

# Effect Of Consumer Education By Consumer Federation Of Kenya On Consumer Protection In Commercial Banks Of Kenya.

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## **Abstract:**

**Background:** In many jurisdictions, consumer protection law has not been enacted despite the financial services industry's development. This means that in order to boost client confidence and promote the adoption of innovative products, financial services clients must have access to fundamental protections. The prevalence of uninformed customers who rely on financial institutions for their information has led to a rise in the misuse of consumer confidence. Abuse by banks and its marketers, such as imposing exorbitant charges on clients' accounts without providing formal advice, is becoming more widespread. The purpose of the study was to ascertain the measures taken by the Consumer Federation of Kenya to ensure adequate access to information by Kenyan commercial banks customers in an effort to ensure their protection. approach was taken to get in touch with the COFEK staff.

**Methodology:** Questionnaires were utilized in the study to collect data. Both inferential and descriptive statistics were used to analyze the data. Version 22 of the Statistical Package for Social Sciences (SPSS) was employed. Frequency tables, percentages, and relevant statistical descriptions were used to display the data.

**Results:** Most of the respondents were fairly aware of the consumer education activities carried out by the protection agency in commercial banks. Consumer education had a significant coefficient ( $p$ -value = 0.0001;  $\beta$  = 0.469) according to the data analysis. Consumer education is statistically significant in ensuring consumer protection.

**Conclusion:** COFEK should enhance the sensitization programs put in place for clients with a view of making them more informed. Public drives to raise the awareness levels should be carried out.

**Keywords:** consumer education, consumer protection, commercial banks.

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## I. Introduction

Due to power disparities, resources, and knowledge asymmetries, financial institutions greatly abuse the public in the retail markets (Mittal, Saxena, and Matta, 2014). By enacting regulations to guarantee that the public has access to accurate marketing information, public consumer protection aims to address information asymmetries (Mittal, Saxena, and Matta, 2014). Consumer access to information instills market discipline in financial sector firms and eventually guarantees ongoing growth (Mittal, Saxena, and Matta, 2014). Customers with more power compel the participants to pursue their goals professionally and on an even playing field (Serrano, 2010). By guaranteeing the proper corporate spirit and increasing openness, this strengthens the financial sector's governance.

The aforementioned guarantees improved accessibility, deeper penetration, and sustainability of the products offered. According to Becher's (2008) theory, financial markets almost never operate on their own without oversight. It is therefore essential to strive toward creating institutions that will stabilize the markets and provide legal frameworks for law enforcement. This was further supported by (Akinbami, 2011), who pointed out that in fiercely competitive marketplaces, organizations strived to provide their clientele with high-value products, negating the need for government involvement. It was believed that easier access to information was essential to guaranteeing both consumer safety and market efficiency. This discouraged cases of taking advantage of clients and unscrupulous trading.

The financial sector can reduce the risk of declining performance by managing consumer protection issues through self-regulation and limited government involvement (Billett, Flannery, and Garfinkel, 2006). Because self-regulation was a part of the rules' creation, it also aids industry participants in adhering to the regulations (Flannery, Brett, and Garfinkel 2006). The practice of having professional bodies made up of practitioners oversee the enforcement of consumer protection laws in developed economies highlights the need

of independence and professional integrity. However, when it comes to regulatory policies, developing nations are doomed due to inadequate institutional capacity (Brix and McKee, 2010).

Country-specific inadequacies and challenges as pertain to the regulatory parameters guide the institutional frameworks for consumer protection (Hooley and Piercy, 2008). Empowerment of the authorities and enhancing their policing capacities in terms of giving them optimal room to exercise authority would ultimately enhance their performance (Delgadillo, Erickson and Piercy, 2008). However, in developing countries evidence of dwindling growth associated with over-regulation is evident (Lasagni, 2019). This has resulted to weak consumer protection leading to mistrust of the systems by the consumers. Due to excessive regulation, players may choose to stay away from the financial markets as a result of financial scandals that have spread to Australia and the United Kingdom (Lasagni, 2019). Due to this, the industry performed less well in terms of developing new items and building new stores, which made customers distrust the processes.

Having been established under the Consumer Protection Act, No. 46 of 2012, COFEK is therefore a statutory body. According to GoK (2010), the Act shields customers from unscrupulous business activities and associated transactions that could put them in danger. The understanding of consumers' vulnerability following corporate transactions served as the impetus for the creation of the statutory provisions. COFEK's primary responsibility is to ensure that the products and services available for national consumption meet consumer needs while adhering to established standards. In Kenya, COFEK has actively contributed to raising consumer awareness. When it comes to providing the public with consistent and meaningful information on the recently passed consumer protection laws, the organization has been in the forefront of this effort.

