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Effect of Dispute Resolution by Consumer Federation of Kenya on Consumer Protection in Commercial Banks of Kenya.

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Abstract:
Background*: Many governments have yet to establish consumer protection laws, despite the financial services sector's expansion. This necessitates providing financial services clients with fundamental protections in order to boost their confidence and promote the adoption of new products. The prevalence of uninformed customers who rely on financial institutions has led to a rise in the misuse of consumer confidence.*
Banks and its marketers are increasingly engaging in abusive practices, such as imposing exorbitant charges on clients' accounts without providing proper advice. The goal of the study was to learn about the measures taken by the Consumer Federation of Kenya to provide efficient consumer protection in Kenyan commercial banks. This was done in an effort to determine how much dispute resolution affects commercial banks' ability to provide effective consumer protection.
Methodology*: The study focused on all the 87 COFEK employees and employed a descriptive research design. Questionnaires were employed in the study to gather data. Both descriptive and inferential statistics were used in the data analysis. Statistical Package for Social Sciences (SPSS) version 22 was used for data analysis. Data was displayed using percentages, frequency tables, and relevant statistical abstracts.*
Results: *Most of the respondents were fairly aware of the dispute resolution activities carried out by the protection agency in commercial banks. The analysis of the data showed that dispute resolution had a significant coefficient ($\beta=0.587$; p-value = 0.000).*
Conclusion: *Dispute resolution has a statistically significant impact on protecting consumers. Therefore, COFEK should strengthen its conflict settlement procedures. In order to decrease the number of civil lawsuits brought by irate customers, it is recommended that chartered arbitrators be hired. In the end, this will lower the expenses of costly arbitration and increase client trust in the consumer protection organization, making it more relevant.*
Key words: dispute resolution, consumer protection, commercial banks.

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I. Introduction

In retail markets when power, resources, and knowledge inequalities are present, the public is constantly at the mercy of financial institutions (Mittal, Saxena, and Matta, 2014). By enacting laws to guarantee that the public has access to accurate marketing information, consumer protection aims to address information asymmetries (Mittal et al., 2014). Consumer access to information instills market discipline in financial sector participants and, in the end, guarantees continuous growth (Mittal et al., 2014). The players are compelled to level the playing field and professionalize their endeavors by empowered consumers (Serrano, 2010). This increases openness and fosters the proper company culture, which strengthens the financial sector's governance. More accessibility, deeper penetration, and improved sustainability are guaranteed by the aforementioned.

It is rare for financial markets to function autonomously without oversight, according to Rodrik (2015). It is therefore crucial to look for ways to establish organizations that would stabilize the markets and provide legal foundations for law enforcement. Armstrong (2013) added to this by pointing out that high-competition markets did not require government intervention because businesses strived to provide their customers with high-value goods. One of the most important requirements for guaranteeing market efficiency and consumer safety was improved access to information. As a result, there were fewer cases of clients being taken advantage of and fraudulent trading.

The financial sector's consumer protection elements should be handled through self-regulation with little government involvement in order to reduce the possibility of limiting expansion due to overpowering inclinations (Billet, Flannery, and Garfinkel, 2013). According to Billet et al. (2013), this also discourages market participants from abusing their position by requiring them to observe their peers and self-regulate by adhering to the regulations they helped create. The practice of having professional bodies that include practitioners oversee consumer protection enforcement efforts in developed markets highlights the need of independence and professional integrity. However, the lack of institutional capacity is what is causing developing nations to fail in terms of regulatory standards (Brix and McKee, 2014).

According to Delgadillo, Erickson, and Piercy (2015), the institutional frameworks for consumer protection are guided by the regulatory parameters and are subject to country-specific shortcomings and obstacles. The financial sector's weak point would be imposing extremely strict regulations in low-income countries, which would cause the participants to leave the market due to excessive regulation. According to Delgadillo et al. (2015), the institutions would benefit in the long run from the empowerment of the authorities and the improvement of their policing capabilities in terms of providing them with the best possible space to exercise authority.

