INFLUENCE OF REGULATORY REQUIREMENTS ON
FINANCIAL INCLUSION: A CASE OF THE FINTECH INDUSTRY
IN KENYA

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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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DECLARATION

I’m the undersigned, I declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed: ____________________________ Date: ________________________

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This project report has been presented for examination with my approval as the appointed supervisor.

Signed: ____________________________ Date: ________________________

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ABSTRACT

The general objective of the study was to establish the influence of regulatory requirements on financial inclusion: a case of the Fintech industry in Kenya. Specific objective were to examine the effects of start-up cost on financial inclusion in the fintech industry in Kenya. To assess the effects of customer protection regulation on financial inclusion in the fintech industry in Kenya. To examine the effects of investor protection regulation on financial inclusion in the fintech industry in Kenya. Chapter two covered literature review on effect of regulatory requirements on financial inclusion. It discusses the effects of start-up cost on financial inclusion, effects of customer protection regulation on financial inclusion and effects of investor protection regulation on financial inclusion.

This study adopted a descriptive research design. The target population was the 38 Fintech companies in Kenya. The managers were targeted in each company. Therefore, 435 managers at the Fintech companies were targeted. The stratified random sampling method was used to select the sample size. The sample size was 218 respondents. Primary data was collected using structured questionnaires. Data analysis used quantitative methods of analysing data using IBM Statistical Package for Social Sciences (SPSS). Descriptive statistics provided description of data in terms of frequencies and percentages that was presented in form of figures, tables and charts. Pearson Correlation was used to establish the existence, nature and strength of the relationships between the independent variables and their significance of the relationship to sales force performance. Multiple regressions were used to determine the level of significance in relationship between start-up costs, customer protection regulation, investor, customer protection regulation, credit allocation and financial inclusion.

Chapter four was a discussion of results and findings that were collected from the field. The study presented the findings on the start-up cost and financial inclusion, customer protection and financial inclusion and investor protection and financial inclusion. Descriptive analysis, content analysis and inferential statistics were used to analyze the data and discuss the research findings.

The study found that start-up cost had a strong positive correlation with financial inclusion. It was also revealed that customer protection and financial inclusion had a significant relationship. Further, investor protection was statistically significant to financial inclusion in Fintech industry in Kenya. The study concluded that start-up cost,
customer protection and investor protection had a significant positive relationship with financial inclusion in Fintech industry in Kenya.
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LIST OF ABBREVIATIONS

APY  Annual Percentage Yield
AQRs  Asset Quality Reviews
BIS  Bank for International Settlements
CGSs  Credit Guarantee Schemes
EU  European Union
GDP  Gross Domestic Product
MFIs  Microfinance Institutions
NBFIs  Non-Banking Financial Institutions
NGOs  Non-Governmental Organization’s
ROI  Returns on Investment
SMEs  Small and Medium Enterprises
SSM  Single Supervisory Mechanism
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

The main goal of financial regulation is to ensure maintenance of financial stability as well as spurring of economic growth (Tobias, 2017). Under financial inclusion, a great role is played by financial regulations. For example the main aim of ensuring consumers protection is to mitigate discriminative lending by financial entities. On the other hand investors who purchase securities either directly or indirectly through investment in mutual funds are protected by investor protection laws. Further, credit allocation regulation are implemented to facilitate lending to key social sectors in the community that entail housing, the less fortunate as well as the farming sector by the financial entities (Asfaw, 2016).

Regulatory requirements play essential roles in the community through ensuring market integrity, mitigating information asymmetry, minimizing negative externalities as well as prevention of distortions. These regulation requirements have also the capacity of presenting unpleasant consequences through indirectly hampering the process of intermediation in the financial institutions as well as impeding the ability to provision of financial services (Kodongo, 2018). In this case various countries are attaining market stability through establishing strong financial regulation. Although it is an essential move, this may be done at the cost of inclusive growth in most developing countries. Financial systems cannot exist without effective regulation since this might facilitate instability in the financial sectors hence triggering crisis that can hinder growth of the real economy (Spratt 2013). Since the main role of finance is to ensure increase in productivity of the economic activities, then the role of regulations is to facilitate financial stability and hence lead to economic growth. These two needs to be well balanced since giving more focus on economic stability could result to stifle growth. On the other hand, giving more focus on economic growth is like to give rise to future crisis (Mostak & Sushanta, 2015).

Regulations can have two impacts on economic growth and economic stability. One of the impacts is ensuring a direct effect of financial regulation through affecting the day to day behaviour of the financial market. For instance; the extent of credit extended to SMEs by a financial institution. The second way is through influencing the structure of
financial system hence ensuring an indirect impact. For instance, the banking system diversity can affect the lending pattern of the whole sector (Tan & Floros, 2012).

Stijn et al. (2016) argues that among the key limitations to financial inclusion is poor regulatory framework. Others scholars argue that low rate of financial inclusion is as a result of poor quality institutions, poor infrastructural development, high poverty rates, high rate of financial illiteracy and poor quality institutions (Nurbekyan & Hovanesian, 2018). Stijn et al. (2016) indicates that financial inclusion can be catalysed or hindered by financial regulation. There is increasing rate of recognizing regulatory frameworks which facilitate access to account ownership as well as financial services. The regulatory framework needs to be formulated to ensure expansion of ownership of accounts through implementation of financial regulations like bank capital regulation, licensing of bank agents, introduction of documentation requirement as well as permitting the introduction of innovative technologies like mobile money.

Majority of the policy makers perceive financial inclusion as a means to eradicate poverty and facilitate prosperity of the society (Ariss, 2014). Yoshino and Morgan (2016) argues that access to financial services can lead to promotion of economic growth, raised income as well as reduced poverty.

However, economic instability can result due to extending much credit facilities to non-creditworthy borrower as well as ensuring relaxed underwriting standards. As indicated by the US sub-prime crisis of 2007 and the India’s 2010 crisis of micro-finance, it is clear that lack of controlled expansion of access to financial services may encourage financial instability as well as social discontent. The common characteristic in the two crisis is that despite the fact that financial institutions were in a position to realize good profits for the year through extension of loan facilities, there was increased rate of loan defaulters which was facilitated by lending to non-creditworthy customers (Amatus & Alireza, 2015).

From global perspective, Neuberger (2015) argues that financial systems that are based on commercial banks ensure a high level of financial inclusion which is measured in terms of market served by the bank as well as use of financial services. Nevertheless, in Germany the less fortunate and the SMEs are high discriminated when it comes to financial services. The extent of financial inclusion is hindered by high rate of financial illiteracy which is most common among the key subgroups. The high rate of financial inclusion is facilitated through relationship lending by credit cooperatives, the house bank
model, public saving banks as well as financial consumer protection and credit reporting regulations

In US, financial inclusion has been facilitated by the treasury department through ensuring expansion on the access to financial services for all individuals regardless of their status, persuasion of various initiatives such as financial inclusion forum and financial empowerment innovation fund, as well as participating in G-20’s global partnership. In addition, the treasury department further suggested in the 2017 budget pilots for new strategies aimed at extending the provided financial assistance as well as saving tools which will help in ensuring fund reservations. Further, in the years 2011, the department established the CFPB which is a bureau for consumer protection as an independent agency of the US government which is responsible for protecting the consumers in the financial sector. Among the keu means to ensure expansion of access to financial services include; dealing with the digital divide, fostering community development, ensuring financial capability and encouraging partnerships (Baker & Wurgler, 2015).

In regional perspective, financial inclusion has been a key policy objective to very many countries. Further, various government agencies have shown interest through ensuring they play an active role to facilitate financial inclusion with specific areas of rural finance availability, ensuring consumer protection and easing access to credit facilities by SMEs (Sarma & Pias, 2012). For instance, in more than 60% of African countries, the central banks have shown their willingness in facilitating financial inclusion. Focusing on the key role of financial inclusion which is to facilitate access of financial services and products to the less fortunate and the small enterprises it is therefore prudent to focus on the role of financial inclusion globally and locally (Raji, 2011).

According to World Bank Report (2018), the universal financial access goal in Ghana is only achievable through use of innovation approaches and technologies. In line with the fourth economic update in Ghana, there is a rapid growth in the financial sectors since the years 2010 which has led to increased access to financial services. Nevertheless, the report outlines that there is still low financial access across the region and mot especially among the less fortunate in the region and the marginalized group in the rural areas. For instance, in the years 2007, women 54% who had access to financial services had the least number as compared to men (62%) and the general population (58%).
In East African region, financial inclusion still continues to deepen. Intermedia’s 2018 Financial Inclusion Insights (FII) data indicated that Uganda, Tanzania and Kenya 46%, 56% and 73% of adults in that order are financially included and almost all of them have accounts of mobile money. With the high rate of financial inclusion, the focus is now based on how the private sector and the public sector can facilitate digital financial services as well as products for boarder set of use cases (Spratt, 2015). Among the key catalysts for financial inclusion include technology and innovation. These catalysts facilitate regulatory environment as well as government policy together with infrastructure improvements (Aziz & Berg, 2015).

With an aim of facilitating the linkage between financial inclusion ad financial regulations, the brooking entity ensured affordability, security in financial services so as to attain the guidelines for consumer protection with an aim of enabling consumers to be aware of terms and regulations of the available financial products. Further, the entity has ensured cooperation between the financial regulators and the policymakers through provision of detailed objectives within the availed platforms in public with an aim of fostering transparency, knowledge sharing as well as accountability (Lewis, Villasenor, & West, 2017).

