated units also act as resource centres where SMEs can get expert advice for their businesses.

The mystery shoppers did report a more professional, well informed, attentive and faster level of service when they visited branches with such units.

Some banks offer extended banking hours in order to cater for their SME clients. Typically, these branches would stay open till late in the evening (some were reported to be open till 7 in the evening).

Some branches, especially those of the smaller banks were observed to be understaffed, having 2-3 tellers, a customer service representative and a branch manager, altogether offering limited service to SMEs (basically for cash depositing and withdrawal). For example:

- One mystery shopper was advised to visit a bigger branch to obtain information when they enquired about equipment financing.
- Another, on identifying himself as an SME owner and requesting information on their loan offering, was redirected to the main

banking hall. Upon insisting to be served, he was advised to wait. He gave up after waiting for more than an hour.

- Another stood for some time in a queue under a sign that said ‘SMEs’ only to be informed that it was an old sign and they needed to join another queue in the branch.

Other delivery channels

The desk based research showed that the majority of the 30 banks studied offered their SME customer both online and mobile banking for basic transactions such as withdrawals, transfers, balance enquiries etc. As Figure 4 shows the majority, 29 of the 30 banks, studied offered at least one alternative delivery channel to their SME customers.

Online banking

Banks have adopted online banking in order to extend their services to clients beyond the banking hall. 26 of the banks that were researched were reported to offer an online banking platform. These systems ranged from sophisticated platforms where a client could access a trade finance solution, foreign exchange, cash management as well as other integrated solutions such as payroll processing. Other platforms were reported to be quite basic limited to only offering a platform for clients to view their online bank statements.

Some banks were reported to offer account opening through their webpages. However the mystery shoppers reported some of these were difficult to use and they had reverted to physically visiting a branch to accomplish this.

Mobile banking

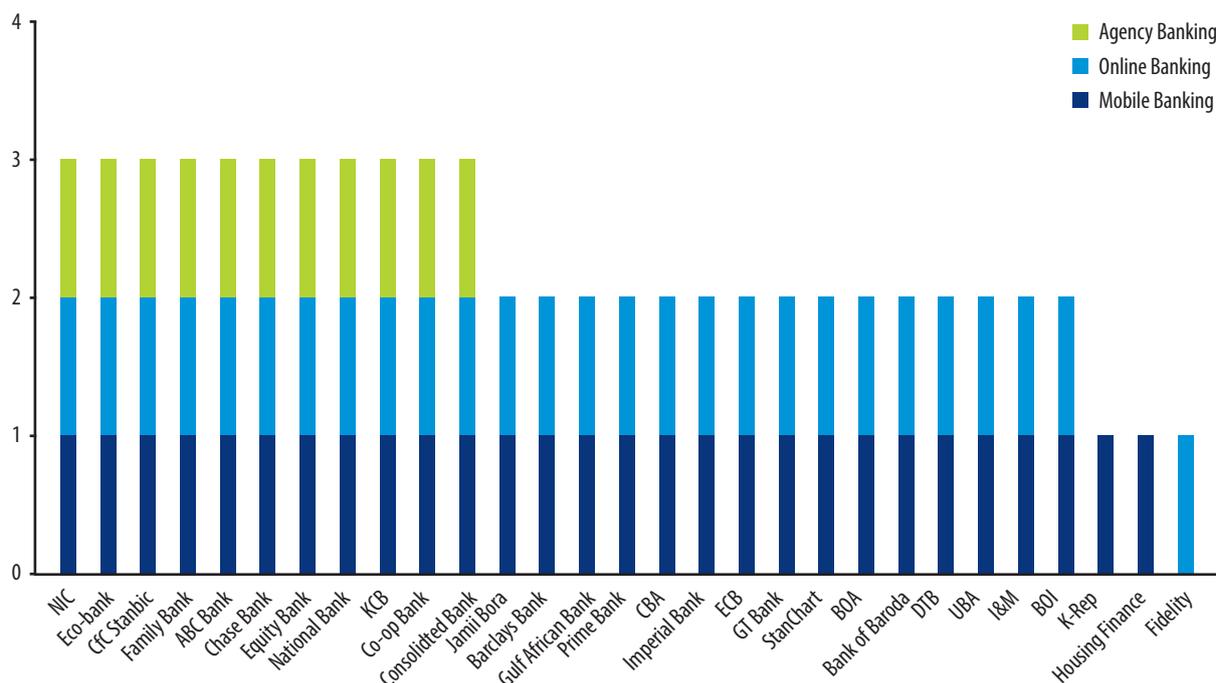
Twenty eight out of the 30 banks that were studied have some form of mobile banking solution. The mobile banking solutions offered range from USSD based platforms to mobile banking apps. These solutions were not particularly tailored for SMEs, although they were useful for transactional purposes such as effecting local transfers, account balance enquiries and transfer to mobile money solutions.

Agency banking

Twelve banks have adopted an agency banking model to complement their branch networks. Four of the tier 1 banks were reported to have some form of agency banking and had the largest agency networks.

The mystery shoppers reported that SMEs were primarily using agents for making cash deposits and withdrawals. One tier 2 bank used its agency networks for cash handling purposes when these agents were closer to the client’s premises than the nearest branch.

Figure 4: Alternative banking channels



4.5 ADDING VALUE THROUGH DIFFERENTIATED SME SERVICE DELIVERY

Whilst some of the banks had specialised SME spaces within their branches as part of their SME offer, the main way in which the banks appeared to try and differentiate themselves to SME customers was through their promise of how they would deliver services to this group.

