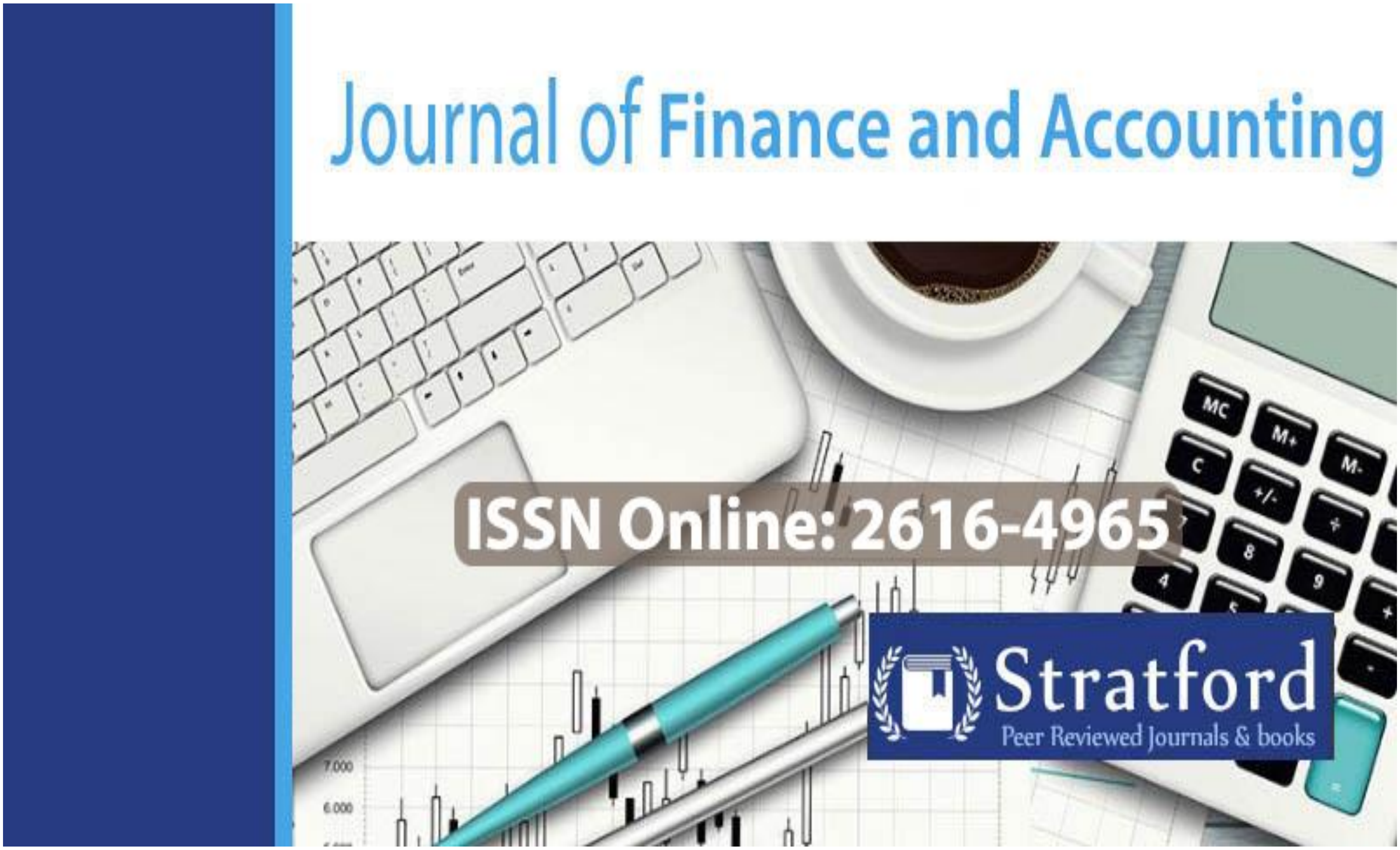

Financial Factors Influencing Client Retention in Microfinance Institutions in Kenya: A Case of Kenya Women Microfinance Bank - Nyeri County

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Financial Factors Influencing Client Retention in Microfinance Institutions in Kenya: A Case of Kenya Women Microfinance Bank - Nyeri County

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Abstract

Customer retention is an effective tool that banks can use to support their survival in the industry. Retaining customers is a primary factor in firms that practice any form of relationship marketing. The motive of this study was to assess the financial factors that influence customer retention, using a case study of the Kenya Women Microfinance Bank. The study used a case study design approach and targeted 340 inactive clients, the operations manager and the branch manager. From this target population, the study used sample size of 186 respondents. The study revealed that financial products offered, the interest rates, banking charges and the banking environment have an important influence on customer retention. Moreover, the values were less than the acceptable significance level, hence the null hypothesis was rejected. It was concluded that the financial products on offer, that include but not limited to loans, bank accounts, ATM services and fund transfers do influence how the customers perceive the bank. Bank charges on ATM, mobile banking, and bank statement provision and general service charges influence the perception of clients in banks thus affect whether to maintain their accounts in the banks. The study recommended that banks need to maintain good quality relationships with their clients, maintain favorable interest rates, charge favorable fees on services and maintain a good banking environment as these factors directly influence client retention.