Nevertheless, the procedures of operation in the financial markets are rapidly being changed by the Fin Tech which is an innovation in the field of finance. The traditional financial products and services are competing with new technologies which include; online lending platforms, virtual currencies and robot-advisory services (Bingham, 2015). Capgemini (2017) argue that over 50% of the consumers of financial products in the world have adopted at least one FinTech firm. FinTech avails new opportunities in Sub-Saharan Africa. Through introduction of the mobile money technology, there has been reduction in the number of unbanked people in Kenya and Tanzania. In addition, projects that could not have been funded by the traditional banks are now being financed by the crowdfunding platforms which operate through the internet. Nevertheless, despite all that there is still low rate of the number of FinTech businesses. Consumers are reluctant to adopt new technologies easily. This implies that the same FinTech solution which is widely adopted in some states it might be rejected or take time to be adopted in other regions.
In Kenya, the government of Kenya has created an enabling environment which is favourable for ensuring policymakers together with regulators establish a benchmark in the financial regulations affecting financial inclusion. In the year 2017, the Kenyan government introduced the Huduma cards which a FinTech initiative aiming at leveraging partnerships master card as well as various banks in the country to with an aim of enrolling more citizens to access government services which include health insurance, streamlined distribution of services and adoption of digital financial services (Odongo, 2018). In addition, in the same years the CBK and the Kenya bankers association came up with a conference aimed at ensuring financial inclusion through expansion of the Kenya’s digital financial eco-system which aimed at establishing the upcoming trends in the market facilitating financial inclusion through adopting financial technologies. In addition, the completion authority of Kenya directed both the financial institutions and the telecommunication entities to provide mobile money services through notification of real time transaction costs to customers (Lewis, Villasenor, & West, 2017)

According to the latest updates by the communications authority of Kenya (2017), Mpesa, which a mobile money platform dominates the mobile money transfer market in Kenya. The platform has over 22.6 million subscribers out of the total 28 million subscribers. In addition, the report revealed that the mobile money platform leads with a total of 380 million transactions out of a total of 480 million transactions. It is indicated that the volume of the mobile money transaction is equal to more than 40% of the country’s GDP. The financial regulators have tried severally to ensure equality in the playing field with other market participants (Masinde, 2015). In the years 2014, CAK which is the controller of mobile money in Kenya directed Safaricom to widen up its network. This was preceded by plans of ensuring interoperability of mobile money in the years 2017 and also to ensure separation of proposals to operate mobile money networks in the years 2017 from the earlier controller. Diversification of the mobile money network was the key goal of implementing various initiatives however this has remained a challenge in Kenya (Mumo, 2017).

The dominating Mpesa in Kenya was given as a perfect example of an instance when the technology development leads the regulating technology. During the launch of Mpesa in the years 2007, the CBK issued a letter of no objection to the company; this was then followed by the rolling out of the payment system regulations. These regulations started with the uptake of the National Payment System Act in 2011 and then the National
Payment System Regulations in 2014. The emergence of new technologies as well as the rapid growth of the FinTech companies poses a challenge to the regulations ability to adjust to the changing technology. It is therefore not clear whether the regulators will in some day come up with a pro-active approach to FinTech (Masinde, 2015).

1.2 Statement of the Problem

Approximately 2 billion people across the globe do not use formal financial services and there are more than 50% of adults who do not access to banking facilities (World Bank, 2017). Today, 69% of adults have access to financial services (World Bank, 2020). In Kenya, approximately 42% of adult Kenyans had a financial account of any kind in 2011. According to the Global Findex database, the number had risen to 75%, including 63 percent of the poorest two-fifths (World Bank 2017). Poor regulation is a major obstacle to financial inclusion. This is because, regulatory changes are often needed to enable the successful adoption and adaptation of innovations in digital finance, encourage their use, and increase competition among their providers, so that those new technologies can benefit the poor in particular. Further, progress in improving financial inclusion must be compatible with the traditional mandates of financial regulation and supervision namely, safeguarding the stability of the financial system, maintaining its integrity, and protecting consumers (Maina, 2015).

Zwedu (2014) did a study on financial inclusion, regulation and inclusive growth in Ethiopia. The study found out that despite huge progress in the last ten years, financial inclusion is still very low. Odongo (2018) researched on financial regulations, financial literacy, and financial inclusion: insights from Kenya. The study revealed that agency banking regulations and financial literacy could improve formal financial access, and know-your-customers rules and capital and liquidity macro-prudential regulations could harm financial inclusion. Anarfo (2019) did a study on financial regulation and financial inclusion in Sub-Saharan Africa: Does financial stability play a moderating role? The results indicated that, the interaction of financial regulation with financial stability positively impacts financial inclusion. Ondiege (2015) researched on regulatory impact on mobile money and financial inclusion in African Countries -Kenya, Nigeria, Tanzania and Uganda. The study found that MFIs should upgrade their technology to be able to adopt the emerging mobile banking technology and also seek solutions that are user-friendly and easy to implement. Ongeta (2018) researched on determinants of financial
inclusion. The study established that factors that determine financial inclusion are both demand related factors and supply related factors.

Though some of the studies have focused on financial regulation and financial inclusion, they have failed to establish how regulatory requirements influence financial inclusion. There is limited empirical evidence on regulatory requirements and financial inclusion in Fintech industry in Kenya. Therefore, this study sought to establish the influence of regulatory requirements on financial inclusion: a case of the Fintech industry in Kenya.

1.3 General Objective
The general objective of the study was to establish the influence of regulatory requirements on financial inclusion: a case of the Fintech industry in Kenya.

1.4 Specific Objective
The study was guided by the following specific objective

1.4.1 To examine the influence of start-up cost on financial inclusion in the Fintech industry in Kenya

1.4.2 To assess the influence of customer protection regulation on financial inclusion in the Fintech industry in Kenya

1.4.3 To examine the influence of investor protection regulation on financial inclusion in the Fintech industry in Kenya

1.5 Significance of the Study
The study was important to the following stakeholders

1.5.1 Financial Institutions
The study might provide an understanding the effect of regulatory requirements on financial inclusion. The financial firms might be able to appreciate the importance of regulatory requirements in promoting financial inclusion. They would be able to comply with the regulatory requirements so as to increase financial inclusion.

1.5.2 Government and Policy makers
The study might provide insight on the effect of regulatory requirements on financial inclusion. This might enhance the understanding of policy makers on the importance of regulatory requirements on financial inclusion. The policy makers might find ways of improving the regulations to increase financial inclusion.
1.5.3 Academicians and Researchers

The study would add to the academic research the effect of regulatory requirements on financial inclusion. The study would also provide for further studies in the area of regulatory requirements and on financial inclusion. This is because further studies in this area would identify the areas covered and further dwell on the untapped fields of research.

1.6 Scope of the Study

The study sought to establish the influence of regulatory requirements on financial inclusion: a case of the Fintech industry in Kenya. Specifically the study sought to examine the influence of start-up cost on financial inclusion in the Fintech industry in Kenya, to assess the influence of customer protection regulation on financial inclusion in the Fintech industry in Kenya and to examine the influence of investor protection regulation on financial inclusion in the Fintech industry in Kenya. The study was conducted in Fintech companies in Kenya. The target population was managers in the Fintech companies. The study was conducted between October 2019 and August 2020.

1.7 Definition of Terms

1.7.1 Start-Up Costs

They are all expenses incurred to plan, register, organize and launch a new business or social venture (Levine, 2015).

1.7.2 Customer Protection Regulation

It is a group of laws and organisations designed to ensure the rights of consumers as well as fair trade, competition and accurate information in the marketplace (Terfa, 2015).

1.7.3 Investor Protection Regulation

They are laws designed to protect investors from unscrupulous investment brokers and advisers (Marone, 2016).

1.7.4 Credit Allocation Regulation

It refers to the requirement faced by financial institutions to lend to certain sectors of the economy, which are considered to be socially important (Piet, 2016).
1.7.5 Financial Inclusion

It means that individuals and businesses have access to useful and affordable financial products and services that meet their needs transactions, payments, savings, credit and insurance delivered in a responsible and sustainable way (Ariss, 2014).

1.7.6 Fintech

Refers to the integration of technology into offerings by financial services companies in order to improve their use and delivery to consumers. It primarily works by unbundling offerings by such firms and creating new markets for them (Bingham, 2015).

1.8 Chapter Summary

The chapter reviewed the introduction of the study. The areas of discussion contained within are the introduction are; background of the problem, statement of the problem, general objectives of the study, specific objectives, significance of the study, scope of the study and definition of terms. Chapter two is the literature review; chapter three was research methodology. Chapter four was data analysis, interpretation and presentation while chapter five was summary of findings, conclusion and recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter covered literature review on influence of regulatory requirements on financial inclusion. It discussed the influence of start-up cost on financial inclusion, influence of customer protection regulation on financial inclusion and influence of investor protection regulation on financial inclusion.

2.2 Start-Up Cost and Financial Inclusion

In any business, entrepreneurial activities incur various start-up related costs which include; costs for obtaining the needed skill training, cost of operating innovations, costs for coming up with production facilities as well as costs for costs for ensuring distribution networks (Aghion, Fally & Scarpetta, 2017). In case the entrepreneurs’ savings are not adequate to cater for the required investments, then the entrepreneur is forced to seek for external financial source which is most especially sourced from the established financial markets so as to minimize the cost of transaction that aims at ensuring little or no direct pooling as well as guiding resource allocation through ensuring all the available information relating to investment is processed (Levine, 2015). Various participants can benefit from a financial system which is well functioning through ensuring provision of investment opportunities which are worthwhile as well as the available funds are channelled to the most productive uses. Therefore, in order to facilitate entrepreneurship and its activities, it is essential to ensure financial development (Zins & Weill, 2016).