The banks promised to deliver this 'added value' approach through providing dedicated SME relationship managers, SME centric or SME tailored approaches and or better turnaround times (TaT) to small business customers. The mystery shopping tested out the practice of this added value approach in over 70 branches of the banks throughout Nairobi.

I. SME relationship management

The majority (23 of the 30) of the 23 banks stated that they offered a dedicated relationship manager to their SME clients although for some banks it was clear that these SME relationship managers also doubled up to serve the banks' retail and corporate clients.

Although the mystery shopping experience found some excellent SME relationship managers, these were the exception rather than the norm. In most cases there was a disconnect between what was promised by the websites and leaflets and what was delivered on the ground. The majority of branches had no dedicated SME relationship manager or staff and where they did exist, the experience of this interaction experience was poor for a number of reasons.

- **Absence of an open enquiring greeting** - most of the mystery shoppers said that the members of staff did not greet them by introducing themselves, asking why they had come into the bank and then listening. Most commonly the staff assumed that they knew what the SME wanted and started talking at them.
- **Focussed simply on selling.** Many of these relationship managers behaved more like sales agents set on driving their sales targets rather than listening to the needs of the enquiring mystery shopper and offering advice and/or solutions. One researcher was greeted with the immediate offer of an overdraft facility or a term loan when introduced to the SME relationship manager. Another noted, before they had said anything at all about why they had come to the bank, the officer was telling them that the bank had the best Forex rates in town.
- **Banking terminology and jargon**- many of the mystery shoppers, who were already well informed about banking practice, commented that some of the officers they met in the branches used a lot of banking terminology which they felt the average SME owner would not have understood.

- **Lack of knowledge.** Several mystery shoppers found that the SME relationship managers they were referred to had limited product or business knowledge. For example, on visiting a branch of a tier 2 financial institution, one SME shopper was directed to an operations manager at the bank's headquarters in order to obtain information on the bank's SME products and services. Another mystery shopper felt the bank staff they contacted knew the basics about account opening but very little about various trade finance options available to SMEs.
- **Multiple referrals.** Mystery shoppers also expressed their frustration when the SME relationship managers simply acted as points of referral. One reported that at a particular tier 1 bank they could only obtain information on credit options from the credit staff. Another needed information on account opening and was referred to speak to a customer service representative. In another instance the mystery shopper was referred to a named person in the head office to help him. This person turned out to be the ICT manager who then referred him on again. Within 2 hours the mystery shopper had been referred to 6 different people to address his request.
- **Lack of consistent service within and between branches.** Customer experience varies depending on the SME staff that a client engages with. Several mystery shoppers reported varying levels of 'customer experience' between branches of the same bank based on the experience, knowledge and general attitude of the staff who had served them. In some cases, there was also a great variation between staff within the same branch. In one instance, a mystery shopper reported that she was received by a warm, knowledgeable and resourceful SME staff member who took her through the account opening requirements and gave her a copy of the account opening forms. When she returned with the forms she met a different member of the SME team, who appeared to have limited knowledge on the bank's SME products nor interest in her business and quickly dismissed her once the forms and required documentation had been handed over.

The mystery shopping did reveal some excellent experiences, usually in the dedicated SME or select business units, where SME relationship managers were professional, knowledgeable and capable of matching solutions to a client's needs. For example, in one instance an SME relationship manager from a tier 2 financial institution took time to ask the mystery shopper a series of questions before recommending a suitable SME account based on the client's preferences. The relationship manager also recommended a number of products to meet the client's working capital requirements which he had identified from their conversation. It is worth stressing that this level of service was not commonplace.

II. Customer centric approach

Several banks stated that they offered an SME customer centric approach, which suggested that their staff would listen to the needs of the SME and help them to find solutions to their problems. Again the mystery shopping research experience of delivery was very mixed.

There were some examples of excellent service which reflected this approach and officers who were willing to adapt in order to accommodate the needs of the mystery shopper. For example:

- An SME relationship manager, from a tier 2 financial institution, was happy to invite his branch manager along to meet the mystery shopper, as they had better insight into the industry in which the client's business operated. The mystery shopper noted that the branch manager gave him some useful advice and offered to structure a solution that the manager felt more closely met the needs of the business.
- Another SME relationship manager was willing to negotiate on interest rates, as the decision could be made at the branch level. A quick turnaround time was also promised on other decisions and was then delivered.
- A certain tier 1 bank waived the requirement for a business to provide financial statements when it was seeking a facility of less than KShs 42 million, by leveraging on the customer's account statements to make a lending decision.

However, in most cases the mystery shoppers had a poor experience of what was supposed to be an SME differentiated service. Two typical examples are given below.

- One mystery shopper had to queue up for an hour when she visited a certain tier 3 financial institution as there was only one SME officer available. When it came to her turn, the officer concerned dismissed the client, stating that she had an urgent meeting to attend. Upon returning the following day, as agreed, the mystery shopper was not able to complete the necessary application forms. She was informed that all the directors of the business had to be physically present at the bank to complete the application. Two trips resulted in no progress with opening an account.
- Another mystery shopper visited the branch of a tier 1 financial institution but was advised that the particular branch only dealt with personal banking. The branch to which she was referred had a clearly marked 'enterprise desk' to which she was directed. After waiting for some time the client was requested to come the following day to meet an SME officer. The researcher noted that there were no product brochures in the banking hall nor were they offered any information. When the mystery shopper finally got to speak with an SME officer the

next day, he couldn't give her information on the bank's trade finance facilities. Account opening requirements were also not available at the branch – the reason given *'the printer was not working.'*

This researcher met several other SME clients in the banking hall who seemed frustrated due to the apparent inefficiency of the bank with one stating to her that he would seek an alternative bank.