However, evidence of stunted growth linked to excessive regulation has been highlighted in emerging nations (Ligeti, 2014). This results in inadequate protection for customers, which makes them distrust the systems. Due to excessive regulation, the financial scandals that erupted in Australia and the United Kingdom raised the possibility that participants might avoid the financial markets (Ligeti, 2014). The success of the industry was hampered in terms of new product development and store openings.

When negotiating the complex banking and financial institutions, consumers rely entirely on the information that is supplied to them (Tax, Brown, and Chandrashekaran, 1998). This includes choosing the best interest rates, personal investment options, and other associated issues. The encounters serve as the actual conduits between the businesses and their customers. This highlights how crucial it is for clients to regard and value financial industry professionals in terms of information sharing and associated issues (Tax, et al, 1998). Thus, in the event of misinformation or perceptions of loss-making emanating from wrong mediums employed to decipher information then there is bound to be a backlash in terms of the occurrence of conflict.

In the United States of America, many conflicts riddle the financial sector and the consumer protection agencies are charged with the responsibility of addressing them (Adams, and Hunt, 2013). Presence of legislation to assure the capacity to address the conflict has been a shot in the arm for the consumer protection agencies in the jurisdiction. This section outlines major gaps in current protections and proposed interventions. However, there is one system-wide gap that leaves consumers exceptionally vulnerable: there is no ‘product safety’ system for financial services. Right now, there generally aren’t protections to stop the sale of objectively poor value products or products that are poorly designed or sold to an audience that will be harmed by that sale (Adams, et, al, 2013).

Handling of client complaints was confirmed to be a critical factor in the determination of the ability of organizations in the financial sector to attract and retain clients. The position was opined by Adams, and Hunt, (2013) who argued that the ways employed to receive and address client issues with the organizations are inadequate. The ability of the firms to provide aggrieved clients with rooms for redress internally at the earliest possible opportunities equally served as points of leverage as regards the capacity to win their confidence and assure their future association and retention in the wake of doing business (Adams and Hunt, 2013).

This was further accentuated by Bertrand and Adair, (2014) who were of the view that measures to address discontent from the aggrieved clients in transparent manners assured the creation of mutualism in terms of the relations between the firms and the clients in the financial service provision. Issues of failure to provide the requisite information adequate for decision making and related shortcomings in the interaction of the organizations and their constituents had to be resolved before escalation to the judicial processes (Shehata, 2013).

The situation of having most of the commercial banks in the republic of Kenya listed in the Nairobi Securities Exchange makes them subject to the rules and regulations of the Capital Markets Authority (Nyamongo and Temesgen, 2013). The commercial banks are thus subservient to the rule of law as provided for by the CMA Act. This gives the consumers of the services recourse in terms of capacity to have any known disputes in the association arbitrated through the capital markets authority which serves as the regulator (GoK, 2013).

This was further buttressed by Ng’etich and Wanjau, (2013) who were of the view that the Capital Markets Authority has provisions for arbitration in the activities carried out by the financial institutions and consumers. The consumers have leeway to question any misgivings and seek the regulators intervention in the name of arbitration and related dispute resolution mechanisms (Ng’etich and Wanjau, 2013). This has assured the consumers a veritable cushion in terms of the provisioning for room to adjudicate in known disputes (Ng’etich and Wanjau, 2013).

Industry regulation by the professional bodies guiding and governing the activities carried out by the personnel engaged by the commercial banks is equally a critical fulcrum for engagement in arbitration as posited by Warui, (2012). He was of the view that professional associations served as good arbiters in the wake of guiding the conduct of the persons they adjudicate over. This gives impetus to the bodies overseeing marketers, accountants and the umbrella association of bankers to safeguard client interests and equally assure that the concerns of the industry in terms of good standing are effectively taken care of (Warui, 2012). This was further confirmed by Malala, (2014) and Miller, Godfrey, Levesque and Stark, (2013) who were of the view that the peer associations guaranteed room for arbitration guided by the industry specific tenets. The study sought to confirm the extent to which activities carried out by COFEK for consumer protection assure effective dispute resolution.