As far as financial inclusion is concerned, smaller enterprises and less fortunate individuals who depend heavily on credit sources for finance usually face financial challenges which limit the growth of their enterprises. The main reason to these financial challenges is mainly due to lack of securities or collaterals in the event of default (Yoshino & Morgan, 2016). As a result of financial constraints, these upcoming entrepreneurs are either forced to close their businesses or face the challenge of exploiting investment opportunities as a result of severe financial shocks which come up at the very beginning hence leading to low economic growth and exclusive development (Beck, Demirgüçkunt & Honohan, 2017). According to Fan and Zhang (2015) financial inclusion is positively influenced through entry barriers as well as entrepreneurship in china. This implies that the entry barrier is heterogeneous across all the sectors.
Furthermore, financial inclusion development is more beneficial to the formation of entrepreneurs in the less competitive markets.

Anwar and Sun (2015) argues that improving access to finance is the most critical sector for policy action. Further, it is indicated that the most common challenge facing new entrepreneurs is lack of finance. This challenge is magnified in most of the less fortunate groups which reflects lack of collateral assets hence limited access to external finance. In addition, these less fortunate groups may also encounter social discrimination in the financial market (Mehrotra & Yetman, 2015). It is therefore clear that the policies and programmes favouring credit access to the less fortunate have both social dimension and economic dimension (Kokate & Nalawade, 2015). These two dimensions help in integrating the labour market which is accessed through income generating activities which include employment or business start-up. The broad goal of intervention is that everybody should have access to financial tools in the financial market regardless of their gender, sex and ethnic background (Karlan & Zinman, 2015).

2.2.1 Loan guarantees

According to Santos (2017) governments are now increasing their attention on loan guarantees due to their relative advantage to traditional loans as well as grants. It is believed that loan guarantees leverage the knowledge of the private sector as well as resources whereby the financial institutions participate in programmes with an aim of favouring access to financial facilities by the disadvantaged group. Low credit risk which is associated with loans which are publicly or privately guaranteed is the key driver which enables financial institutions to participate in this policy. There are three credit guarantee schemes which include mutual, public and public-private (Miloud, Aspelund & Cabrol, 2018).

Under public schemes, the management can either be directly by the government or implementation by the financial institutions in a more decentralized manner (Fungácová & Weill, 2015). Under the first approach, which commonly happens in Europe (Slovenia and Slovakia), there is a tendency of involving government agencies when making decisions related to loan guarantee. However under the second approach, there is little or no dictation on how the loan guarantee scheme is managed. Under this scheme, there is use of public guarantee. This scheme is shared by both Netherlands and United Kingdom (Onyemah, Pesquera & Ali, 2016). Under the public-private schemes two players are
involved and these include; public sector players as well as private sector players (Asfaw, 2016). In this approach, the role of the government is less active since the government might only be involved in the programme creation (Munoru, 2015). Regardless of the extent of public sector involvement, the lending institutions have the final say as far as the management of these programmes are concerned. A better example is the Hungarian government which is more actively involved and sought involving both the lending institutions as well as the association of SMEs since the launching of the national guarantee fund (Santos, 2017).

The strongest commitment from the private sector is the private schemes. This is generally done through group guarantee of individuals or players from the same sector or from the same industry. These players can be from the same business community lets say Italy or even from the same industry let’s say Spain (Field, Pande, Papp, & Rigol, 2015). Under this guarantee scheme, the mutual guarantee associations come up with the first assessment on the potential members with an intention of borrowing loans and also these associations are also involved in loss recovery in case of defaults. Nevertheless, the bank remains with the final lending choice which conducts a full risk assessment to the potential borrowers (Asfaw, 2016). The government has a limited role in coming up with the regulatory framework as well as legal framework for ensuring extension of credit facilities. This therefore takes the form of direct funding or even counter-guarantees. Italy is a better example of private credit guarantee schemes. Here, the government provides guarantees to commercial banks which is an addition to the first level guarantee offered by the local mutual guarantee associations (Tapscott & Tapscott, 2016).

Loan guarantee programmes are characterised by allowing the financial institution to have the final decision regarding to loan extension since these financial institutions still carry the risk of default of anything ranging from 20% to 50% of the extended loan. It is therefore indicated the risk of guaranteed loan should not diverged from the borrowers’ repayment capability with a large amount. Due to this fact, most less fortunate entrepreneurs risk being blocked from accessing or benefiting from the mainstream credit guarantee schemes (Fan, Zhang & Liu, 2016). In case the government is to make use of credit guarantee schemes its function should exceed formulation of the legal framework as well as giving counter guarantees. The guarantee programmes are specifically designed for less fortunate entrepreneurs who include; the young, marginalized groups, and the women which is an encouragement to these group through contributions to the registered
capital as well as payment for the running cost of the scheme (Weerawardena & Mort, 2016).

2.2.2 Microcredit

According to the research, the less fortunate who include the poor and the vulnerable are rarely included in the formal financial systems (Deb and Suri, 2015). This exclusion of the less fortunate from the financial systems has remained to be the challenge to poverty eradication in most of the developing countries like Ghana (Baklouti & Abdelfettah, 2016). With an aim of generating employment, microcredit is now the most preferred tool to service the less fortunate in the society (Dorfleitner et al., 2017). Through access to credit facilities, the poor are in a position to afford capital to startup businesses and generate assets hence being in a position to afford the basic needs which in turn helps them to improve their living standards (Islam et al., 2015).

Microcredit under microfinance refers to the process of extending credit facilities to the less fortunate group in the society to enable them to engage in income generating activities (Dzansi & Atiase, 2015). In 1970s, microcredit was developed with an aim of ensuring poverty eradication among the developing countries through extending loan facilities to the less fortunate community members who survive with less than $1 per day (Mahmood et al., 2015). The most beneficiaries of micro-credit facilities in both rural and urban areas in Ghana are women. As a results of access to credit facilities women have been in a position to engage in several economic activities which include street vending, farming, manufacturing education etc (Addae-Korankye, 2017).

The main goal of micro-credit is to overcome the cultural barriers as well as the market barriers. This is because commercial banks depend on collaterals as securities to extend credit facilities which automatically discriminates the young generation and the women entrepreneurs. The challenges or the hindrances of access to finance can be solved through combination of financial education as well as business advice (Brana, 2015).

Microcredit in the European union can be termed as the loan facilities not exceeding EUR 25 000 for business enterprises with less than 10 workers, the unemployed, the self-employed but without access to credit facilities (Lee & Teo, 2015). Microcredit emerged in the under-developed countries and recently reached Europe. The first MFI was developed in Eastern Europe in 1980s and 2000s in the Western Europe. This difference of yeas resulted to the divide in the European Union micro-credit model. The micro-credit
sector in eastern countries is dominated by the profit organizations as well as credit unions. On the other hand, NGOs and non-banking financial institutions dominate the micro-credit sector in the western countries (Honohan, 2018).

The key benefit of the microcredit is that it is specifically designed to help entrepreneurs with challenges of surviving in the credit market due to lack of collaterals. In addition, through micro-credit, the borrowers are in a position to build their credit history hence enabling them to qualify for traditional sources of finance (Boro, 2017). Nevertheless, micro-credit is not likely to be financially self-sustainable. The degree of substitution is directly proportional to the accessibility of the target group. In addition, the micro-credit is also a marginal risk to its clients since instead of strengthening the clients’ credit history it marginalizes it hence making the clients to be segmented in the credit market by the big financial institutions (Kaboski & Townsend, 2016).

Littlefield (2016) argue that, MFIs are key players in the financial systems which facilitate financial inclusion. The MFI are concerned with ensuring credit accessibility to the less fortunate in the society while the commercial banks are more concerned with borrowers who have tangible collaterals. Further, most of the MFIs are based in the rural areas where the less fortunate and the marginalized reside while the commercial banks are based in urban areas. Due to the consideration of the less fortunate and the marginalized, MFIs facilitate financial inclusion due to the reason that they operate in areas where the beneficiaries have no securities (Michelle, 2016). Borrowers risk to take up loan opportunities with an aim of developing their capital base and facilitating asset generation with the hope that they will be in a position to repay back the borrowed amount (Pamela, 2016). Formal lenders motivate their clients and save them from being exploited by non-formal lenders. Since the loans of non-formal lenders are secured against the property of the borrowers, the problem of inter-linkage between the two markets is raised (Poutanen, Soliman & Stahle, 2016). In most cases, micro-credit loans are extended without the use of the traditional collaterals. In case collaterals were basic requirements for credit accessibility, most borrowers would not succeed with the loan application due to the high poverty level which does not allow them to have collaterals. These MFIs therefore targets social collaterals since most borrowers lack the physical capital (Wenner, 2015).
2.2.3 Crowd funding

Crowdfunding seeks to address market barriers, institutions barriers and cultural barriers which hinder access to finance by the less fortunate entrepreneurs. The funding systems also introduce the idea of enterprise financing from large number of individuals who invest small amounts rather than financing from a single financial entity which is usually through the internet (Lauer & Tomilova, 2017). The key benefit from Crowdfunding is that the funding is characterised by low costs of intermediation to both the borrowers as well as investors. Therefore this type of funding is more advantageous as compared to loans together with loan guarantees (Kilara & Rhyne, 2015). There are three reasons which facilitate the low intermediation costs. One of those reasons is the fact that business proposal assessment is less thorough as compared to bank loans since this type of funding does not conduct the risk of failure proposals which are posted on their web portals. Despite the fact that there is common pitch of business health check, this type of funding lacks the systematic risk analysis. The second reason is the fact that there is minimal project follow-up which is also minimal and generally left to the entrepreneur and the investors whereby under crowdfunding the website is just but a virtual meeting point. The last reason is the fact that crowdfunding depends on the internet which as low fixed cost (Jenik, Lyman & Nava, 2017).