III. Turnaround time (TaT)

The mystery shopping exercise revealed that quick TaTs were promised by many of the banks as part of their SME offer. The study set out to investigate what appeared to be the average TaTs, for both account opening as well as for communicating decisions on credit applications.

Account opening TaTs

Banks report account opening TaTs using various parameters i.e.

- The time it takes to obtain an account number. Basically the account can be credited at this stage but no debits can be made. Some banks offer 'same day' to 2 working days turnaround time to obtain an account number.
- The time it takes to obtain a fully operational account i.e. one can debit and credit the account and in some cases a cheque book would have been issued. This is after the bank has undertaken all KYC (Know your customer) requirements including conducting a company search. The TaT claimed by the banks studied typically ranged from 3 to 10 working days with an average of 5.5 days.

Despite claiming the above TaTs, the majority of mystery shoppers reported longer waiting times for account opening.

- One mystery shopper reported that despite submitting all the required documentation, in a timely manner as per his initial conversation with the SME relationship manager, additional documentation was then requested. The piecemeal way manner in which the documentation was requested resulted in the client making several visits to the branch. This extended the time taken on account opening way beyond the indicated same day TaT.
- Another reported a three week wait for an account to be opened despite a promised TaT of 5 days. The mystery shopper had handed in all the required documentation on time and no explanation was offered as to what caused the delay.
- Another had to return to the branch several times as the camera needed to take the identification photograph was broken.

Credit application TaTs

Different TaTs were reported for different credit facilities depending on whether they were funded or non-funded facilities, if collateral was required and also the type of collateral needed.

The banks claimed TaTs ranging between 2 to 10 working days for giving a response to credit applications. However, the mystery shoppers observed that actual TaTs for funded credit facilities varied greatly and tended to be considerably longer than advertised or promised. Two typical experiences are given below.

- One mystery shopper applied for an asset financing facility of KShs 1 million in order to purchase a motor vehicle for his business. Upon approaching the bank, the SME officer refused to provide him with the requirements for asset financing before he, the client, provided the relevant vehicle documentation so that the bank could first assess whether he qualified for the facility or not. After returning with the requested documentation, the mystery shopper was then asked to provide a company profile, which further delayed the processing time. The promised TaT for the asset finance facility was two weeks but the mystery shopper had received no communication after more than a 6 week wait.
- Another mystery shopper, requesting an asset finance facility to purchase computers, had to wait for four days, as opposed to a 2-day TaT because a decision on the application could only be obtained from the head office.

It would be incorrect to say that mystery shopping revealed no good practice. Some mystery shoppers reported better than promised TaTs, especially where the banks had delegated credit decision making to the branches. For example:

- A researcher went into a branch seeking a bid bond (a non-funded facility) and was happy to learn that the bank he approached provided bid bonds to both customers and non-customers. He applied for bid bond in order to go for a local tender as a non-existing client. The bid bond was processed within an hour beating the bank's stated TaT of one working day.

Mystery shoppers who were informed that decisions would be made at branch level also reported flexibility on pricing as well as quick processing for facilities involving small amounts. Decisions involving larger amounts and structured facilities were made at head office level and this seemed to result in the extended delays.

4.6 SUMMARY

In summary the mystery shopping revealed the following:

- The majority (60%) of banks and their staff were not able to explain what they viewed as an 'SME customer'.
- The 12 banks who stated they had some form of definition, used sales turnover and loan size as the criteria. However the limits chosen to define small and medium businesses varied greatly between these banks.
- More banks reported to the mystery shoppers that they had SME specific services and products when compared to the desk research. The actual products and services available were found to be similar across all of the banks. It was the pricing, as well as the processes and channels through which the products were delivered, that appeared to be the major distinguishing factors between the banks.
- It validated the desk based research that had found 4 banks who expressed some form of SME value proposition but found no additional information in this respect from any of the other banks.
- Banks felt that they were distinguishing themselves and adding value to their SME customers by differentiated products and by **how** they delivered their services. That is by having SME relationship managers, by adopting customer focused or customer centric approaches in dealing with small business owners and by delivering quick turnaround times (TaTs) on any activities.
- The good practice of these added value approaches was not the norm; they varied significantly between branches of the same bank and within the same branch depending on which staff member was consulted.

Section 5

KEY CONCLUSIONS AND LESSONS

Small and medium enterprises help to generate wealth, innovation, employment and incomes in any society. If smaller businesses are to survive, thrive and contribute then, like any other size or type of business, they require access to appropriate financial services.

This piece of research provides a snap shot of the SME financial landscape in Kenya in early 2015. It shows that banks, albeit largely based on experience from their Nairobi branches, have 'some way to go' before they can claim to be effective providers of finance to SMEs in Kenya.

The research found useful information about what the banks were offering to SMEs, but it highlighted more clearly, the lack of a clear and consistent offer to this group of clients and in many cases the very poor delivery of what was offered.

The research examined 3 aspects of how the banks served their SME customers: **Who** did the banks see SMEs a specific client group? **What** products and services were the banks offering SMEs and **how** did the banks deliver their products and services to these SMEs? The conclusions and lessons from the research are summarised below under these three headers.

5.1 WHO IS THE SME CUSTOMER?

In most cases it was not clear who the banks regarded as an SME and more particularly which SME customers they wished to target and serve.

- The majority of banks (60%) did not present a clear message stating that they were banks that understood and served SMEs
- A minority made explicit mention of SMEs on their websites, for some this was under headers labelled 'corporates or 'businesses' and using 'big business' language to describe their business banking offers.
- When banks did mention SMEs there was little clarity about what was meant by this term and who constituted an SME client. There was inconsistency in the SME definitions used between banks and more worryingly between branches of the same bank.
- 'SMEs' were defined as a very broad segment, including those with turnovers ranging from KSh 15 million to those under KSh. 500 million.
- Banks appeared to target SMEs as a homogeneous group, rather than specialising in serving particular types of SMEs within this group.