Key words: *Financial products, Interest rates, Bank charges, Bank environment and Client retention*

1.0 Introduction

1.1 Background of the Study

Micro finance institutions' mission and goals are centered on moving clients out of poverty and foster good practices for measuring the progress of the individual movements across poverty lines (Attanasio, Britta & Heike, 2015). They provide a direct impact on the lives of the poor as they move them towards better and higher living standards through provision of financial solutions and strategies aimed at reducing poverty, empowering women and promoting community solidarity. Essentially, microfinance is bringing credit, savings and other essential financial services within the reach of people who are too poor to be served by regular banks and in most cases are unable to offer sufficient collateral. In the last two decades, microfinance has captured the attention of donors and policy makers for its ability to provide credit to the poor who have no or little access to commercial banks (Beck, Haki & Burak, 2014). The purpose is that with the additional income and determination, the poor can set up income generating activities in order to reduce their vulnerability and combat poverty.

Retaining clients is very important for Micro Finance Institutions because it reduces their administrative costs, lowers default risks and increases the average loan balance as well as institutions productivity, Meyer and Al (2011). However these institutions have been experiencing high rate of dropouts and inactivity from their clients averaging from a minimum 35% to as high as 45% per annum. According to Riria, Chair of the Women's World Banking Board, all microfinance institutions (MFIs) have clients who decide to exit the organization. Clients may leave for positive reasons such as outgrowing the size of the loans that the MFI can offer and be graduating to formal sector finance. The negative reasons contributing to clients leaving are, business failures or a bad experience with the MFI. Repeat borrowing is critical for the long-term viability of microfinance institutions which provide invaluable financial services to low income households in Kenya. Repeat borrowers reduce MFI administrative costs, lower risks and increases organizational productivity. In practice, however, several MFIs are experiencing high client inactivity. Termination of the lender-client relationship hampers organizational and financial stability (Al-Ethawi, Al-Azzawi & Mohammed, 2014).

In Kenya, there is still a huge demand for microfinance as revealed by a micro and small scale baseline survey of 1999 where of 2.4 million enterprises in the country, only 90% untapped (Msoka, 2014). Although this untapped market and the coverage has dwindled and expanded over the years with the entrance of new microfinance organization (MFO) players, clients still continue to leave the MFO in large numbers. The mission and goals of Micro finance institutions or MFI's are centered on moving clients out of poverty and foster good practices for measuring the progress of the individual movements across poverty lines (Muriera, 2015). Microfinance institutions need to take time and educate people on the risks of new financial services. However some of the MFIs do not take this step, thereby potential clients and existing clients are unable to strike the right balance between risks and benefits. Consequently, they shy away from the financial products on offer. This inevitably leads to them not using their accounts.

In the last two decades, microfinance has captured the attention of donors and policy makers for its ability to provide credit to the poor who have no or little access to commercial banks (World-Bank, 2013). The purpose is that with the additional income and determination, the poor can set up income generating activities in order to reduce their vulnerability and combat poverty. MFIs provide a direct impact on the lives of the poor as they move them towards better and higher living standards through provision of financial solutions and strategies aimed at reducing poverty, empowering women and promoting community solidarity. Microfinance is bringing credit, savings and other essential financial services within the reach of people who are too poor to be served by regular banks and in most cases are unable to offer sufficient collateral.

1.2 Statement of the Problem

Banking industry is highly competitive; banks are competing not only with each other, but with the rising number of institutions offering financial services (Gautam, 2012). Customer retention is therefore an effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment. According to Bailey (2012), acquisition of a new customer costs the organization five times the cost used to satisfy and retain the current customer. In addition, a 2% increase in customer retention has the same effect as decreasing costs by 10% in the banking industry.

Customer retention is a ballooning problem in the banking industry in Kenya; however, very few empirical studies have investigated financial factors affecting customer retention (Sharma, 2012). This study therefore seeks to examine the financial factors affecting customer retention in the microfinance institutions. Client exit and inactivity are an important emerging issue in the microfinance industry. This is especially in Kenya because microfinance is experiencing exponential growth. A study by Sunil (2011) shows that high client inactivity rate (averaging 30-40%) increases the operational costs, as new clients require more monitoring and screening. It has also been noted that clients tend to take smaller loans thus resulting in lower returns. Kenya Women Microfinance Bank is the only MFI in the country with women as its target market and that most women clients choose to join Kenya Women Microfinance Bank (KWMB) over other MFIs because of its flexibility in repayment schedules and the group factors which allow members to socialize and share ideas (KWFT, 2012).

Al Azzawi (2014) added that there is a high positive correlation between repayment and client dropout, yet the reasons for this client inactivity remain unexplained in a systematic manner. As at June 30th 2017, KWMB has 787,136 clients but an estimate of 443,261 are active. The organization needs a strategy that responds to the client's requirements and situations which would assist it in not only achieve its goal of sustainability and outreach but also enhance the possibilities of the poor clients to participate in the microfinance program thereby facilitating their efforts to escape or alleviate poverty and reduce high client exit rate. The study therefore sought to investigate factors that influence client retention in micro-finance institutions in Kenya: a case study of Kenya Women Microfinance Bank in Nyeri County.

1.3 Research Objectives

i. To establish how financial products influence client retention in KWMB, Nyeri Branch.
ii. To investigate how interest rates influence client retention in KWMB, Nyeri Branch.
iii. To examine how bank charges influence client retention in KWMB, Nyeri Branch.
iv. To explore how banking environment influence client retention in KWMB, Nyeri Branch.

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1.4 Research Hypotheses

$H0_1$ There is no significant relationship between financial products offered by KWMB, Nyeri Branch and client retention.