Crowdfunding is among the latest market but the rate of growth is very high and therefore it needs to be taken with caution. De Buysere (2015) indicates that the number of platforms in the years 2011 were 200 however this number raised to 300 million. This totals to one-half of the entire number of platforms all over the world which is also one-fourth of the global crowdfunding market. This therefore implies that in Europe, the average platform raises less funding when compared to the global average. Under policy dimension, there is an increasing push for proper management of crowdfunding. The disadvantage of low cost of intermediation and also the little control over the crowdfunding platforms as far as business proposal viability is related. In addition, there is limited information disclosure as far as business project is concerned whereby there would be better decision making to investor in case the disclosed information is adequate (Costa & Ehrbeck, 2015).

There is need for information strengthening on financing mechanism since most the entrepreneurs are not well updated of the latest evolutions in the financial market. For instance the emergence of crowdfunding is not well known (Adcroft et al., 2017).
Through offering financial education, both investors and entrepreneurs will be in a position to know their obligations as far as crowdfunding transactions are concerned. To the less fortunate entrepreneurs training should be based on issues of debt management as well as the implication of the external equity on their businesses. Further, through ensuring business pitch assessment, the investors will also benefit. Due to the fact that crowdfunding is driven through consideration of the social status, the advice and training to the investors should be more detailed as compared to traditional concepts and ensure inclusion of the return on investment (Ghosh, 2017).

The benefit of crowdfunding is the fact that it is among the few options which are available for the less fortunate entrepreneurs. Through availing small sums of equity, businesses run by the young entrepreneurs will be on the safe side since financial challenges facing these businesses will be solved (Yawe & Prabhu, 2015). Nevertheless, supporting the equity based crowdfunding does not go in line with the development of senior investors who include secondary markets as well as business angels (Banerjee & Kinnan, 2015).

2.3 Customer Protection Regulation and Financial Inclusion

The key role of consumer protection is to ensure equality or fairness between the lenders and borrowers of financial services (Liu & McClure, 2015). The borrowers of financial services have less information concerning the financial transactions as compared to the financial institutions that provide the financial services. This therefore can lead to payment of high interest rates, inadequate knowledge on the available financial options as well as the inadequate means for redress (Karpowicz, 2014). This kind of information asymmetry occurs where the products offered are more sophisticated and when the beneficiaries are less experienced. The push for financial inclusion through reaching the unbanked facilitates more borrowers to enter the financial market in every year. Despite the fact that most of the financial institutions have incorporated practices for ensuring their customers are well served, other financial institutions have gained advantage of this information to benefit themselves as the expense of borrower who may be under-insured or over-indebted (Lewis & Lindley, 2015).

Market forces that have not been dealt with together with policies aiming at relaxing regulations with an aim of opening financial markets may lead to harmed borrowers as a result of limited access to financial resources (Terfa, 2015). The financial harm ranges
from loss of saving due to unscrupulous actors encountering market for short term benefit to over indebtedness as a result of very high prices and predatory lending (Peake, 2016). Under the hard to serve markets there is warranting of high prices but end up unchecked since some of the lending institutions charge high prices. In free and regulated markets, over indebtedness comes as a result of predatory lending which at the long last have high rates of defaulters. Unscrupulous actors steal collaterals or customers money less frequently which result to emotional and physical abuse of clients (Dabla-Norris, Yan & Filiz, 2015).

As far as transaction between buyers and sellers is concerned, information becomes powerful (Mujeri, 2015). Most of the customers of the financial services and most especially the new customers have inadequate information concerning financial transactions as well as financial system. Furthermore, the providers of the financial services tries to scrutinize financial information on the customers which include their credit history, financial decision making modes and their level of market assessments (Dayadhar, 2015). The knowledge gap between the customers and the suppliers of financial services becomes wider when the financial products offered are more sophisticated. As a result of competition, information imbalance can easily be reduced since consumers will prefer the financial institutions that offer more clear information while the financial entities will try to please their customers through offering the best services which entails provision of adequate information (Bharat, 2014). However, in situations where the market forces fail to result in high level of information disclosure, provision of information to borrowers will facilitate financial literacy of the customers and make it easier for new customers to enter into the market (Terfa, 2015).

Through demanding financial information consumers facilitate transparency in the financial institutions. Through transparency in the financial markets, the financial institutions are encouraged to compete in terms of better products, reduced costs as well as better services. Further, through ensuring availability of quality services in the financial market, there are increased new customers hence resulting to expansion of the market (World Bank, 2018).

2.3.1 Financial Education

There is need for consumer education in order to ensure a balance between the providers of financial services and the consumers of those financial services (Remmele, 2016). New
customers in the financial markets need access to education and training so that they can be aware of their rights as well as their responsibilities. In most cases, public campaigns are used to provide information on consumer education programs although the information can be passed through use of government agencies, financial industry or the consumer associations (Atakora, 2017). Under campaigns, information is passed through use of training, television media, internet, publications, radio as well as advertising. Although campaigns are most comply use to provide information to consumers of financial services there is little evidence to show how effective it is when it comes to change of consumer behaviour. Further, there is no well-established procedure on the best ways to disseminate information on consumers concerning financial services and products (Sherraden & Ansong, 2016).

Most governments have worked towards ensuring financial inclusion in their countries. For example, Indonesia launched National Strategy for Financial Education in the years 2012 under National Strategy for Financial Inclusion (Michelle, 2016). The main aim of financial education is to increase the knowledge level of the community members on the financial services as well as financial products and also ensure provision of financial information for consumer protection (Hayen & Sauer, 2015). In India information on financial inclusion as well as financial education is combined by the government at all points and most especially when drafting the national strategy aimed at providing financial education indicating that the main aim is to ensure wide campaign on financial education so as to help individuals manage their money in an effective and efficient way. This will in turn help in better assessment of the existing financial products by the consumers of financial services. The government of India attains this through ensuring proper regulation of the financial entities with high level of transparency to ensure consumer protection (Wang, 2018).

According to Atkinson and Messy (2015) there is a relationship between financial literacy and financial inclusion. The research further indicates that an hindrance to financial inclusions is created through inadequate awareness of the available financial products, knowledge on whether these products meet particular requirements, low confidence level as well as certain behaviours together with attitudes hindering usage of particular financial products. The likelihood of financial inclusion is also limited through inadequate knowledge on the performance of certain financial products as well as their cost. Further inadequate knowledge might also inhibit consumers from utilizing fully the
available products. The demand for proper financial products might also be limited by inadequate awareness on essential mechanisms which are purposed to increase trust as well as consumer protection like deposit insurance (Ardic, Heimann & Mylenko, 2016). In an international survey that targeted 301 parties including members of financial organization, providers of financial services and investors revealed that inadequate financial literacy is among the key hindrances to financial inclusion. It was further revealed that the study respondent perceived financial literacy to be an enabling factor unlocking other perspectives of financial inclusion (Gardeva & Rhyne, 2015).

Remmele (2016) argues that the key benefits of financial education include improvement of financial literacy, helping in overcoming the challenge of financial vulnerability among the consumers of financial services and also overcoming the challenge of psychological breakdown. Financial education is also essential in providing information on technological innovations which purposes to minimize geographical barriers. Nevertheless, education can never work in isolation. Protection of financial consumers together well established regulation and incentive mechanisms try to encourage behaviour change which is all essential in facilitating the policy tool kit hence leading to improvement in financial inclusion (Buchak et al., 2018).

Under the international community, both financial education and the financial inclusion in relation to all financial services and products are very imperative. Lack of financial inclusion has a negative impact to wide range of people all over the world. This makes them to experience economic difficulties that hinder their prosperity as well as those of their families (Ford, Baptist & Archuleta, 2011). There are several constraints both corporate related and regulatory related that lead to increased financial literacy. Majority of financial consumers in most countries are still being excluded from financial services. Among those countries is Kenya. Policy makers should formulate and implement strategies aimed at implementing financial inclusion as well as policies for further education on financial management. In relation to national policies the implemented frameworks must focus on improving financial literacy and financial inclusion (Alt, Beck & Smits, 2018).

2.3.2 Disclosure

Among the key basic elements to consumer protection is Transparency (Brix and McKee, 2018). In order to make a decision on whether to buy a product or a services, consumers
tend to investigate whether the product or the service is good for them. When it comes to less fortunate consumers, the pricing of products or even other terms of the financial products tend to be deceptive. Advertisements can further mislead these consumers and printing appearance can feed these consumers with a lot of information hence confusing them and distracting them from the essential factors to put into consideration when buying a certain product (McKee, Lahaye & Koning, 2016).