This lack of clarity, around the SME as a target customer group, may point to the banks lacking a defined SME strategy. Alternatively, some banks do have SME strategies on paper, but don't communicate these widely and clearly to their staff, especially to front facing SME staff.

Lessons

There is a missed opportunity here for banks!

- Banks need to present a clear and consistent message about who they see as their SME customers and how they can help these types of businesses, if they are to profile themselves as SME friendly providers in the financial market place
- To serve SMEs effectively, banks need to identify different segments or subgroups within the overall group of SMEs. Segmentation is a process of breaking the SME market into smaller like pieces, grouping customers with similar or common behaviours, so that they can be better approached and served, with products, staff, and processes that are appropriate for business needs and at appropriate price points⁸. In this way banks can better understand the nature and needs of different SMEs and which types of SME customers they, as a bank, should be focusing upon. In order to define its target clients in this way, a bank should review its existing portfolio to better understand the characteristics of the businesses they serve. Then they can define the clients they want to pursue strategically.

5.2 WHAT IS ON OFFER TO THE SME CUSTOMER?

The research found that there were very few differentiated products & services available that were actually tailored to the needs of SMEs.

- Half of the banks said they offered SME products & services, although few specified the full features and benefits of these. A further 30% offered their corporate or retail banking products to their SME clients.
- Many of the banks' branches had no or little information on their SME products or services or they had run out of brochures or the literature available was out of date.
- There was little differentiation of products and services between the banks with account opening requirements or credit requirements being the main distinguishing factors.
- Only a third of the banks studied defined a value proposition for their SME clients. These were expressed in quite vague terms that talked about the availability of specialised SME units, SME relationship managers, SME customer centric approaches and quicker TaTs. There was little discussion about selling solutions to solve core small business problems.

⁸ Miller, M.M. (2015). An introduction to segmentation. Nairobi, Kenya: FSD Kenya <http://fsdkenya.org/wp-content/uploads/2015/12/15-07-24-GrowthCap-Technical-Note-An-Introduction-to-SME-Segmentation.pdf>.

- Again there was very little sense that the banks were segmenting the SME market and addressing issues for specific small businesses as part of these value propositions.

Lessons

Again there is an opportunity, as both small businesses and the banks need clarity about what is on offer and the benefits they bring.

- In order to do this, banks need to have a well-defined strategy in place to give clarity and guide their SME banking operations. According to a GrowthCap briefing note, *"Pursuing SME Banking Excellence"*,⁹ a common error committed by banks is the lack of a formal SME banking strategic plan that is SMART (Specific Measurable Achievable, Realistic and Timely). As a consequence, most banks are not able to articulate any compelling competitive advantage in the SME banking market.
- Banks need to build on this by segmenting their SME portfolio, then developing and testing out well-researched SME value propositions for each segment that speaks to their particular needs.¹⁰ Focus group discussions with different groups of SMEs (both existing and potential customers) provide a valuable way in which to test out and build customer driven value propositions.
- Clear SME strategies and value propositions in turn help to develop clearly differentiated products for that part of the SME market that a bank wishes to serve. SME needs will be distinctive from corporate products, because transaction sizes and numbers will be smaller, but also distinctive from retail products because more customisation and sophistication is needed.¹¹
- A key ingredient needed for achieving the above is having good quality client data. Banks need to capture, manage and analyse client data to understand the nature and meet the needs of their SME clients and yet this is a significantly weak area in many Kenyan banks.
- All of the above will mean that a bank is better able to present themselves to new potential customers and develop more profitable relationships with them. i.e. their offers match their strategic intent towards SMEs.

5.3 HOW ARE SERVICES THEN DELIVERED TO SMES?

The research found that the majority of banks did not appear to be serving SMEs very well. There is a gap between the 'website promise' – where there is one – and the reality of service delivery on the ground.

- Traditional branch networks were found to be the key delivery channel for services to SMEs, but only a quarter of the banks, 27% of the 30 banks studied, provided SME or 'select' business units or spaces within any of their branches.
- Mobile banking, internet banking as well as agency banking were alternative channels that banks employed to complement their branch networks.
- The level of service offered to SMEs through the branches was extremely patchy and largely very poor. The researchers experienced a much higher quality of service where specialised SME units existed.
- Access to branches was not the problem but access to staff that understood the nature of SMEs, who listened to their needs and who were able to articulate and deliver what their bank was supposed to offer SMEs, was, in general, woefully lacking.
- There were some examples of good practice where specialised branches with excellent staff received enquirers professionally, listened to their needs and offered appropriate solutions. In many cases, officers at general branches were not able to deal with requests from small business owners, mixed messages were given by staff at different branches within the same bank and often any SME enquirers were simply referred to headquarter staff and then not always to staff who could help.

Lessons

There is a need to improve all aspects of branch service delivery for SMEs.