Notwithstanding the organization's efforts, consumer protection has not increased to the necessary degrees. Vulnerable customers are now at danger of receiving subpar products and services as a result (Muraru and Mwanzia, 2023). In Kenya, numerous efforts have been undertaken to guarantee consumer protection. A significant achievement was the Consumers Federation of Kenya (COFEK) registration. COFEK is a non-aligned, apolitical organization that works to safeguard and mitigate risks for consumers. The Consumer Information Network (CIN) and the Consumer Unity Trust Society (CUTS) are more similar organizations. The organizations run community advocacy campaigns to guarantee fair prices and increased consumer access to goods and services.

Section 46 of the newly enacted 2010 constitution contains measures pertaining to consumer protection. The Competition Act of 2010, which served as the model for the Consumer Protection Act of 2012, was then implemented. The laws combine the progress made in ensuring that consumers have the necessary protection. Even in the Republic of Kenya, where there is a strong framework in place to protect consumers, there is still evidence of consumer exploitation (Oremo, 2012). Studies conducted by Njuguna (2015), who found low levels of consumer rights awareness in Nairobi and Nakuru, supported this. This has hindered the country's efforts to meet the necessary consumer protection benchmarks. Additional research conducted in Kisumu, Nyeri, Mombasa, and Nairobi by Muraru and Mwanzia (2023) revealed low levels of consumer assertiveness. This demonstrated a lack of understanding of the necessity of assigning the vendors the work even if the necessary safeguards had been put in place to ensure the best possible protection. In light of this, the study aims to validate the efficacy of COFEK's consumer education initiatives to ensure consumer protection by concentrating on the banking sector.

Agarwal et al. (2015) were of the view that focus should be placed on consumer education as a basis for protection with an aim of conferring benefits to the consumer. The foundation of financial institutions is the creation of an element of enlightened self-interest on their side (Agarwal, et al., 2015). Chuah and Furnston (2013) elaborated on this further, stating that the reason for this is that businesses that follow the growth pathway concentrate their efforts on the welfare of the customer, giving their programs great importance.

Brix and McKee (2010) further argued that the financial sector more so the banking industry is a critical fulcrum of the global economies. Many economies have crumbled on the basis of mis-information by the players in the industry precipitating regulatory crisis from the events (Brix & McKee, 2010). This was confirmed by (Agarwal, 2010) who was of the view that some financial institutions have been guilty of failing to adequately confer information to their clients thus mis-selling their products and services. This gives a negative lasting impression on the reputation of not only the individual firms but the sectors affected in totality (Agarwal, 2010). The position was reinforced by (Chuah and Furnston, 2013) who were of the premise that the aftermath of stifled growth occasioned by the precedence is evidence of the risk of unethical marketing practices and failure to institute the requisite consumer education.

Morduch, Rutherford and Ruthven (2009) further buttressed the position when they argued that the level of consumer trust in financial services providers like commercial banks takes a dip at the advent of misinformation and related vices. The fragile environment around which the organizations work is a pointer to the need to deter guard against complacency and enforce the requisite consumer education standards (Morduch, Rutherford and Ruthven, 2009). This best serves the interests of the industry and all the players in totality. It thus buttresses the need for assured consumer education to the requisite standards (Koros, 2012). The purpose

of the study was to ascertain the measures taken by COFEK to guarantee consumer education as a foundation for protection in the commercial banks that hold licenses.

Research done on the topic is limited; studies by Wu (2012) and Amuti (2016), for example, mostly concentrate on the legislative safeguards for client protection that commercial banks have in place. (Mutua et al., 2012) concentrated on consumer protection in the telecommunications and banking industries. Regarding the legal protections in place to guarantee that users of mobile money transfer services are shielded from industry risks, the study was biased. This essay discusses how consumer education helps Kenyan commercial banks provide efficient consumer protection that works in their best interests.

## II. Methodology

The study used a descriptive survey research design to learn about the consumer protection activities that COFEK has implemented in their dealings with commercial banks.

**Study design:** A descriptive survey, according to Ododho and Kombo (2002), is a technique for gathering data from a chosen sample through questionnaire administration or interviews.

**Study location:** This study was carried out at the Consumer Federation of Kenya offices located in Nairobi, Kenya.

**Study duration:** November 2017 to November 2018.

**Sample size:** The study's target demographic comprised all 72 COFEK employees. This is as a result of their shared involvement in consumer protection.