$H0_2$ There is no significant relationship between interest rates offered by KWMB, Nyeri Branch and client retention.

$H0_3$ There is no significant relationship between bank charges offered by KWMB, Nyeri Branch and client retention.

$H0_4$ There is no significant relationship between bank environment and client retention.

2.0 Literature Review

2.1 Theoretical Review

Theory of Consumer Choice

Microeconomics describes the theory of consumer choice as the relation between preference (denoting the tendency towards the consumption of goods and services) and expenditure relating to expenditures, whereby the relation is utilized to connect the relationship that exists in the consumer demand curves (McConnelll, 2008). The interrelation that exists between consumption, personal preference and the demand curve forms one of the closely monitored areas of study in economics science. The theory of consumer choice is among the various methods that is used in analyzing the behaviors of consumers that trigger the existence of equilibrium between consumer preferences and expenditure through maximizing utility as put through the constraints within the consumer's budget (Binger, 1998).

The basic theorem of demand posits that as the prices of goods rise, the rate of consumption fall, keeping an inverse relationship that is also known as the substitution effect. It is evident that if a person does not have enough cash to purchase a good or service, then they cannon purchase any of those goods or services. As the prices increase, the consumer will often look towards alternatives that substitute the highly priced items for more affordable ones. Therefore, as the level of wealth that an individual has increases, there level of demand also increase, creating a shift in the demand curve to the right with higher rates of consumption. The phenomenon is known as the income effect. As the total wealth of an individual increases, they will often substitute to goods and services that are highly priced away from the inferior ones that more than often are priced cheaply (Binger, 1998).

2.2 Empirical Review

2.2.1 Financial products and their effect on client retention

The Kenyan banking sector is governed by the Companies act and the Banking Act, while the mandate of regulating the industry falls under the Central Bank of Kenya through the Central Bank of Kenya Act which gives it the authority to issue various prudential guidelines and policies to regulate the industry. The financial sector in Kenya has experienced significant changes over the last couple of decades. Kombo (2015) affirms that with the changes, the financial products too have increased, together with improvement in the organizational forms and activities within the sector. Generally, the overall efficiency of the systems put in place by the financial institutions have also increased (CBK 2015).

The branch networks of the commercial banks have also grown from a paltry 531 branches in 1999 to 1103 branches by the close of June 2011, ATM points multiplied from 263 to 2024 within the same period., the total number of deposit accounts increased from an estimated one million accounts to 12.8 million accounts, while the number of staff rose from 16,673 to 28,846 staff during the same period (CBK, 2015). The value of total assets held by the financial institutions increased from Ksh, 387, 371 million in the year 1999 to over 1.9 trillion by the end of June 2011, while the value of the customers' deposits jumped from Ksh. 235 billion to over 1.5 trillion during the same period (CBK, 2015). The last 20 years can be termed as the era of technological innovation and emerging sound financial instruments. During the period, a number of new products in the financial sector were witnessed. These products were like; plastic money, electronic money (e- money), the automatic teller machines (ATMs), Islamic banking amongst other innovative products and services within the banking sector.

The main factors that impacts on the level of demand for credit from the financial institutions are; high rates of interest charged on loans, high transaction costs, bureaucratic loan process, asymmetric information and collateral risk (Meloso, 2015). According to Msoka (2014), the reason why borrowers lack access to credit from banks are inability to provide accurate information on their financial status, lack of collaterals, cumbersome lending procedures, high cost of credit and long physical distance to the nearest financial services. These factors have led to clients shunning bank services and products while opting for alternative financial solutions. Banks start to realize that there are no other banks that can offer all products and end up being the best or the leading bank preferred by all customers. The banks are then forced to look for other basis for competition as well as improving on the quality of the products and services that they offer to the customers (Ombok, 2014).

2.2.2 Interest Rates and their effect on client retention

Customer loyalty is regularly examined from the perspective of the consumer's purchasing conduct through estimating items; for instance, the recurrence of the consumer's purchasing levels (Kotler, 2012). A broadly employed assumption is that loyalty prompts a number of repeat purchases from the same supplier over some period of time (Ahmad, 2010). As indicated by Whitley (2014), satisfaction is further defined as a post utilization experience, which contrasts the perceived quality with the expected quality, though service quality refers to the worldwide assessment of a company's delivery system. Satisfaction is conceptualized as the general demeanor of a client towards a specific service given by the service providers. Likewise, consumer satisfaction has been depicted as the effective response concentrated on the performance of the product compared to some repurchase standard after consumption.

Boohene (2013) noticed that interest rates, including that are charged by MFI's, are determined by three key variables; inflation, government borrowing, and the risk involved. The second determinant is the level of borrowing by the government form the public. The rate at which the government borrows from the public forms the basis at which banks and other financial institutions peg their interests on. The risk involved is known as the risk premium, which is incorporated in the calculation of the interest rate parity (CBK, 2012). It therefore implies that when a country's currency depreciate, the interest rate have to be above the rate at which the currency depreciates. Nonetheless, in countries that developed, interest rates are liberalized as a result of permitting the market forces to decide on the rates that the interest will prevail at (Stanley, 2013).