- Banks need to live up to their SME value propositions. They need to align their organisation, defining a business model that will deliver value both efficiently and effectively for both the bank and the SME customer.
- There is no one single operational model to follow. Each bank will have to make decisions about what and how products will be delivered to SMEs and how this business will be managed including what this means as regards delivery channels, credit processes and qualified personnel.¹²
- Front line personnel at the branch level are the face of the bank for most SMEs. There is a need for the banks to inform and train front line staff so that they are able to effectively welcome, serve and or refer on SME customers in a professional, informative and consistent manner.
- When a bank states that it offers SME relationship managers to look after their SME customers these managers need to be competent and experienced to work effectively with SMEs. As a recent FSD Kenya note states. *"The role of a typical small business relationship manager is to*

9 "Atterton, T. (2014). Pursuing SME banking Excellence. Nairobi, Kenya: FSD Kenya <http://fsdkenya.org/publication/sme-banking-excellence/>

10 Reid, D., Miller, M., Oyaró, D. (2015). Value Proposition Guide. Nairobi, Kenya: FSD Kenya <http://fsdkenya.org/publication/value-proposition-guide/>

11 Miller, M.M, & Chege, S. 2015 <http://fsdkenya.org/publication/sme-product-development/>

12 Miller M.M, & Oyaró, D. (2015). SME banking models. Nairobi, Kenya: FSD Kenya. <http://fsdkenya.org/publication/sme-banking-models/>

*establish and maintain long-term 'relationships of value' with an identified group of small businesses that are based upon trust, transparency, respect and the full disclosure of information; thereby managing risk and maximising commercial benefit to both parties"*¹³

- However, it is important that not all SME clients should be relationship managed as this has significant cost and logistical implications. Ideally a bank should identify, during the segmentation process, those clients to whom it intends to offer a personalised level of service and those which will be effectively served through a portfolio managed process.
- Online platforms, if well-constructed, can offer SMEs a tool that will minimise their visits to branches and avail them more time to focus on their businesses. These channels also reduce a bank's operating costs as they cost much less compared to brick and mortar. However, it should be noted that in general, SMEs are branch dependent. In many countries efforts to attract SMEs to non-branch offerings have been relatively unsuccessful.

¹³ Atterton, T. (2015). Small business relationship management competencies. Nairobi, Kenya: FSD Kenya. <http://fsdkenya.org/publication/small-business-relationship-management-competencies/>

REFERENCES

All of the references given as footnotes in this paper together with a range of other technical notes and guides are available free to download from FSD Kenya's website at: <http://fsdkenya.org/an-introduction-to-growth-cap/>

5.4 IN CONCLUSION

The research has shown that there seems to be a great opportunity in Kenya for banks to serve a relatively underserved part of the business market i.e. the smaller business with growth potential. There are opportunities both in what products and services could be offered and how these services are delivered. So why doesn't this happen?

At present, many Kenyan banks are making good profits from their SMEs portfolios without taking too many risks or being particularly innovative in their approaches.

There would appear to be no desire for change – or as John Kotter, the management author,¹⁴ would say 'there is no sense of urgency' to change and or improve things.

This might be the current state of affairs in the Kenyan market place, however as experience from other economies has shown, it will not always be the case.

The challenge for Kenyan banks is: who will be the best prepared when SMEs become more demanding of their financial service providers and start shopping around?

¹⁴ <http://www.kotterinternational.com/about-us/who-we-are/john-kotter/>

Appendix 1

RESEARCH CONSULTANTS AND QUESTIONS

1.1 CONSULTANTS INVOLVED IN THE STUDY

Consultant	Contact
SBO Research	Boniface Ngahu <bngahu@sboresearch.co.ke>
CoBS Consulting	Moses Muiruri <mmuiruri@cobsconsulting.co.ke>
Gaps & Bridges Consulting	Charles Ndambuki <charles@gandbconsult.com>
Genesis Consult	Nabeel Hassanali <nabeel.hassanali@genesisconsult.net>
Huru Consult	Caroline Mwazi <cmwazi@yahoo.com>
Ideal Business Link	Beth Mwangi <beth.idealbiz@gmail.com>
Integral Solutions	Sarah Kanaiya <skanaiya@integralsolns.com>
SBA Consulting	Frank Warungi <frank@sbaconsulting.co.ke>
Sigma Business & Analytics	Mark Kimondo <mark.kimondo@sigma-business.com>
Wylde International	Chris Odongo <chris@wyldeinternational.com>

1.2 KEY QUESTIONS FOR TRACKING THE COMPETITION

The competition worksheet of questions given below was developed for the mystery shopping exercise. It is a useful set of questions for tracking competitors in the SME banking market.

An important part of market research for any bank is to know and understand what the competition is offering, and the markets that are being pursued. It is not necessary (or realistic) to track every bank and financial institution in the country – but a bank should be looking at the competitive environment and using this as a context for prioritising market segments and developing products and services. A bank will probably closely track 5-6 banks, and be aware of product offerings of another five or so. When a bank has a good understanding of what the competition offers and understands its strengths and weaknesses, it can then design products and choose service options that respond to the competition. The bank will position itself in one of three ways:

- **Meet the competition** – choice made when the bank has no particular advantage, or disadvantage, compared to the competition,

and is not likely to develop an advantage. Loan pricing is a good example – most banks will offer a rate that meets the market, and will not get into a bidding war.

- **Improve product or delivery** – what is the competition doing better, that customers care about? These are the factors that the bank needs to work on, and devote resources to.
- **Capitalise on opportunities** – these are product gaps, service shortcomings, and market segments that are not served, that the bank can use to carve out a unique offering. Information to track the competition will come from a range of sources.

A bank should be tracking its competitors' websites and advertising, also reading annual reports. Other information can come from sources such as mystery shopping, but it is also worth getting relationship managers and branch managers to report in on what they are hearing from customers.