Therefore, as far as loan products are concerned the key basic information which all consumers should be aware of include interest rate, allowances and other charges as well as repayment period (Gomber, Koch & Siering, 2017). The rate of interest for the advanced loan facilities can be calculated on the basis of APR as per the prescribed formula to enable the consumers to choose easily between different loan providers with no fear of hidden costs. For deposit accounts, APY can be used for the calculations (Prina, 2015). In order to improve on transparency, a list of the rates used can be published a widely accessible media by the regulatory. The regulatory may also post on each financial institution’s location a schedule of fees and charges incurred or the same may be provided to each consumer (Banerjee, Karlan & Zinman, 2015).

In line with the Peru’s regulation of transparency, financial entities should present to the parties of interest the annual effective cost rate which in expression is similar to interest rate although it entails all the costs related to consumer credit which include; monthly statements issuing cost, evaluation charges and credit insurance premiums (Lee & Shin, 2018). Any alteration to the regulation would lead to creation of annual effective yield rate which would entail the paid interest rate on deposits, minus any cost influencing deposit in its term (Cull, Demirgüç-Kunt & Morduch, 2016).

Love and Pería (2015) argues that with an aim of improving financial inclusion, the implemented financial disclosure rules indicate that financial providers should use clear language and ensure information is presented in an easy and clear format which facilitate information uptake by low income consumers. Most of the reviewed regime relating to information disclosure require clarity of information, simplicity and well as well presentation. For instance, contract forms in Peru should be well printed, contain comprehensible phrasings and terms as well as sufficiently legible (Villasenor et al., 2015).
In addition, Shukla (2015) argues that in case the literacy level is low, it is essential the financial information be communicated orally to support the conveyance in writing. For example, consumer of financial products in Armenia are orally advised by the creditors on information relating to terms of services to be provided, associated costs, mediation, rights and responsibilities. However, in Pakistan, oral communication to the consumers by creditors is less precise although the intention is the same as per the regulatory requirement (Comparato, 2015).

It is very essential for creditors to ensure timely information disclosure to facilitate consumer decision making. Most of the consumers give much focus on the present rather than the future. Further, consumers of financial products give more attention on products being financed with credit and less attention is given on the actual credit terms (Chen & Divanbeigi, 2019).

2.3.3 Enabling Environment

Individuals and households need a safe and accessible place to store their savings and a convenient way to access inexpensive credit. They also need adequate insurance to protect them from the financial burden associated with unforeseeable events (Chikalipah, 2017). Additionally, they need reliable investment options that help meet their long-term financial goals. These are the basic essentials that a financial inclusion initiative must aim to fulfil (Terfa, 2015).

It is therefore appropriate to ensure that there is a fair deal between the providers of financial services and the consumers of these financial products and the relationship between the two parties should be a win-win situation (Ayyagari & Beck, 2015). In order to establish a favourable environment to the consumers, the providers of financial services should ensure that the promotion materials give the correct information and not misleading consumers, should ensure fairness in the contract terms and also ensure the market practices are sound. In case of outsourced financial activities, the providers of these services should remain accountable and should ensure that the agent carry on their duties in a professional and reliable manner (Brown, 2016).

Incentives offered by service providers to the less fortunate can be used in reducing the perceived risk, the actual risk which is aimed at reducing the cost of serving these consumers of financial services as well as promoting innovation to serve them. Incentives offered by the providers of financial products should be structured to support programmes
that would not have been possible to implement without these incentives. These incentives should also be designed in a way that promotes sustainable change to the beneficiaries (Terfa, 2015). The perceived risk of innovation could be reduced through use of incentives for the first movers. These might include costs associated with research and development. Despite the fact that financial incentives are very important frequent funding is not among the limiting constraints. Among the key aspects of private providers of financial products can be dictated by the technical know-how, as well as information on different client segments (Koning & McKee, 2016).

Focusing on the consumer level, behavioural economics reveals that not all decisions made by consumers are made on the basis of rational behaviour. In some instances, consumers end up taking actions with an aim of improving their financial situation even in situation of inadequate information. Nevertheless, in cases of proper incentives, consumer of financial products may prefer to act in a certain way provides they benefit from the availed incentives (Karlan & Zinman, 2015). Finance market development can be positively influenced by policy and regulatory incentives. Better awareness and understanding of a nation’s political economy can be the solution to incentive adoption by the consumers of financial products. Incentive modification in most cases leads to entrenched dynamic of powers within the society. For instance changing the regulatory incentives for the purpose of encouraging new entrants or for the purpose of delivering new business channels can be seen as a threat to existing business in the current market (Ledgerwood, 2016).

Leasing in India is very common. This function facilitates access to the much needed funds for business operations and at the same time it provides lenders with the needed security since they are in a position to repossess the securities. In addition, financial entities are also in a position to structure their terms to meet the needs of the consumers. For instance; the repayment period can be relevantly set to be at a particular time period (World Bank, 2015). Tax code was among the key impediments hindering establishment of leasing operations in Haiti. With an aim of supporting the viable lending model, the ministry of finance together with the World Bank group implemented measures to amend the tax laws. This entailed changes for avoiding leased equipment from double taxation as well as ensuring amortization of the leased properties from these consumers. The World Bank worked in line with the officials to ensure these changes are made to be laws (World Bank, 2015).
2.4 Investor Protection Regulation and Financial Inclusion

Protection of the investors is very essential since in most countries, there is high rate of expropriation of the creditors as well as the minority shareholders by the controlling share-holders. Due to exploitation by the controlling shareholders, investors who are outside the finance firms are faced with the risk of return on investment (Cherednychenko, 2015). Financial inclusions refer to the means through which the external investors protect themselves from being exploited by the investors within the finance firms (Lagarde, 2015).

Expropriation occurs in different forms. In some occasions, the insiders just steal the realized profits from the organization. Other ways of expropriation include the selling of securities, assets as well as outputs from the firm to other firms they own at a lower price. These actions (transfer pricing and investor dilution) are somehow legal but they have the same impact as theft (Marone, 2016). Other instances of expropriation include diversion of corporate opportunities from the organization, taking in family members to occupy the top management position illegally as well as overpayment of executives (Giannetti & Zhao, 2016).

The legal perspective of inclusion indicates that the key aspect is protecting the outside investors despite the fact that they are shareholders or creditors through the legal system indicating both the enforcement and the law (Daehyun & Starks, 2016). Despite the fact that both reputation and bubbles assist in raising funds, differences in law and the law enforcement mechanisms are key determinants as to where there is a difference in funds raised by firms in certain countries as compared to other countries. The rights of the potential shareholders as well as those of the creditor are protected by the law and that is why they finance firms to a large extent. The outside investors are at a high risk of expropriation, these investor rely more on the established law as compared to the employees or suppliers of the firm who have lesser chances of being mistreated (Dig, 2016).

Among the key benefits of legal protection is the fact that it ensures less efficiency of expropriation technology. In instances of little or no protection of the external investors, the inside investors can effectively and efficiently steal the realized profits in the firm. External investors would therefore not finance such firms without a very strong reputation (Wardhani, 2017). Through improving the investor protection mechanisms,
some of the inside investors come up with wasteful diversions whereby they can come up with intermediary firms where they channel all the realized profits. The implemented mechanisms are also effective enough to allow the insider investors to consider diverting profits extensively (Muryati & Suardhika, 2014). In instances of effective investor protection mechanisms, the only left option of the insiders is to give themselves excess salaries, ensure the management is full of family members as well as adopting wasteful projects. At certain points it becomes better to just pay dividends. Through ensuring diversion technology is less efficient, the benefits to the insiders diminish and the options to expropriate become less. Therefore, the organizations are able to obtain finance on better conditions (Puri, 2015).

2.4.1 Information asymmetry

When doing an assessment of the credit market, information asymmetry is very important. Stiglitz (2015) argues that this condition is more similar to the market adverse selection which may result to into problems like credit rationing and its influence on market structures as well as competitiveness. Stiglitz summarizes this information by arguing that information asymmetry is very essential when it comes to the dynamics of credit market. Credit market activities particularly refer to the process of credit granting process and its interest rate specification. Pinheiro and Moura (2016) argue that credit decision depends on the credit borrower as well as the nature of the financial institution. Statistical methods are automatically used during credit applications on the basis of information availed by the customers to the financial institutions. Considering the fact that the nature of each borrower is used to define the borrowers whereby the information is used in defining the credit limit of the customers as well as the appropriate rate of interest to be charged on those consumers of financial products.

It is the dream of every business to have the capacity of attracting investors so that they can fund their ideas. In the capital market, the problem related to the efficient market allocation is associated with matching of the firm investment opportunities with its savings (Zang, 2016). Investors have inadequate information which can be used in evaluating the value of investment opportunities. With consideration to the uncertain environment, the investors do not directly observe the actions as well as the decision of managers (Lobo & Zhou, 2016). The organization managers can use the uncertain economic environment to justify the negative results of the firm they manage. The key challenge is that investors are not in a position to show the linkage between the decisions
made by the firm managers and the negative results of the firm due to the reason that the investors cannot be in a position to observe the decisions made by the managers (Lobo & Zhou, 2016).

As a result there arises a problem resulting from the information asymmetry between the investors and managers. A functioning capital market can be broken down by this ‘lemons’ problem (Healy & Palepu 2018). From the perspective of the available information for the investors some good investments can be undervalued in the capital market while other bad investments be valued. The difference in information owned by insiders (business mangers) and outside investors can be used in defining the lemon problem. This is because there is no proper communication between the controlling shareholders with the outsider investors concerning the management competences, firm activities as well as investment opportunities (Stolowy & Breton, 2014).