2.2.3 Bank Charges and their effect on client retention

Customer satisfaction is the most important issue that affects the quality of client relationship and costs of switching. A customer is most likely to ignore the little frustrations if they are satisfied with the products or services that a company provides when they already have developed a strong relationship with the company (Ellis, 2010). Therefore, it can be stated that there exists a mutual relationship between the level of customer's satisfaction and the quality of the relationship. Gweyi (2013) asserts that the financial costs also get affected, however, when the client experiences a satisfying relationship with firm, they will always be willing to pay more for the goods or services offered. Consequently switching costs are as a result of the relationship that exists between the customer's satisfaction and quality offered by the banks.

The choice of managing an account promoting implies relies upon a bank's objective gathering. Most saving money establishments deliver their publicizing to holders of little records and hence promote their items and administrations through the broad communications. The press and TV are the favored means for bigger banks that have branches the nation over. As indicated by Paulson et.,al (2015), as they enroll more clients, a few banks try to persuade clients about the record highlights. For a situation of gathering accounts, the customers pull back the whole sum when it is credited to their record. They don't keep up any adjust or do some other exchange other than pulling back once in multi month aside from few individuals, who make it a point not to pull back the entire adjust in light of the fact that they are requested In rural areas, some bank branches are located in the town centers. As a result, for some of the rural customers, these branches remain too far away for easy or affordable banking (Vickery, 2013). A day of lost wages and travel costs discourages customers from using their accounts for anything beyond receiving of annual bonuses or payments, for instance in tea and coffee growing regions. Some of the banks lack flexibility to customize their account offerings to meet their rural customers' needs. The flexibility of small deposits and managing agent networks to ensure continuous and timely withdrawals and deposits as is the case with KCB (Kenya Commercial Bank) Mtaani agents can go a long way in retaining clients.

2.2.4 Banking environment and the influence on client retention

The condition of the keeping money condition in a nation introduces its own particular arrangement of requirements to the tasks on microfinance organizations Sharma (2011). This thus influences the level and nature of administrations given by the foundations; and inevitably influences a clients' decision of regardless of whether to hold and work a ledgers. Access to miniaturized scale fund for poor people or the close poor is more regrettable in nations with a higher GDP for each capita, in nations with poor institutional quality and in nations with littler markets (Jeng, 2012).

As per a World Bank Working Paper (2012), effective nation foundations and vast potential; markets, just like the case for Kenya, encourages the microfinance business to develop. Similarly, a poorer quality in the principle managing an account framework disheartens the spread of microfinance organizations. Cole (2013) additionally included that nations with higher spreads and higher productivity in their primary managing an account framework have less microfinance foundations. This recommends more rivalry in the keeping money framework can encourage more prominent access to budgetary administrations, including those from microfinance organizations. Smaller scale back establishments can tailor-make their items to suit the general low and center salary populaces and along these lines hold more clients (AFDB, 2013). Similarly, Carina (2012) expressed that inflexibility in sanctioning guidelines, high least capital ampleness prerequisites, confinements on subsidizing structures, extreme direction and supervision, and excessively strict bookkeeping necessities different principles can anticipate microfinance establishments and littler money related foundations from altering items in order to draw in and hold customers.

Islam (2011), also noted that some clients after accessing loans withdrew all the funds and thereafter channeled them to other ventures and informal mechanisms of savings. Accessibility has also been observed as a primary factor. Some clients have claimed distant branches as the cause of their inactivity; with some claiming to pay almost half or fifty percent of their daily pay to travel to the bank. The queues were also long: and others said that going to the banks made them lose 8 hours equivalent of a whole work day. Insufficient attention from the main commercial banks and other primary financial institutions also stood as a barrier to frequent usage of bank accounts, hence inactivity on the part of the clients who claim that the benefits derived from having an account were not well articulated by the bank staff when opening the accounts (Westover, 2008). Other clients claimed that the elements contained in the accounts were not fully explained during the enrolment process at the banks. A number of reasons have surfaced for the reasons as to why there was such low levels of utilization of the accounts. Reasons ranged from the lack of interest by the low income earners to improper design of the financial services.

2.3 Conceptual Framework

The applied structure was utilized to demonstrate the connection between the reliant variable and free factors. The reliant variable depicts the level of customer maintenance while the free factors clarify how budgetary items, loan fees, bank charges and keeping money confinement influence customer maintenance. The framework has been represented on figure 1;