Aspect of SME service	Bank1		Bank2	
Financial capacity				
Interest income				
Non- interest income				
Total revenue				
Interest expenses				
Income before tax				
Equity				
Cost to income ratio				
Advances to SMEs				
Deposits from SMEs				
Advances/deposit ratio				
Bad debt				
Non-performing loans				
Corporate brand				

Aspect of SME service	Bank1		Bank2	
Strategy SME				
Target Market				
Definition	Micro: Small: Medium:		Micro: Small: Medium:	
Value propositions				
Product Features				
Depositing products				
Current	Features: Benefits: Pricing: Interest: Fee:		Features: Benefits: Pricing: Interest: Fee:	
Saving and investment:				
Call Deposit account	Features: Benefits: Pricing: Interest: Fee:		Features: Benefits: Pricing: Interest: Fee:	
Fixed Deposit	Features: Benefits: Pricing: Interest: Fee:		Features: Benefits: Pricing: Interest: Fee:	
Savings	Features: Benefits: Pricing: Interest: Fee:		Features: Benefits: Pricing: Interest: Fee:	
Requirements				
Account opening process				
Turnaround Time				
Loan products				
Over draft	Features: Benefits: Collateral: Tenor: Pricing: Interest: Fee:		Features: Benefits: Collateral: Tenor: Pricing: Interest: Fee:	
Working Capital	Features: Benefits: Collateral: Tenor: Pricing: Interest: Fee:		Features: Benefits: Collateral: Tenor: Pricing: Interest: Fee:	

Aspect of SME service	Bank1	Bank2
Invoice Discounting	Features: Benefits: Collateral: Tenor: Pricing: Interest: Fee:	Features: Benefits: Collateral: Tenor: Pricing: Interest: Fee:
Order Finance	Features: Benefits: Collateral: Tenor: Pricing: Interest: Fee:	Features: Benefits: Collateral: Tenor: Pricing: Interest: Fee:
Asset Finance	Features: Benefits: Collateral: Tenor: Pricing: Interest: Fee:	Features: Benefits: Collateral: Tenor: Pricing: Interest: Fee:
Term Loan	Features: Benefits: Collateral: Tenor: Pricing: Interest: Fee:	Features: Benefits: Collateral: Tenor: Pricing: Interest: Fee:
Business Credit Card	Features: Benefits: Collateral: Tenor: Pricing: Interest: Fee:	Features: Benefits: Collateral: Tenor: Pricing: Interest: Fee:
Mortgage	Features: Benefits: Collateral: Tenor: Pricing: Interest: Fee:	Features: Benefits: Collateral: Tenor: Pricing: Interest: Fee:
Non-Funded Credit products, e.g. Letter of Credit, Guarantees etc.		
Requirements:		
Turnaround Time:		
Application Process		
Extras		

Aspect of SME service	Bank1	Bank2
Branding		
Organisation (SME)		
Centralised/decentralized		
Decision making		
Separate Business Unit - Report under other business units?		
Distribution		
Market presence		
Branch network		
ATM		
Internet banking		
Mobile banking		
Point of Sale (POS)		
Forex		
Agencies		
Others		
Advisory services/Toolkits etc.		
Start-up packages, accounting packages etc.		
SME Network clubs/Seminars etc.		
Observations		
Branch outlook		
Access to relevant person		
Relationship Management		
Waiting time		
Congestion - queue		
Enquiries - who and how?		
Transactions - manual/automated who and how?		
Overall evaluation		
How important is the SME market for them?		
Strengths and weaknesses		

Appendix 2

LICENSED BANKS AND SAMPLED BANKS

2.1 LIST OF LICENSED BANKS 2013

The list below comes from the Central Bank of Kenya's 'Bank Supervision Annual Report 2013. Appendix iV p 74

This report can be viewed in full at : <https://www.centralbank.go.ke/images/docs/Bank%20Supervision%20Reports/Annual%20Reports/BSA2013AnnualReport.pdf>