**Procedure:** Following a pilot test at the Competition Authority offices, COFEK staff were given questionnaires.

Both closed-ended and open-ended questions were included in the surveys. In order to prevent any conversations among the target respondents, the researcher personally gave the surveys to them and promptly collected them. The Mugenda & Mugenda (2013) criteria were used to test the validity and reliability of the data collection instrument, and no violations were found.

Secondary data was also used in the study to link customer protection and the COFEK programs. The aim of this study was to evaluate the impact of consumer education on consumer protection in Kenya's banking industry. In order to connect consumer protection and consumer federation actions, the study also used secondary data. The goal of this was to ascertain how much consumer education influences consumer protection in Kenya's banking industry.

## III. Results

### *Descriptive statistics*

**Table no 1: responses on attributes of Consumer Education**

Statements	Values	Total	percentage
The sensitization programs carried out by COFEK have made the clients more assertive	Strongly agree	8	11.1
	Agree	55	76.4
	Undecided	6	8.3
	Disagree	1	1.4
	strongly disagree	2	2.8
Total		72	100
COFEK holds regular workshops on emerging issues in the banking arena for clients understanding	Strongly agree	23	31.9
	Agree	24	33.3
	Undecided	10	13.9
	Disagree	13	18.1
	strongly disagree	2	2.8
Total		72	100
Collaboration between COFEK and the commercial banks assures synchrony in the targeted marketing messages	Strongly agree	12	16.7
	Agree	34	47.2
	Undecided	11	15.3
	Disagree	10	13.9
	strongly disagree	5	6.9
Total		72	100
COFEK carries out education on the financial products on offer as a medium of assured client confidence building	Strongly agree	25	34.7
	Agree	34	47.2
	Undecided	11	15.3
	Disagree	10	13.9
	strongly disagree	5	6.9

Total		72	100
Measures to undertake education on consumer rights by COFEK has caused the commercial banks to redefine the marketing messages targeted for clients	Strongly agree	14	19.4
	Agree	46	63.9
	Undecided	6	8.3
	Disagree	4	5.6
	strongly disagree	2	2.8
Total		72	100

**The mean analysis of attributes consumer education**

The mean analysis showed in Table 2 below indicates that the attribute of consumer education indicators with the highest mean value was collaboration between COFEK and the commercial banks assures synchrony in the targeted marketing messages. It can thus be deduced that collaboration and mutuality between COFEK and the commercial banks in having synchronized marketing messages was the highest attribute in employing consumer education for effective client protection.

**Table 2. Means statistics on Consumer Education**

Code	Statements	N	Mean	Std. Deviation	Std. Error Mean
CE	Consideration of consumer education activities as a factor ensuring effective consumer protection.	72	2.18	0.794	0.094
CE1	The sensitization programs carried out by COFECK have made the clients more assertive	72	2.08	0.707	0.083
CE2	COFECK holds regular workshops on emerging issues in the banking arena for clients understanding	72	2.26	1.175	0.138
CE3	Collaboration between COFECK and the commercial banks assures synchrony in the targeted marketing messages	72	2.47	1.138	0.134
CE4	COFECK carries out education on the financial products on offer as a medium of assured client confidence building	72	1.99	0.986	0.116
CE5	Measures to undertake education on consumer rights by COFECK has caused the commercial banks to redefine the marketing messages targeted for clients	72	2.08	0.868	0.102

Source: Author 2018

**Table no 3: Means statistics on Consumer Protection**

Based on average statistics, the consumer protection attribute with the highest mean value is that COFEK and commercial banks have a standing committee in place to regularly assess emerging consumer protection issues. Therefore, the presence of standing committees for the continuous assessment of new consumer protection issues was the most crucial element in ensuring effective consumer protection in commercial settings.

Code	statements	N	Mean	Std. Deviation	Std. Error Mean
CP	Composite index for consumer protection	72	1.90	.052	.441
CP1	COFEK assures all commercial bank clients the requisite protection	72	1.76	.050	.428
CP2	Active programs of action are carried out by COFEK in liaison with commercial banks as measures of assured client protection	72	1.96	.057	.488
CP3	Mutualism as a basis of synergy is crafted between COFEK and the Kenya Bankers Association to review measures of consumer protection on a regular basis	72	1.92	.062	.524
CP4	COFEK and commercial banks have as standing committee for continuous review of emerging issues on consumer protection	72	1.99	.067	.569
CP5	COFEK commissions external audits to confirm the efficacy of the consumer protection activities carried out	72	1.90	.077	.653

**Correlation analysis**

The Pearson correlation coefficient was used to evaluate the linear relationship. The results show that consumer protection and consumer education are positively and strongly correlated (r=0.563, p-value 0.05).