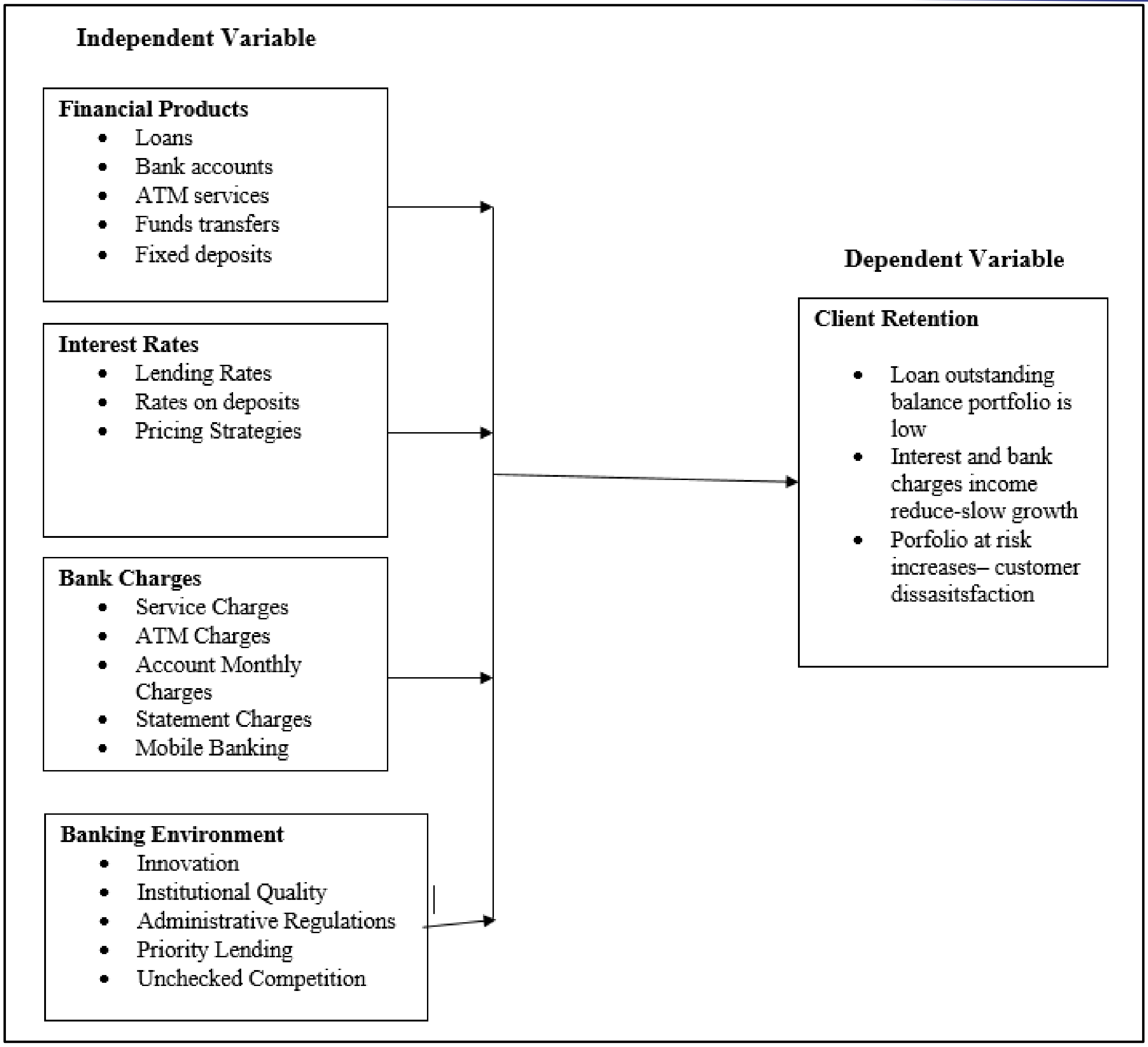

Figure 1: Conceptual Framework

The money related items offered by banks and the simplicity of getting them are factors that decide client inclinations. Money related items incorporate credits offered, subsidize exchanges capacities and store stores. Manages an account with prevalent money related items will probably hold their clients. (Ombook, 2014). Bank clients will be more disposed to stick to banks from which they will get to all their monetary needs under one rooftop.

Sharma (2012) considered interest rate as the price of money and the link between income and capital. Customer retention in banks is hugely determined by how much interest they will be charged upon acquiring a facility from the financial institution. As much as interest rates are determined by three main factors: inflation, level of government borrowing and risk involved, clients will always opt for those banks that will charge lower interest rates on borrowed money.

Bank customers are charged for the services they receive in their respective banks. Use of ATMs brings with it charges, a fee is charges for holding specific types of bank accounts, acquiring a bank statement as well as using mobile money transfer services. However according to Ellis (2010) , if the customer is satisfied with overall company's products / services and he/she has the already existing strong relationship with the company, the customer would be inclined to ignore a single small frustration. Clients will be more inclined to stick with banks that charge a reasonable amount for transactions done and account usage.

Sharma (2011) emphasized that the state of the banking environment in a country presents its own set of constraints to the operations on microfinance institutions. This in turn affects the level and quality of services provided by the institutions; and eventually affects a customers' choice of whether or not to retain and operate a bank accounts. Micro finance institutions may be hindered by rigidity in chartering rules, high minimum capital adequacy requirements, restrictions on funding structures, excessive regulation and supervision, and overly strict accounting requirements. These factors make it hard for smaller financial institutions other rules can prevent microfinance institutions from customizing products so as to attract and retain clients.

3.0 Research Methodology

This research adopted a case study design. A case study explains relationships that exist in reality and this study opted for the case study design because it allows the researcher to capture reality in greater detail. The target population was made up of clients and the branch manager at Kenya Women Microfinance Bank in Nyeri branch. The KWMB Nyeri branch has a population of 830 clients according to the KWMB database 2017. To get the sample size of exited clients the study adopted Yamane formula, which is simplified formula for calculating small sample sizes. This formula is used to calculate the sample size assuming a 95% confidence level and P = 0.05 therefore the sample size of inactive clients was 184. The researcher did not sample the operations manager and the branch manager.

Determination of sample size;

$$n = \frac{\mathbf{N}}{\mathbf{1 + N(e)^2}}$$

Source; (Yamane 1967)
Where **n** is the sample size, **N** is the population size, **e** is the level of precision

$\boldsymbol{n} = \frac{\mathbf{340}}{\mathbf{1+340(0.05)(0.05)}}$n =184 sample size for clients
Sample size managers = 2: 1 branch sample size manager + 1 operations manager
Therefore, the total sample size for this study was 186 respondents (clients and managers). The study used both questionnaires and interviews, which were administered to clients and branch manager to gather information. Qualitative data was analyzed based on the content of the responses. Qualitative data was analyzed on descriptive and inferential statistics. Inferential statistics was used to establish the association and relationship between factors influencing inactive client and retention in microfinance.