Appendix IV											
BANKING SECTOR MARKET SHARE - DECEMBER 2013 - Ksh. M											
	MARKET SIZE INDEX	NET ASSETS	% OF THE MARKET	TOTAL DEPOSITS	% OF THE MARKET	TOTAL CAPITAL	% OF THE MARKET	TOTAL NUMBER OF DEPOSIT ACCOUNTS (Millions)	% OF THE MARKET	TOTAL NUMBER OF LOAN ACCOUNTS (Millions)	% OF THE MARKET
Weighting		0.33		0.33		0.33		0.005		0.005	
Large Peer Group >5%											
1 Kenya Commercial Bank Ltd	12.83%	323,312	12.0%	237,213	12.3%	62,391	14.4%	1,721	7.90%	0,208	6.7%
2 Equity Bank Ltd	9.79%	238,194	8.8%	158,527	8.2%	50,687	11.7%	7,392	33.92%	0,840	27.1%
3 Co-operative Bank of Kenya Ltd	8.61%	228,874	8.5%	174,776	9.0%	35,652	8.2%	2,313	10.61%	0,348	11.2%
4 Standard Chartered Bank (K) Ltd	8.09%	220,524	8.2%	154,720	8.0%	36,030	8.3%	0,196	0.90%	0,051	1.6%
5 Barclays Bank of Kenya Ltd	7.65%	207,010	7.7%	151,122	7.8%	32,371	7.5%	1,240	5.69%	0,285	9.2%
6 CFC Stanbic Bank (K) Ltd	5.43%	170,726	6.3%	95,708	4.9%	22,353	5.2%	0,102	0.47%	0,034	1.1%
Sub-Total	52.39%	1,388,641	51.37%	972,066	50.2%	239,484	55.4%	12,964	59.48%	1,766	57.0%
Medium Peer Group > 1% & < 5%											
7 Commercial Bank of Africa Ltd	4.40%	124,882	4.6%	90,993	4.7%	13,749	3.2%	5,653	25.94%	0,897	29.0%
8 Diamond Trust Bank (K) Ltd	4.26%	114,136	4.2%	84,672	4.4%	18,568	4.3%	0,170	0.78%	0,014	0.4%
9 I&M Bank Ltd	4.19%	110,316	4.1%	74,494	3.8%	20,525	4.7%	0,016	0.07%	0,008	0.3%
10 NIC Bank Ltd	4.17%	112,917	4.2%	84,236	4.4%	17,631	4.1%	0,068	0.31%	0,026	0.8%
11 National Bank of Kenya Ltd	3.39%	92,493	3.4%	77,993	4.0%	11,848	2.7%	0,522	2.40%	0,076	2.5%
12 Citibank N.A. Kenya	2.83%	71,243	2.6%	43,762	2.3%	15,964	3.7%	0,002	0.01%	0,001	0.0%
13 Chase Bank Ltd	2.40%	76,569	2.8%	51,942	2.7%	7,487	1.7%	0,035	0.16%	0,025	0.8%
14 Bank of Baroda (K) Ltd	1.93%	52,022	1.9%	41,877	2.2%	7,569	1.8%	0,041	0.19%	0,002	0.1%
15 Bank of Africa (K) Ltd	1.77%	52,683	1.9%	36,740	1.9%	6,539	1.5%	0,045	0.20%	0,016	0.5%
16 Prime Bank Ltd	1.74%	49,461	1.8%	40,562	2.1%	5,816	1.3%	0,026	0.12%	0,004	0.1%
17 Family Bank Ltd	1.62%	43,501	1.6%	34,615	1.8%	5,968	1.4%	1,326	6.09%	0,098	3.2%
18 Imperial Bank Ltd	1.55%	43,006	1.6%	34,065	1.8%	5,719	1.3%	0,048	0.22%	0,011	0.3%
19 Housing Finance Co. of Kenya Ltd	1.46%	46,755	1.7%	26,589	1.4%	5,682	1.3%	0,061	0.28%	0,006	0.2%
20 Bank of India	1.15%	30,721	1.1%	22,778	1.2%	5,087	1.2%	0,015	0.07%	0,001	0.0%
21 Ecobank Kenya Ltd	1.15%	36,907	1.4%	25,351	1.3%	3,390	0.8%	0,125	0.57%	0,013	0.4%
22 Guaranty Trust Bank Ltd	1.09%	25,638	0.95%	18,447	1.0%	6,091	1.4%	0,017	0.08%	0,001	0.0%
Sub-Total	39.09%	1,083,250	40.1%	789,114	40.8%	157,633	36.5%	8,171	37.49%	1,199	38.7%
Small Peer Group <1%											
23 African Banking Corporation Ltd	0.70%	19,639	0.7%	15,905	0.8%	2,450	0.6%	0,024	0.11%	0,002	0.1%
24 Gulf African Bank Ltd	0.62%	16,054	0.6%	12,970	0.7%	2,686	0.6%	0,049	0.22%	0,005	0.1%
25 Equatorial Commercial Bank Ltd	0.53%	15,562	0.58%	13,856	0.7%	1,371	0.3%	0,012	0.06%	0,006	0.2%
26 Giro Commercial Bank Ltd	0.52%	13,623	0.5%	11,457	0.6%	2,087	0.5%	0,009	0.04%	0,002	0.1%
27 Victoria Commercial Bank Ltd	0.51%	13,644	0.5%	9,044	0.5%	2,528	0.6%	0,003	0.02%	0,000	0.0%
28 Consolidated Bank of Kenya Ltd	0.50%	16,779	0.6%	11,711	0.6%	1,242	0.3%	0,045	0.21%	0,010	0.3%
29 Development Bank of Kenya Ltd	0.47%	15,581	0.6%	8,419	0.4%	1,822	0.4%	0,002	0.01%	0,001	0.0%
30 K - Rep Bank Ltd	0.47%	13,199	0.5%	9,165	0.5%	1,868	0.4%	0,230	1.06%	0,047	1.5%
31 Guardian Bank Ltd	0.46%	12,835	0.5%	11,181	0.6%	1,494	0.3%	0,009	0.04%	0,001	0.0%
32 Fidelity Commercial Bank Ltd	0.46%	12,779	0.5%	11,263	0.6%	1,411	0.3%	0,009	0.04%	0,002	0.1%
33 Habib Bank A.G. Zurich	0.42%	11,009	0.4%	8,336	0.4%	1,843	0.4%	0,006	0.03%	0,000	0.0%
34 First Community Bank Ltd	0.40%	11,305	0.4%	9,932	0.5%	1,210	0.3%	0,075	0.35%	0,002	0.1%
35 Trans - National Bank Ltd	0.39%	9,658	0.4%	7,181	0.4%	1,869	0.4%	0,039	0.18%	0,029	0.9%
36 Habib Bank Ltd	0.32%	8,078	0.3%	5,599	0.3%	1,667	0.4%	0,004	0.02%	0,000	0.0%
37 Jamii Bora Bank Ltd	0.32%	7,010	0.3%	3,421	0.2%	2,251	0.5%	0,104	0.48%	0,019	0.6%
38 Paramount Universal Bank Ltd	0.30%	8,029	0.3%	6,601	0.3%	1,230	0.3%	0,011	0.05%	0,001	0.0%
39 Oriental Commercial Bank Ltd	0.29%	7,007	0.3%	5,377	0.3%	1,524	0.4%	0,006	0.03%	0,000	0.0%
40 Credit Bank Ltd	0.28%	7,309	0.3%	5,512	0.3%	1,238	0.3%	0,010	0.05%	0,002	0.1%
41 Middle East Bank (K) Ltd	0.22%	5,766	0.2%	3,649	0.2%	1,175	0.3%	0,002	0.01%	0,000	0.0%
42 UBA Kenya Ltd	0.17%	3,710	0.1%	2,483	0.1%	1,059	0.2%	0,003	0.02%	0,000	0.0%
43 Dubai Bank Ltd	0.14%	2,927	0.1%	1,418	0.1%	1,036	0.2%	0,007	0.03%	0,000	0.0%
44 Charterhouse Bank Ltd	0.00%	-	0.0%	-	0.0%	-	0.0%	-	0.00%	-	0.0%
Sub-Total	8.51%	231,503	8.6%	174,481	9.0%	35,061	8.1%	0,660	3.03%	0,131	4.2%
Grand-Total	100%	2,703,394	100%	1,935,661	100%	432,178	100%	21,796	100%	3,096	100%
Market share index is the composite of net assets, deposits, capital , number of loan accounts and number of deposit accounts											
Source: Banks Published Financial Statements											