II. METHODOLOGY

Study design: 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.

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: January 2019 to November 2019.

Sample size: The study's target demographic comprised all 87 COFEK employees. This is as a result of their shared involvement in consumer protection.

Procedure: Questionnaires were distributed to COFEK employees after a pilot test at the Competition Authority of Kenya offices.

The surveys contained both open-ended and closed-ended questions. In order to prevent any conversations among the target respondents, the researcher personally gave the surveys to them and promptly collected them. The validity and reliability of the data collecting tool were examined using the Mugenda & Mugenda (2013) criteria, and no breaches were found.

The study also linked the COFEK initiatives to customer protection using secondary data. Assessing the effect of dispute resolution on consumer protection in Kenya's banking sector was the goal of this study. Additionally, the study employed secondary data to link consumer protection and consumer federation initiatives. This study sought to determine the extent to which consumer protection in Kenya's banking sector is influenced by dispute resolution.

III. RESULTS

Descriptive statistics

Table no 1: Responses on attributes of Dispute Resolution

Statements		Total	Percentage
COFEK has mechanisms to enforce optimal dispute resolution between commercial banks and their clients	strongly agree	20	27.8
	Agree	48	66.7
	Undecided	3	4.2
	Disagree	1	1.4
Total		72	100
Drives to make clients aware of the dispute resolution mechanisms are carried out by COFEK			
Total	Strongly agree	17	23.6
	Agree	55	76.4
		72	100
Mechanisms to liaise with the Kenya Bankers Association in arbitration activities have been put in place by COFEK			
	strongly agree	41	56.9
	Agree	30	41.7
	Disagree	1	1.4
Total		72	100
Avenues for client redress on failed arbitration have been put in place by COFEK	strongly agree	30	41.7
	Agree	39	54.1
	undecided	1	1.4
	Disagree	1	1.4
	strongly disagree	1	1.4
Total		72	100
Impaired business relations have been restored on the intervention by COFEK in dispute resolution	strongly agree	15	20.8
	Agree	47	65.3
	undecided	4	5.6
	Disagree	3	4.2
	strongly disagree	3	4.2
Total		72	100

The mean statistics for attributes for dispute resolution

Table 2 shows the mean statistics for dispute resolution and the attribute of dispute resolution with the highest mean value was restoration of impaired business relations on the intervention by COFECK in dispute resolution. This was an indication of the fact that the ability to involve the Kenya Bankers Association in arbitration gave confidence and assurance to the affected clients in the dispute resolution exercise.

Table no 2: Means Statistics for Dispute Resolution

Code	Statement	N	Mean	Std. Deviation	Std. Error Mean
CP	Consideration of dispute resolution as a factor ensuring effective consumer protection	72	1.75	0.342	0.04
DR1	COFECK has mechanisms to enforce optimal dispute	72	1.79	0.58	0.068
DR2	Drives to make clients aware of the dispute resolution mechanisms are carried out by COFECK	72	1.76	0.428	0.05
DR3	Mechanisms to liaise with the Kenya Bankers Association in arbitration activities have been put in place by COFECK	72	1.46	0.58	0.068
DR4	Avenues for client redress on failed arbitration have been put in place by COFECK	72	1.67	0.712	0.084
DR5	Impaired business relations have been restored on the intervention by COFECK in dispute resolution	72	2.06	0.902	0.106

Table no 3: The Mean Statistics for Attributes of 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

Table no 4: Correlations Analysis

The linear relationship was assessed using Pearson correlation coefficient. The findings indicate that dispute resolution was found to be positive and significantly related to consumer protection (r=0.587, p-value<0.05).