The regression equation was:

$$\mathbf{Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4+\varepsilon}$$

Whereby the variables will be identified as follows;

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Y = Clients retained in microfinance

X_1 = Financial products

X_2 = Interest rates

X_3 = Bank charges

X_4 = Bank environment

ε = Error term

β_1, β_2, β_3 and $\beta 4$ are coefficients of determination

4.0 Research Findings and Discussion

4.1 Response Rate

The researcher issued out the questionnaires to the respondents of the study. Upon return of the duly filled in questionnaires, the response rate was 94%. Out of 186 questionnaires and interview schedules issued out, 175 were brought back while 11 were not brought back. 94% represents a reliable response rate, since it is above the minimum acceptable threshold of 70% (Mugenda, 2003). The analysis of the response rate was as shown in the Table 1.

Table 1: Response Rate

Respondents	Frequency	Returned	Uncompleted/not returned	Percentage returned questionnaires (%)
Respondents	186	175	11	94%
Total	**186**	**175**	**11**	**94% (response rate)**

4.2 Descriptive Statistics

4.2.1 Financial product

The study inquired about the financial products offered by the Kenya Women Microfinance Bank. Result is presented in Table 2.

Table 1: The financial products offered by KWMB

Frequency	SA		A		N/A/D		SD	
Frequency (f) and Percentage (p)	F	%	F	P%	F	P%	F	P%
KWMB provides ATM services	31	17.3	56	32	50	29	38	21.7
The ATM machines are conveniently located	28	16	47	26.9	78	44.6	22	12.5
I have access to electronic transactions	43	24.6	45	25.72	69	39.4	18	10.28
I am satisfied with the accuracy of transactions	40	22.8	55	31.4	66	37.8	14	8

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Firstly, the study sought to find out whether the bank provided ATM services. The findings showed that 17.3% strongly agreed, 32% agreed, 29% neither agreed nor disagreed and finally 21.7% strongly disagreed. Next, the researcher asked whether the ATM machines were conveniently located. The responses were: 16% strongly agreed, 26.9% agreed, 44.6% neither agreed nor disagreed and finally 12.5% strongly disagreed. Thirdly, the researcher sought to find out whether the respondents had access to electronic transactions. The responses gathered showed that 24.6% strongly agreed, 25.72% agreed, 39.4% neither agreed nor disagreed while 10.28 strongly disagreed. Finally, the researcher asked whether the respondents were satisfied with the accuracy of transactions at the bank. The gathered responses were that 22.8% strongly agreed, 31.4% agreed, 37.8 neither agreed nor disagreed and 8% strongly disagreed.

4.2.2 Interest Rates

The researcher fielded a number of questions to the respondents pertaining the interest rates charged by the bank. Result is presented on Table 3.

Table 2: Interest Rates charged by the bank

Frequency	SA		A		N/A/D		SD	
Frequency (f) and Percentage (p)	F	%	F	P%	F	P%	F	P%
KWMB has a fair method of setting fees	31	17.3	56	32	50	29	38	21.7
KWMB has competitive pricing compared to other banks	28	16	47	26.9	78	44.6	22	12.5
The prices of services are acceptable at KWMB	43	24.6	45	25.72	69	39.4	18	10.28
I am satisfied with the interest charged by this bank	40	22.8	55	31.4	66	37.8	14	8

The respondents were asked whether the bank had a fair method of setting fees. The findings indicated that 17.3% strongly agreed, 32% agreed, 29% could neither agree nor disagree and finally 21.7% strongly disagreed. This implied a mixed feeling amongst the respondents on the method of setting fees as they saw it. The respondents were asked whether KWMB had a competitive pricing as compared to other banks. The responses showed that 16% strongly agreed, 26.9% agreed, 44.6% neither agreed nor disagreed and finally 12.5% strongly disagreed. The implication here was that the prices charged on facilities by the bank did not necessarily differ from those charged by other banks. In addition, 24.6% strongly agreed that the price of services at KWMB were acceptable, 25.72% agreed, 39.4% neither agreed nor disagreed while 10.28% strongly disagreed. Lastly, the level of satisfaction with the interests charged by the bank was assessed. The findings indicated that 22.58% strongly agreed, 31.4% agreed, 37.8% neither agreed nor disagreed and finally 8% strongly disagreed.

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4.2.3 Bank charges

The researcher sought to find out if the bank's clients were charged when obtaining bank account statements. Result is presented on Table 3.

Table 33: Charges on Bank Account Statements

	Frequency	Percentage (%)	Cumulative Percentage (%)
Strongly Agree	135	77	77
Agree	25	14	91
Undecided	8	5	96
Disagree	4	2	98
Strongly Disagree	3	2	100
Total	175	100	

Majority of the respondents affirmed that they were charged a minimal fee to obtain bank statements. This was indicated by the 77% and 14% of the respondents who strongly agreed and agreed respectively. In addition, 5% were undecided, 2% disagreed and finally 2% of the respondents strongly disagreed. The respondents indicated that the statements were communicated to them electronically on a monthly basis upon request.

4.2.4 Bank environment

A number of questions were posed to the respondents regarding the banking environment. . Result is presented on Table 4.