2.2 THE BANKS STUDIED

The 30 banks were divided in groups of three and one group allocated to each of the consultants.

Banks researched on	Tier
1. Kenya Commercial Bank	1
2. National Bank of Kenya	2
3. GT Bank	3
1. Equity Bank	1
2. Chase Bank	2
3. ABC Bank	3
1. Co-operative Bank	1
2. Bank of Baroda	2
3. Consolidated Bank	3
1. Standard Chartered	1
2. Bank of Africa	2
3. K-Rep Bank	3
1. Barclays	1
2. Prime Bank	2
3. Gulf African Bank	3
1. CFC Stanbic Bank	1
2. Family Bank	2
3. Jamii Bora Bank	3
1. Commercial Bank of Africa	2
2. Imperial Bank	2
3. Equatorial Commercial Bank	3
1. Diamond Trust Bank	2
2. Housing Finance Company of Kenya	2
3. UBA Kenya	3
1. I&M Bank	2
2. Bank of India	2
3. Fidelity Commercial Bank	3
1. NIC Bank	2
2. ECO Bank	2
3. Development Bank of Kenya	3

2.3 THE BRANCHES APPROACHED FOR THE MYSTERY SHOPPING RESEARCH ELEMENT

Bank	Sub-Category
Cooperative Bank	Ngong Road Branch, Stima Plaza, Hilton and Kimathi Street Branch
Consolidate Bank	Koinange Branch River Road Branch, Harambee Branch
Bank of Baroda	Koinange Branch, Sarit Centre Branch
I&M Bank	Valley Arcade, Branch Sarit Centre Branch and Riverside Branch
Bank of India	Westlands Branch and HQ – Kenyatta Avenue
Fidelity Bank	Muthaiga Branch and Lenana Branch
ABC Bank	Koinange St, Industrial Area, Westlands.
Chase Bank	Wabera Street, Upper Hill, Chiromo.
Equity Bank	Nairobi West, Moi Avenue, Kilimani.
Bank of Africa (K) Ltd.	Kenyatta Avenue, Ongata Rongai and Gikomba
K-Rep Bank	Kenyatta Avenue, Ongata Rongai and Moi Avenue
Standard Chartered Bank	Muthaiga, Moi Avenue and Thika Road Mall
CFC Stanbic	Upper Hill Branch
Jamii Bora	Koinange and Jamii Bora House
Family Bank	Kilimani branch
Diamond Trust	Nation Centre, Tom Mboya and Likoni Road
Housing Finance	Kenyatta Avenue and Gill house
UBA	Westlands, Enterprise and Upper Hill branch
KCB	Prestige Plaza, Sarit Center, Thika Road Mall (TRM).
National Bank	Mountain Mall (off Thika Road), Victoria Court (Westlands), Harambee Avenue and Kenyatta Avenue
GT Bank	Westlands branch only (in the same building (SkyPark) as the head office), ABC Place branch, and Kimathi Street.
Barclays Bank	Loita Street branch, Market branch, Moi Avenue branch and Hurlingham branch
Gulf African Bank	Kenyatta Avenue Branch, Industrial Area Branch and Upper Hill Branch
Prime Bank	Biashara Street Branch, Kenindia House, Hurlingham Branch and Loita Street
NIC	HQ
Ecobank	HQ
Development Bank	HQ
CBA	Westlands Branch
Imperial	Riverside Drive Branch
Equatorial Commercial Bank	Waiyaki Way Branch

Appendix 3

BANK BRANCH DISTRIBUTION

Bank	Market Presence	Branches
Kenya Commercial Bank	All counties	177
Equity Bank	All counties	153
Co-operative Bank	All counties	134
Barclays	Nationwide	120
Diamond Trust Bank	Nationwide	98
National Bank of Kenya	16 towns	75
Family Bank	Nationwide	72
Standard Chartered	Major towns	40
Chase Bank	Major towns	40
K-Rep Bank	Major towns	37
Jamii Bora Bank	Nationwide	33
Bank of Africa	Major towns	33
ECO Bank	35 countries	32
Imperial Bank	Nairobi, Up country	27
NIC Bank	Major towns	25
Commercial Bank of Africa	Nairobi, Up country	24
CFC Stanbic Bank	Nationwide	22
Gulf African Bank	6 Towns	18
GT Bank(Guaranty Trust Bank	7 Towns	14
Prime Bank	5 Towns	14
Fidelity Commercial Bank	Major towns	13
Bank of Baroda	Selected towns	12
Consolidated Bank	Selected towns	12
Equatorial Commercial Bank	Nairobi, Up country	12
Housing Finance Company of Kenya	Major towns	11
ABC Bank	Key cities	10
UBA Kenya	Nairobi	3
Development Bank of Kenya		2
I&M Bank	Major towns	30
Bank of India	Nairobi + 21 countries	3 (5500)