Information asymmetry between the business managers and the outside investors can be solved through optimizing contracts hence facilitating incentives to disclose private information. Further, the regulation might require optimum disclosure of private information hence solving the challenge of information asymmetry. In addition, the challenge of information asymmetry is also solved by the financial intermediaries who focus on uncovering the superior private information held by insiders. Among those financial intermediaries include; financial press, financial analysts and industry experts (Wallinga, 2015). Mhlongo (2019) indicates that the inside firm transactions are used by the investors to analyse the future opportunities of the firms. Better transactions indicate future prosperity while unclear transactions may results to poor performance of the firm in future. However, the information is only known and controlled by the insiders and not the external investors. It is therefore clear that through regulating the information disclosure in the organization structure can solve the challenge of information asymmetry.

Boot and Thakor (2017) argues that in the market, the investors can be experts in the business field and may possess more information concerning the variation in the customer preference as well as the industries. However, in the existing market conditions, business managers possess a lot of information concerning the business as compared to the outside investors. Nevertheless, on the basis of individual investment decisions, the investors possess more information as compared to the firm managers. Therefore the difference in market prices comes as a result of this information gap. When it comes to the firm value,
the insiders (managers) possess more information as compared to the potential investors. This information asymmetry brings the difference between the information owned by the management and that owned by the investors. As a result, different financial problems in the business come as a result of the information asymmetry. Due to this, the internal finance is cheaper as compared to external finance (Chikalipah, 2017; Gabor & Brooks, 2017).

2.4.2 Agency Problem

The confliction of incentives between the organization investors and the organization managers leads to agency problem (Kondo, 2017). Acquisition of stake in any business by an investor is a guarantee that the investor will receive dividends from the firm without playing an active management role. Entrepreneurs with different objectives and interests from those of shareholders receive the management delegation. For instance; the management of any organization does not have any incentive to facilitate them to venture in high-risk incentives (Mckenzie, 2017). Nevertheless, risk projects have a high probability of benefiting the shareholders and maximizing the performance of these shareholders. Nevertheless, in case of project financial failure, only the debt holders will assume the negative impact and not the management of the business (Mossallam, 2015). Shareholder exploration is another source of conflict. The business managers can either choose to utilize firm’s profits for their own benefit. Firm managers can benefit themselves from the company indirectly through acquiring perquisites, compensating excessively or even selling the firm assets to other firms they own indirectly at a cheaper price (Farish, 2018). The normal agency problem that exists between the firm managers and the shareholders can be extended in a larger way. In case of shareholders acquiring essential equity stake in an organization, they will focus on taking their place in the board to ensure they play an active role in the organization management. In such a circumstance, the aim of the shareholder will vary from the intentions of minority shareholder. This might again raise the problem of expropriation where the shareholders might ensure personal benefit of control to maximize their profit (Gray-Parker, 2016).

Busch (2019) argued aligning the insiders’ interest to that of debt claimants as well as that of the external equity is the key goal of optimal contracts. These optimal contracts include debt contracts as well as compensation agreements. These contracts facilitate relevant information disclosure which enables investors to perform an evaluation of the decisions as well as the act of managers together with those of controlling shareholders.
In addition, the role of the board of directors is to ensure monitoring and management discipline as formulated by the organization stakeholders. The effectiveness of the organization management needs to be evaluated by the financial intermediaries through focusing on the management decisions made by these managers. Agency problem is also mitigated through corporate control market that entails the threat of hostile takeovers (Boolaky & Cooper, 2015).

Among the mechanisms presented by the agency framework for mitigating agency problems include; corporate control, corporate governance, contracts as well as financial intermediaries (Cheong & Zurbruegg, 2016). Healy and Palepu (2015) argues that how effective these mechanisms are remains to be an empirical question as to whether corporate governance, contracting, intermediaries and contracting is an empirical question. The effectiveness of these mechanisms is determined by both economic and institutional factors. These entail the corporate control market and its nature, the potential incentive problems and the ability to enforce contracts.

2.4.3 Disclosure and Transparency

In its way to attain transparency a firm may face various obstacles. Among these obstacles entail little or no incentive to the firm management to deal with the shareholders’ interests. Firm managers should be given incentives to disclose information relating to future performance of the organization (Franzi, 2017). This is because these incentives extended to the organization management have two impacts. One of the impacts is that the incentives motivate the organization management to disclose more clear and honest information to the investor and helps in revealing the actual financial position of the firm as well as showing the actual realized profits. In addition through incentives, managers are motivated to ensure accuracy of the financial information they provide to the firm investors. This information is disclosed in an open and clear way (Chu, 2018).

In some firms the management tend only to please the investors by availing only the positive information concerning the firm and fail to show the full information concerning the performance of that particular firm. In case these managers are on incentive and they commit such a mistake a punishment or a penalty should be imposed on them. The punishment may entail deduction of the extended incentives. Incentives have many advantages among which include increasing the value o the firms stock in the long run.
and solving the conflicts existing between managers and shareholders (Villalonga & Amit, 2016). Competitive advantage is another challenge that hider transparency. Companies that disclose less information are more competitive that those who disclose more information since the disclosed information might be used by the competitors of the firm hence that’s why most firms tend to disclose little information (Sraer & Thesmar, 2017).

There is no clear information on the relationship between the information disclosure ad the competitiveness of the firms. It is unknown whether the two have a correlative or causal relationship. Chu (2019) argues that under free market economics, the flow of information is very essential. Transparency is facilitated by this flow of information and competition is encouraged as well which leads to improving of the work at hand. Growth of business would be a great challenge in the competitive market with adequate flow of information. Despite the fact that various firms oppose the motion of information disclosure through arguing that it reduces market competitiveness, this opposition bases its argument on personal interests and not public interest. This is more concerned with inadequate awareness of the essence and meaning of information disclosure (Gabor & Brooks, 2017).

2.6 Chapter Summary

The chapter has reviewed literature on influence of start-up cost on financial inclusion, effects of customer protection regulation on financial inclusion and effects of investor protection regulation on financial inclusion. Chapter three covered the research methodology. Chapter four covered data analysis and presentation and chapter five covered summary of findings, conclusions and recommendations.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter covered the research methodology with highlights on research design, target population, sampling procedure, data collection techniques and data analysis techniques to be used in the study.

3.2 Research Design

Research design outlines the activities to be undertaken to execute the research project. This study adopted a descriptive research design to analyse the effect of regulatory requirements on financial inclusion: a case of the Fintech industry in Kenya. A descriptive design is one in which information is collected without changing anything or manipulating the environment. A descriptive was used in this study since its appropriate for collection of structured and semi structured data and can combine qualitative and quantitative data.

3.3 Population and Sampling Design

3.3.1 Population

The target population is the target population is a complete set of individuals, cases, or objects with some common observable characteristics (Creswell, 2014). The study was conducted in Fintech companies in Kenya. As at 2018 there were 38 Fintech companies in Kenya (CAK, 2018). The target population for this study were the managers in the Fintech companies. The managers were selected because it is believed that they have knowledge on the regulatory requirements. Hence, they were able to give their different opinions on how regulations influence financial inclusion. From the human resources in the companies, there are 435 managers. Therefore the target population was 435 respondents.

Table 3.1: Target Population

<table>
<thead>
<tr>
<th>Company</th>
<th>Senior Managers</th>
<th>Junior Managers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Abacus</td>
<td>5</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>2. BambaPos</td>
<td>4</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>3. Beyonic</td>
<td>6</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>4. BitPesa</td>
<td>4</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>5. Bitsoko</td>
<td>5</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>6. Branch International</td>
<td>6</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>7.</td>
<td>CarePay</td>
<td>5</td>
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</tr>
<tr>
<td>8.</td>
<td>Caytree Financial</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>9.</td>
<td>Cellulant</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>10.</td>
<td>Chura Limited</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>11.</td>
<td>Connect Africa</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>12.</td>
<td>Direct Pay Online Group</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>13.</td>
<td>Eastpesa</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>14.</td>
<td>Eclectics International</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>15.</td>
<td>Esacco</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>16.</td>
<td>FarmDrive</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>17.</td>
<td>Forex</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>18.</td>
<td>GrassRoots Bima</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>19.</td>
<td>InsureAfrika</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>20.</td>
<td>Inuka Pap</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>21.</td>
<td>JamboPay</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>22.</td>
<td>Jumo</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>23.</td>
<td>Kipochi</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>24.</td>
<td>Kopo Kopo</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>25.</td>
<td>Kwanji</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>26.</td>
<td>Lakt</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>27.</td>
<td>Lelapa Fund</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>28.</td>
<td>Lipisha</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>29.</td>
<td>M-Changa</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>30.</td>
<td>M-Pesa</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>31.</td>
<td>Musoni</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>32.</td>
<td>Nomanini</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>33.</td>
<td>Packline Systems</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>34.</td>
<td>Pesapal</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>35.</td>
<td>Remit</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>36.</td>
<td>Tala</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>37.</td>
<td>Tangazoletu</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>38.</td>
<td>Umati Capital</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>184</strong></td>
<td><strong>251</strong></td>
<td><strong>435</strong></td>
</tr>
</tbody>
</table>

### 3.3.2 Sampling Design

Sampling is concerned with the collection of a subsection of personalities from within a statistical populace to gauge characteristics of the whole population (Saunder, Lewis & Thornhill, 2015). Sampling allows for the study of some elements of a population as representative of the population from which conclusions about the population are drawn. Sampling design is a working plan specifying the population frame, sample size, sample selection, and estimation method in detail. The objective of the sampling design is to know the characteristic of the population (Borg & Gall, 2014).
3.3.2.1 Sampling Frame

The Sampling frame is a list of elements from which the sample is drawn and closely related to the population (Kothari, 2014). Cooper and Schindler (2013) defined the sampling frame as a set of elements from which researchers can select a sample of the target population. For the purposes of this study, the sampling frame was the list of Fintech companies in Kenya.