Table 4: Banking Environment

Frequency	SA		A		N/A/D		SD	
Frequency (f) and Percentage (p)	**F**	**%**	**F**	**P%**	**F**	**P%**	**F**	**P%**
I am satisfied with the efficiency of service in this bank	31	18	77	44	50	28	17	10
I believe this bank offers unique and distinctive products	28	16	47	26.9	78	44.6	22	12.5

Firstly, the clients were asked whether they were satisfied with the efficiency of service in the bank. The responses gathered indicated that 18% strongly agreed, 44% agreed, 28% neither agreed nor disagreed and 10% strongly disagreed. The responses indicated that the vast majority of the respondents implied that they were satisfied with the service efficiency at the bank. The respondents were then asked whether they believed that the bank offered unique and distinctive products. The responses gathered were that 16% strongly agreed, 26.9% agreed, 44.6% neither agreed nor disagreed while 12.5% strongly disagreed. The responses indicate that the greater majority did agree that there was a unique and distinctive product offering.

4.3 Correlation Matrix

Correlation analysis was performed so as to determine the direction and the strength of the relationship that exist between two continuous variables. The correlation analysis used Pearson's Correlation to determine the relationship between the variables under study. The results are as shown on Table 5.

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Table 5 Correlation Matrix

	CR	FP	IR	BC
CR	**1.000**			
FP	0.195	**1.000**		
IR	0.277	0.34	**1.000**	
BE	0.19	0.264	0.168	**1.000**

CR= Customer Retention, FP = Financial Products, IR = Interest Rates, BC = Bank Charges.

Findings in Table 5 indicate that there was no any variable that displayed extreme values of correlation since all the values fall between +/-0.5. The findings indicates that there is a positive association between factors influencing client and retention in MFIs. Correlation findings are in line with the suggestions of Field (20060, who observed that linear regression analysis need only very little or no autocorrelation within the data set analyzed.

4.4 Regression Results

Regression analysis was conducted to establish the statistical significance relationship between factors influencing clients and retention in MFIs in Kenya.

Table 6: Regression Results

Model	Beta	Std. Error	t-statistic	p-value
Constant	1.034	.35	2.954	.005
Financial Products	.795	.092	2.126	.038
Interest Rates	.277	.094	2.953	.005
Banking charges	.344	.090	3.822	.000
Banking Environment	.190	.080	2.360	.022

The dependent variable is client retention.
F=>86.189 P=0.000 Adjusted R-squared =0.741
The regression model is
$Y=1.034+0.195X_1+0.277X_2+0.344X_3+0.191X_4+\varepsilon$

Table 7: Coefficient result

	Y	X1	X2	X3	X4
Standard Error	0.35	0.92	0.09	0.90	0.08
T- Statistics	2.954	2.126	2.953	3.822	2.360
P - Value	0.005	0.038	0.005	0.000	0.022

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Where; Y = Customer retention, X_1 = Financial products, X_2 = Interest rates, X_3 = Banking charges, X_4 = Banking environment, ε = Error Term, β0 = Constant Term, β1, β2, β3, β4 = Beta Coefficients

The new model indicates that on the overall, without proper mechanisms to entice clients in the microfinance institution, then the level of client retention would be quite low. The beta values for all the variables in the study are positive indicating that all the independent variables positively affect client retention within the micro finance sector. The beta value for financial products (β= 0.795) shows that a change by a unit in the type of financial products offered by the bank would result in 79.5% change in the loyalty of customers with the bank. A further evaluation of the beta reveals the relative weight that each of the independent variables have on client retention within the bank. A look at the beta values in the model reveals that the variable that has the highest impact on client retention are the financial products offered by the microfinance institution, closely followed by the Bank charges, then interest rate, and finally the banking environment having the least impact. It is therefore evident that financial products offered by the banks impact highly on whether clients will chose to remain with the bank or move on to other alternative financial service providers. The findings are consistent with those of Ombok (2014) which state that bank customers will be more inclined to stick to banks from which they will access all their financial needs under one roof and as such banks with superior financial products will be more likely to retain their customers. The p-values in signify the significance of each of the independent variables in relation to client retention in Microfinance institutions. Looking at the p-values therefore, it is evident that client retention practices employed by Microfinance such as financial products (p=0.038), Interest rates (p=0.005) and bank charges (p=0.00) were significant.

4.5 Test of Hypothesis

The study was guided by the following null hypothesis that the researcher tested. Below is a summary of the Hypothesis test findings.

Table 8: Hypothesis Testing

Hypothesis	Statement	Finding	Interpretation	Result	Conclusion
H_{01}	There is no significant relationship between financial products offered by microfinance institutions and client retention	p=0.038	financial products offered by microfinance institutions are statistically significant	Reject **H_{01}**	There is a relationship between financial products offered by microfinance institutions and client retention in Microfinance Banks
H_{02}	There is no significant relationship between interest rates offered by microfinance institutions and client retention.	p=0.005	interest rates offered by microfinance institutions are statically significant	Reject **H_{02}**	There is a relationship between interest rates offered by microfinance institutions and client retention in Microfinance banks
H_{03}	There is no significant	p=0.00	bank charges offered by	Reject **H_{03}**	There is a relationship between

	relationship between bank charges offered by microfinance institutions and client retention.		microfinance institutions are statistically significant		bank charges offered by microfinance institutions and client retention
H_{04}	There is no significant relationship between bank environment and client retention	p=.022	The banking environment is statistically significant	Reject **H_{04}**	There is a relationship between bank environment and client retention in microfinance banks in Kenya