		Consumer Protection	dispute resolution
Consumer Protection	Pearson Correlation	1	.587**
	Sig. (2-tailed)		.000
	N	72	72
dispute resolution	Pearson Correlation	.587**	1
	Sig. (2-tailed)	.000	
	N	72	72

**. Correlation is significant at the 0.01 level (2-tailed).

***Regression analysis*:**

Test for assumptions

The values for skewness and kurtosis between -2 and +2 are considered acceptable in order to prove normal univariate distribution (George & Mallery, 2010).

Normality test for the study variables

The normality of data distribution was assessed by examining its skewness and kurtosis. A variable with an index smaller than an absolute value of 2.0 for skewness and an absolute value of 7.0 implies non-violation of the assumption of normality. The results of the normality test of the study variables indicated skewness and kurtosis in the range of -1 and +1 as shown in the table below. This implies that the assumption of normality was satisfied.

Table no 5. Normality test

Variables	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
consumer protection	72	0.077	0.283	0.84	0.559
dispute resolution	72	0.229	0.283	0.276	0.559

Regression model

The objective of the study was to find out the effect of dispute resolution by COFEK on effective consumer protection in commercial banks in Kenya. This was tested under the following hypothesis:

H_0: dispute resolution has no significant effect on consumer protection.

The R squared value was 0.344 which indicated that there is a strong relationship between independent variables (dispute resolution) and dependent variables (Effective consumer protection) as indicated in table no: 6 This implies that dispute resolution shares a variation of 34.4 % of Effective consumer protection.

Table no: 6 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.587[a]	.344	.335	.76137428

a. Predictors: (Constant), DR

b. Dependent Variable: CP

ANOVA

The table below indicates that the overall model was a good fit since (F-value=36.734 and p-value=0.0001<0.05). The model becomes as indicated in coefficient table .

$$\mathrm{CP} = -0.071 + 0.475_{DR} + \varepsilon$$

Table no: 7 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21.294	1	21.294	36.734	.000[b]
	Residual	40.578	70	.580		
	Total	61.873	71			

a. Dependent Variable: CP

b. Predictors: (Constant), DR

Table no: 8 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.071	.025		-2.891	.005
	DR	.475	.078	.587	6.061	.000

a. Dependent Variable: CP

From the coefficient table, dispute resolution had a significant coefficient (p-value <0.05, β=0.475). This means that dispute resolution is statistically significant in ensuring consumer protection, therefore, H_0: dispute resolution has no significant effect on consumer protection was rejected at a 0.05 level of significance.

IV. DISCUSSIONS

All the respondents affirmed that COFEK appreciated the responsibility of dispute arbitration from the association of consumers and commercial banks**.** This was an indication that the consumer protection agency had been involved in arbitration on issues affecting the clients and commercial banks and this had been appreciated as its responsibility in the eyes of the respondents. The study findings confirmed the position taken by Adams, and Hunt, (2013) who argued that handling of client complaints was a critical factor in the determination of the ability of organizations in the financial sector to attract and retain clients. The ways employed to receive and address client issues with the organizations swayed clients' perceptions.

All the respondents affirmed awareness of instances of misgivings on the arbitration processes carried out by the consumer protection agency and the clients of the commercial banks. The responses mirrored a situation whereby despite engaging in arbitration activities for consumer protection, the exercises were more or less mechanical and overly not very well appreciated by the consumers. The findings confirmed the position of Bertrand and Adair, (2014) who were of the view that measures to address discontent from the aggrieved clients in transparent manners assured the creation of mutualism in terms of the relations between the firms and the clients in the financial service provision.

All the respondents considered clients confidence to have been affected by the activities carried out by COFEK in the wake of arbitrating on consumer issues. The responses confirmed that the activities carried out by COFEK in the wake of arbitration held a lot of sway in the way the clients interacted with the organization in seeking protection from the commercial banks.

The study suggests that research should be carried out to confirm the extent to which the competition authority has curbed domineering tendencies by players in the commercial banks sector.

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