3.3.2.2 Sampling Technique

According to Cooper and Schindler (2013) the basic idea of sampling is that, by selecting some of the elements in a population, one may draw conclusions about the entire population. A sample is also described as accessible elements of a population that have been procedurally selected to represent the population (Creswell, 2014). This study used purposive sampling technique. In purposive sampling researchers rely on their own judgment when choosing members of population to participate in the study. Researchers often believe that they can obtain a representative sample by using a sound judgment, which resulted in saving time and money.

Purposive sampling was chosen because it allowed the researcher to focus on particular characteristics of the respondents that are of interest (in this study managers), which best enabled to answer the research questions and achieve the study objectives. In the Fintech companies there are different kind of employees, however, in this study the researcher used her own judgement to choose senior and junior managers who participated in the study.

3.3.2.1 Sample Size

A sample is a finite part of a statistical population whose properties are studied to gain information about the whole. When dealing with people, it can be defined as a set of respondents (people) selected from a larger population for the purpose of a survey. The study used proportionate stratified random sampling technique to select the sample. The sample size of each stratum in this technique is proportionate to the population size of the stratum when viewed against the entire population. This means that the each stratum has the same sampling fraction. Therefore, the researcher chose 50% of the target population which is a sampling fraction of half (½). According to Greener (2008), for a population for between 100 and 500 (100<N<500) a 50% sample size should be selected. Stratified random sampling produces estimates of overall population parameters with greater
precision and ensures a more representative sample is derived from a relatively homogenous population.

Stratification aims to reduce standard error by providing some control over variance (Cooper & Schindler, 2006). The departments within the organization were the bases for stratification. With proportionate stratification, the sample size of each stratum is proportionate to the population size of the stratum. This means that each stratum has the same sampling fraction. The sample size of this study was therefore 218 respondents.

Table 3.2: Sample Size

<table>
<thead>
<tr>
<th>Company</th>
<th>Senior Managers</th>
<th>Junior Managers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Sample</td>
<td>Frequency</td>
</tr>
<tr>
<td>1. Abacus</td>
<td>5</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>2. BambaPos</td>
<td>4</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>3. Beyonic</td>
<td>6</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>4. BitPesa</td>
<td>4</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>5. Bitsoko</td>
<td>5</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>6. Branch International</td>
<td>6</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>7. CarePay</td>
<td>5</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>8. Caytree Financial</td>
<td>6</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>9. Cellulant</td>
<td>7</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>10. Chura Limited</td>
<td>5</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>11. ConnectAfrica</td>
<td>3</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>12. Direct Pay Online Group</td>
<td>5</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>13. Eastpesa</td>
<td>4</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>14. Eclectics International</td>
<td>3</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>15. Esacco</td>
<td>5</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>16. FarmDrive</td>
<td>4</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>17. Forex</td>
<td>6</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>18. GrassRoots Bima</td>
<td>5</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>19. InsureAfrika</td>
<td>5</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>20. Inuka Pap</td>
<td>4</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>21. Jambopay</td>
<td>5</td>
<td>3</td>
<td>7</td>
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<tr>
<td>22. Jumo</td>
<td>6</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>23. Kipochi</td>
<td>5</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>24. Kopo Kopo</td>
<td>4</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>25. Kwanji</td>
<td>5</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>26. Lakt</td>
<td>6</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>27. LelapaFund</td>
<td>5</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>28. Lipisha</td>
<td>3</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>29. M-Changa</td>
<td>5</td>
<td>3</td>
<td>7</td>
</tr>
</tbody>
</table>
3.4 Data Collection Methods

The research collected primary data using structured questionnaires. The questionnaire, which is an appropriate tool for structured data collection, was used to obtain the primary data required for the study which was self-administered by the researcher. The questionnaire was developed from the literature review and organized to collect the background information of the respondents and data relating to the objectives of the study. The choice of using questionnaires was based on the premise that data collected using a questionnaire was easily understood and therefore be perceived to be authoritative.

The questionnaire was structured into six sections. The first part had questions on the general information about the respondents. The second section had questions on start-up costs, the third section had questions on customer protection regulation, the forth section addressed questions on investor protection regulation, the fifth section addressed questions on credit allocation and the sixth section had questions on financial inclusion.

The respondents were required to read, understand and tick an appropriate choice. The questionnaires were administered by the researcher in person to the respondents or via telephone with the help of research assistants to ensure clarity of information that were obtained from the respondents and improve the response rate.

3.5 Research Procedure

The accuracy of data collected largely depends on the data collection instruments in terms of validity and reliability. The questionnaires was first pretested to determine the suitability of the tool, clarity of questions, logical flow of questions, identify any coding and analysis issues, establish response rates and ability of questions to generate the expected answers before the actual administration. Researchers recommend pretesting of
a questionnaire under field conditions. The pretesting was done by administering the questionnaire to 13 respondents who were selected simple random sampling from the population.

3.6 Data Analysis Methods

Before processing the responses, the completed questionnaire was checked for completeness and consistency. The data was coded to enable the responses to be easily analysed and counter checked. Data analysis used quantitative methods of analysing data using IBM Statistical Package for Social Sciences (SPSS). Descriptive statistics provided description of data in terms of frequencies and percentages that were presented in form of figures, tables and charts. Pearson Correlation was used to establish the existence, nature and strength of the relationships between the independent variables and their significance of the relationship to sales force performance. Multiple regressions were used to determine the level of significance in relationship between start-up costs, customer protection regulation, investor, customer protection regulation, credit allocation and financial inclusion.

3.7 Chapter Summary

This chapter outlined the research methodology and design. It provides a detailed analysis of the research design, which was descriptive in. The population was management staff at Fintech companies in Kenya. The sample size, sampling techniques and the use of a questionnaire as a primary data collection instrument are discussed. The questionnaire developed was pre-tested to allow for refinement before administration to respondents. Data analysis was done using the Statistical Package for Social Sciences (SPSS) and presented in forms descriptive and inferential statistics.
CHAPTER FOUR

4.0 RESULTS AND FINDING

4.1 Introduction

This chapter is a discussion of results and findings that were collected from the field. The chapter presents the background information of the respondents, findings of the analysis based on the objectives of the study. Descriptive analysis, content analysis and inferential statistics were used to analyze the data and discuss the research findings. In this study, the study targeted 218 respondents, whereby 206 respondents filled in and returned the questionnaires making a response rate of 94.5 percent, as represented in figure 4.1 below, based on Mugenda and Mugenda (2008), the response rate was considered to excellent.

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Filled and Returned</td>
<td>206</td>
<td>94.5</td>
</tr>
<tr>
<td>Unreturned</td>
<td>12</td>
<td>5.5</td>
</tr>
<tr>
<td>Total</td>
<td>218</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2 Demographic Information

This section discusses the demographic characteristics of the respondents. These include gender and the period the respondents had served in their respective organizations.

4.2.1 Gender of Respondents

The study sought to determine the gender of respondents. The findings were as shown in Figure 4.1.

Figure 4.1: Gender of Respondents

Male 59%
Female 41%
From the findings in Figure 4.2, 59% of the respondents were male while 41% of the respondents were female. This implies that respondents from both genders participated in the study though in different proportions. This further implies that both male and female work in the Fintech industry. Therefore, the study was not gender biased.

4.2.2 Period of Service in the Organization

The study sought to determine the period the respondents had served in their organizations. The findings were as presented in Figure 4.2.

![Figure 4.2: Period of Service in the Organization](chart)

From the findings in Figure 4.2, 44% of the respondents had worked in their organization for a period between 5-8 years, 25% had worked in their organization for a period between 1-4 years, 22% had worked in their organization for a period between 9-12 years and 9% had worked in their organization for above 13 years. This implies that the respondents had worked in their organizations for a certain duration hence they would be able to provide information needed in the study.

4.3 The influence of Start-Up Cost on Financial Inclusion

The study sought to determine the respondent’s opinion on various statements on the influence of start-up cost on financial inclusion. Using the scale 1-strongly disagree, 2-disagree, 3-moderate, 4-agree, 5-strongly agree. The findings were presented in Table 4.2.

From the findings, the respondents agreed that loan guarantee ensures provision of loans to young people in the society as shown by a mean of 4.22, loan guarantee ensures provision of loans to women in the society as shown by a mean of 4.18, crowdfunding has low intermediation costs hence it is a cheaper source of finance as shown by a mean of 4.16, financial education of entrepreneurs help them to understand obligations related to crowdfunding transactions as shown by a mean of 4.14, loan guarantee ensures
provision of loans to people with disability in the society as shown by a mean of 4.14, loan guarantee provided a low credit risk associated with publicly- or privately-guaranteed loans as shown by a mean of 4.08, crowdfunding is a source for start-ups as shown by a mean of 4.10, in loan guarantees lending choice is left with banks because they carry a part of the risk of default as shown by a mean of 4.09, microcredit provide loans to the poor to engage in an income generating activity as shown by a mean of 4.08, microcredit is most often extended without traditional collateral hence encouraging entrepreneurs to take loans as shown by a mean of 3.99 and microcredit increase access to credit to the financially excluded individuals as shown by a mean of 3.94.