4.6 Discussions

4.6.1 Financial products and client retention

The study sought to find out how financial products influence client retention in KWMB. Financial products availed by banks include loans, bank accounts, ATM services and money transfer services. The researcher also sought to find out the extent to which the clients trusted the bank as the custodians of their money. 62% indicated that they trusted the bank as the custodian of the money to a great low extent. The regression model reveals beta value for financial products (β= 0.795) which shows that a change by a unit in the type of financial products offered by the bank would result in 79.5% change in the loyalty of customers with the bank. A further evaluation of the beta reveals the relative weight that each of the independent variables have on client retention within the bank. An analysis at the beta values in the model revealed that the variable that has the highest impact on client retention are the financial products offered by the microfinance institution. The implication was that there was a great level of trust in the bank, by their customers. A good perception by the clients, of a bank's financial services was likely to draw more customers to the bank, and also retain the existing customers. The findings revealed that KWMB offered acceptable financial products, as the positive responses indicated.

4.6.2 Interest rates and client retention

The study sought to investigate how interest rates influenced client retention at KWMB. The perception by the bank clients that the interest rates are fair is a crucial determiner of how well the bank is able to retain its clients. The response indicated that the respondents perceived the interest rates charged on loans to be fair thus the large number of loan applications. This was further probed as the researcher sought to know whether the respondents felt that that the rates charged on loans were fair. As stated earlier, the perception by the bank clients that the interest rates are fair is a crucial determiner of how well the bank is able to retain its clients. Interest rates are range from lending rates to rates on deposits.

4.6.3 Bank charges and client retention

The study also sought to find out the influence of bank charges on client retention at KWMB. The charges imposed on customers, including account opening charges, ATM charges and transaction charges will influence how banks are able to retain their clients. The study therefore sought to find out the extent to which the clients agreed with the rates charged by the bank, for services rendered. In addition, the respondents all affirmed that they were charged a minimal fee to obtain bank

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account statements, but that they statements were communicated to them electronically on a monthly basis upon request. The findings implied that the bank's charges played a major role in dictating customers' loyalty.

4.6.4 Banking environment and client retention

The bounds upon which a bank operates affect the product and service offers to clients. The quality of services, level of innovation, the strength of the brand name and the administrative regulations play into the mind of existing customers and could influence the level of retention of these clients. On the issue of efficiency, the study sought to find out if the clients were satisfied with the efficiency of service in the bank. The gathered responses indicated that 18% strongly agreed, 44% agreed, 28% neither agreed nor disagreed while 10% strongly disagreed. The majority of the respondents also indicated that they believed that the bank offered unique and distinctive products. The nature of operations in a bank also influences retention of clients and banks are faced with the challenge of being responsive to client needs. The researcher asked the clients to state whether the bank was responsive to their changing needs. The findings showed that there was a great effort by KWMB to keep abreast with customers' demands.

5.0 Conclusion

From the study, it was concluded that indeed the factors under investigation did influence client retention in microfinance institutions. The financial products on offer, including but not limited to loans, bank accounts, ATM services and fund transfers do influence how the customers perceive the bank. Secondly, the interest rates charged by the bank on loans issued and the rates on deposits. Thirdly, bank charges on ATM, mobile banking, and bank statement provision and general service charges will influence the perception of clients in banks thus influence whether they maintain their accounts in the banks. Lastly, banking environment including regulations and physical limitations will play a role in influencing the perception of clients. As such, the factors under investigation by this study were found to influence the retention of clients as the discussion of findings revealed.

6.0 Recommendations

The study recommends that the top management in the bank pay attention to the products on offer as these have the greatest impact on the customer retention. The needs of the customers should be considered by the managers to ensure that they maintain their loyalty. By focusing on provision of efficient, convenient and in demand products, the unstated needs of the clients are fulfilled by the banks. The unstated needs can be the future needs of the customers thus the banks should not only focus on basic customer needs. The quality of the relationship with clients is significant as a key factor in order to retain customers. The study thus recommends that banks strengthen and improve relationships with customers. The study revealed that a good relationship with the client is important because the quality of relationships has a direct impact on customer retention and customer satisfaction. Improving relations reduces the need to switch banks.

Bank management should assesses the policies of their banking activities by charging competitive interest rates, administrative fees and having favorable account charges. These rates will guarantee customer retention. By charging favorable interest rates the bank will reduce chances of defaulters and more importantly, the customers will not move to other competitors. In addition to this, there is a need for the management to ensure that staff members are well trained and are aware of the credit products on offer.

Bank managers should ensure efficiency in operations so that customers are promptly served. The banks should also adhere to the legal restrictions on price maintenance and display their charges

to the clients. The charges should be favorable enough to match the customer needs. In addition, the banks need to monitor the rate at which customers are defecting and find the causative factors. By provision of favorable bank charges, customers are more responsive and this will make them satisfied and hence the bank was able to retain them.
Banks should take time to train potential and existing clients on the risks of new financial services. This, the study reveals, will enable potential clients and existing clients to strike the right balance between risks and benefits. In addition to this, physical facilities should be availed to suit the customer needs: ATMs should be prompt and enough to minimize inconvenience at for the customers. In addition, all the main services should be in each branch of the bank and the customer service representatives should be knowledgeable enough to attend to the customers' needs.

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