Correlations			
		Consumer Protection	Consumer Education
Consumer Protection	Pearson Correlation	1	.563**
	Sig. (2-tailed)		.000

	N	72	72
Consumer Education	Pearson Correlation	.563**	1
	Sig. (2-tailed)	.000	
	N	72	72
**. Correlation is significant at the 0.01 level (2-tailed).			

**Regression analysis**

**Test for assumptions**

To demonstrate a normal univariate distribution, skewness and kurtosis values between -2 and +2 are deemed appropriate (George & Mallery, 2010).

**Normality test for the study variables**

The skewness and kurtosis of the data distribution were examined in order to determine its normalcy. A variable that indicates no violation of the assumption of normalcy is one that has an index less than the absolute values of 2.0 and 7.0 for skewness, respectively. As can be seen in the table below, the study variables' normality test findings showed that their skewness and kurtosis fell between -1 and +1. This suggests that the normalcy assumption was met.

**Table no 4: Normality test**

Variables	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
consumer protection	72	0.077	0.283	0.84	0.559
Consumer Education	72	0.742	0.283	0.269	0.559

**Regression model**

The study's goal was to determine how COFEK's consumer education program affected Kenyan commercial banks' ability to effectively protect their customers. This was examined in light of the following theory:

H0: There is no appreciable impact of consumer education on consumer protection.

According to Table 5 below, there is a positive correlation between the independent factors (consumer education) and dependent variables (effective consumer protection), with a R squared value of 0.317. This suggests that 31.7% of effective consumer protection is shared by consumer education.

**Table no 5: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.563 <sup>a</sup>	.317	.307	.77724131
a. Predictors: (Constant), CE				
b. Dependent Variable: CP				

**ANOVA**

According to the table below, the model fit the data set well overall (F-value=32.421 and p-value=0.0001<0.05).

The model takes on the form shown in Coefficient Table No. 7.

$$CP=0.111+0.469_{CE}+E$$

**Table no 6. ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	19.585	1	19.585	32.421	.000 <sup>b</sup>
	Residual	42.287	70	.604		
	Total	61.873	71			
a. Dependent Variable: CP						
b. Predictors: (Constant), CE						

**Coefficients**

**Table no 7: Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.111	.047		-2.388	.020
	CE	.469	.082	.563	5.694	.000
a. Dependent Variable: CP						

Consumer Education has a significant coefficient (p-value <0.05,  $\beta = 0.469$ ) according to the coefficient table.  $H_0$ : Consumer Education has no significant effect on consumer protection was rejected at a 0.05 level of significance, indicating that Consumer Education is statistically significant in guaranteeing consumer protection.

#### **IV. Discussions**

Most of the respondents were fairly aware of the consumer education activities carried out by the protection agency in commercial banks. The study findings confirmed the position taken by Agarwal, (2014) who was of the view that some financial institutions have been guilty of failing to adequately confer information to their clients thus mis-selling their products and services. This gives a negative lasting impression on the reputation of not only the individual firms but the sectors affected in totality (Agarwal, 2014). The position was reinforced by Chuah and Furnston (2013) who were of the premise that the aftermath of stifled growth occasioned by the precedence is evidence of the risk of unethical marketing practices and failure to institute the requisite consumer education.

Most of the respondents were fairly aware of the consumer education activities carried out by the protection agency in commercial banks. The responses were an indication that despite the protection agency carrying out consumer education activities, they were not up to the expected levels taking into account the fair level of awareness. The findings affirmed the position of Morduch, Rutherford and Ruthven (2009) when they argued that the level of consumer trust in financial services providers like commercial banks takes a dip at the advent of misinformation and related vices. Most of the respondents were of the view that the consumer education activities carried out by the protection agency in commercial banks did not realize their intended ideals occasionally. The findings were a contrast to the position of Chuah and Furnston, (2013) who premised that organizations modeled on the pathway of growth focus their energies on the good of the consumer thus placing immense value on the consumer education programs that they carry out to benefit them.

Most of the respondents deemed the consumer protection activities to have fairly influenced the clients' perceptions towards the marketing activities carried out. This was confirmation that the consumer education carried out played a role in terms of enlightening the bank clients thus the swayed perceptions.

The study confirmed that COFEK carried out sensitization programs which had made the clients more assertive coupled with the holding of regular workshops on emerging issues in the banking arena for clients understanding and confidence building. The commercial banks' redefining of their client-focused marketing messaging was confirmed by the synchronization in messages distributed to consumers that was ensured by COFEK and commercial banks working together.

Future research is necessary to verify the degree to which the competition authority has restrained the dominant inclinations of participants in the commercial banking industry, bearing in mind that this study concentrated on COFEK measures, particularly consumer education in guaranteeing consumer protection.

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