Table 4.2: The influence of Start-Up Cost and Financial Inclusion

<table>
<thead>
<tr>
<th>Statements</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loan guarantee</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan guarantee ensures provision of loans to young people in the society</td>
<td>2</td>
<td>7</td>
<td>14</td>
<td>103</td>
<td>80</td>
<td>4.22</td>
<td>1.031</td>
</tr>
<tr>
<td>Loan guarantee ensures provision of loans to women in the society</td>
<td>4</td>
<td>9</td>
<td>17</td>
<td>91</td>
<td>85</td>
<td>4.18</td>
<td>0.99</td>
</tr>
<tr>
<td>Loan guarantee ensures provision of loans to people with disability in the society</td>
<td>3</td>
<td>6</td>
<td>15</td>
<td>118</td>
<td>64</td>
<td>4.14</td>
<td>1.04</td>
</tr>
<tr>
<td>Loan guarantee provided a low credit risk associated with publicly- or privately-guaranteed loans</td>
<td>5</td>
<td>11</td>
<td>19</td>
<td>98</td>
<td>73</td>
<td>4.08</td>
<td>0.94</td>
</tr>
<tr>
<td>In loan guarantees lending choice is left with banks because they carry a part of the risk of default</td>
<td>4</td>
<td>14</td>
<td>21</td>
<td>88</td>
<td>79</td>
<td>4.09</td>
<td>0.92</td>
</tr>
<tr>
<td><strong>Microcredit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Microcredit provide loans to the poor to engage in an income generating activity</td>
<td>5</td>
<td>11</td>
<td>20</td>
<td>97</td>
<td>73</td>
<td>4.08</td>
<td>0.93</td>
</tr>
<tr>
<td>Microcredit increase access to credit to the financially excluded individuals</td>
<td>8</td>
<td>14</td>
<td>28</td>
<td>88</td>
<td>68</td>
<td>3.94</td>
<td>0.83</td>
</tr>
<tr>
<td>Microcredit is most often extended without traditional collateral hence encouraging entrepreneurs to take loans</td>
<td>7</td>
<td>12</td>
<td>22</td>
<td>101</td>
<td>64</td>
<td>3.99</td>
<td>0.89</td>
</tr>
<tr>
<td><strong>Crowdfunding</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crowdfunding is a source for start-ups</td>
<td>3</td>
<td>9</td>
<td>16</td>
<td>114</td>
<td>64</td>
<td>4.10</td>
<td>1.00</td>
</tr>
<tr>
<td>Financial education of entrepreneurs help them to understand obligations related to crowdfunding transactions</td>
<td>2</td>
<td>12</td>
<td>19</td>
<td>96</td>
<td>77</td>
<td>4.14</td>
<td>0.95</td>
</tr>
<tr>
<td>Crowdfunding has low intermediation costs hence it is a cheaper source of finance</td>
<td>3</td>
<td>10</td>
<td>21</td>
<td>89</td>
<td>83</td>
<td>4.16</td>
<td>0.96</td>
</tr>
</tbody>
</table>

37
4.3.1 Correlational Analysis

The study computed correlation to determine the strength and direction of the relationship between the influence of start-up cost and financial inclusion in the fintech industry in Kenya. The findings were as presented in Table 4.3.

From the findings, influence of start-up costs on financial inclusion had a correlation coefficient of 0.827 and significance value of 0.000. This therefore suggests that start-up cost has a strong positive correlation with financial inclusion. Also, the relationship between the start-up costs and financial inclusion was significant because the p-value is less than selected significance level (i.e. p=0.000<0.01).

<table>
<thead>
<tr>
<th>Financial Inclusion</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>206</td>
</tr>
<tr>
<td>Start-up Cost</td>
<td></td>
<td>.827**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pearson Correlation</td>
<td></td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td></td>
<td>206</td>
</tr>
</tbody>
</table>

4.3.2 Regression Analysis

The study computed regression analysis to determine the influence of start-up cost and financial inclusion in the Fintech industry in Kenya. The findings were presented in three tables discussed hereunder. The first table was the model summary which shows the amount of variation in financial inclusion as a result of a change in start-up cost. From the findings presented in table 4.4, the $R^2$ value was 0.324, an indication that a 32.4% variation in financial inclusion in the Fintech industry in Kenya can be explained by changes in start-up cost. The remaining 67.6% suggests that other factors can be attributed to changes in financial inclusion in the Fintech industry in Kenya other than start-up cost. The findings also suggest that start-up cost and financial inclusion are strongly and positively related as indicated by the correlation coefficient ($R$) value of 0.569.
Table 4.4: Model Summary for Start-Up Cost and Financial Inclusion

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.569&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.324</td>
<td>.316</td>
<td>.21160</td>
</tr>
</tbody>
</table>

<sup>a</sup> Predictors: (Constant), Start-Up Cost

ANOVA was used to test whether the model was significant. The significance of the model was tested at a 5% level of significance. From the findings presented in table 4.5, the significance of the model was 0.002 an indication that the model was significant since it was less than the level of significance (0.05). The ANOVA table also shows that the F-calculated value was 10.448 while the F-critical value, from the F-distribution tables was 3.887; the F-calculated value was greater than the F-critical value, an indication that start-up cost can be used to predict financial inclusion.

Table 4.5: ANOVA for Start-Up Cost and Financial Inclusion

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>0.490</td>
<td>1</td>
<td>.490</td>
<td>10.448</td>
<td>.002&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>1</td>
<td>Residual</td>
<td>204</td>
<td>.047</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>11.057</td>
<td>205</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> Dependent Variable: Financial Inclusion
<sup>b</sup> Predictors: (Constant), Start-Up Cost

From the beta coefficients table, the following regression equation was fitted:

\[ Y = 1.571 + 0.492X_1 + \varepsilon \]

\( Y = \) Financial Inclusion; \( X_1 = \) Start-Up Cost; \( \varepsilon = \) error term

From the above equation it is observed that when start-up cost is held to a constant zero, financial inclusion will be at a constant value of 1.571. The findings in table 4.6 also show that start-up cost had a positive, significant relationship with financial inclusion (\( \beta=0.492, p=0.002 \)); the relationship was considered significant since the p-value (0.002) was less than the selected level of significance (0.05). This suggests that a unit increase in start-up cost will cause financial inclusion to increase by 0.492 units.
Table 4.6: Coefficients for Start-Up Cost and Financial Inclusion

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.571</td>
<td>0.211</td>
<td></td>
<td>7.445</td>
</tr>
<tr>
<td>Start-Up Cost</td>
<td>0.492</td>
<td>0.105</td>
<td>0.470</td>
<td>4.686</td>
</tr>
</tbody>
</table>

4.4 The Influence of Customer Protection Regulation on Financial Inclusion

The study sought to determine the respondent’s opinion on various statements on the influence of customer protection regulation on financial inclusion. 1-strongly disagree, 2-disagree, 3-moderate, 4-agree, 5-strongly agree. The findings were presented in Table 4.7.

From the findings, the respondents agreed that financial service providers must ensure that sales promotion materials are not misleading as shown by a mean of 4.38, financial service providers must ensure that the terms of contract are fair to consumers as shown by a mean of 4.27, financial service providers must ensure that market practices are sound as shown by a mean of 4.13, financial education provide information on consumer protection as shown by a mean of 4.12, financial education focuses on increasing the level of knowledge regarding financial products and services as shown by a mean of 4.06, disclosure rule require providers to use clear language and present information in a format that is easily visible as shown by a mean of 4.04, to ensure transparency, regulators publish a list of all rates in newspapers or other freely accessible medium as shown by a mean of 3.95, financial institutions provide schedule of fees and charges to customers as shown by a mean of 3.93 and financial education programs are provided through public campaigns as shown by a mean of 3.89.
Table 4.7: Influence of Customer Protection Regulation on Financial Inclusion

<table>
<thead>
<tr>
<th>Statements</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial education</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial education programs are provided through public campaigns</td>
<td>6</td>
<td>16</td>
<td>30</td>
<td>96</td>
<td>58</td>
<td>3.89</td>
<td>0.81</td>
</tr>
<tr>
<td>Financial education focuses on increasing the level of knowledge regarding financial products and services</td>
<td>3</td>
<td>9</td>
<td>21</td>
<td>112</td>
<td>61</td>
<td>4.06</td>
<td>0.96</td>
</tr>
<tr>
<td>Financial education provide information on consumer protection</td>
<td>4</td>
<td>9</td>
<td>25</td>
<td>89</td>
<td>79</td>
<td>4.12</td>
<td>0.92</td>
</tr>
<tr>
<td><strong>Disclosure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To ensure transparency, regulators publish a list of all rates in newspapers or other freely accessible medium.</td>
<td>7</td>
<td>15</td>
<td>26</td>
<td>92</td>
<td>66</td>
<td>3.95</td>
<td>0.84</td>
</tr>
<tr>
<td>Financial institutions provide schedule of fees and charges to customers</td>
<td>6</td>
<td>19</td>
<td>19</td>
<td>101</td>
<td>61</td>
<td>3.93</td>
<td>0.87</td>
</tr>
<tr>
<td>Disclosure rule require providers to use clear language and present information in a format that is easily visible</td>
<td>8</td>
<td>14</td>
<td>20</td>
<td>83</td>
<td>81</td>
<td>4.04</td>
<td>0.91</td>
</tr>
<tr>
<td><strong>Enabling Environment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial service providers must ensure that sales promotion materials are not misleading</td>
<td>2</td>
<td>6</td>
<td>13</td>
<td>76</td>
<td>109</td>
<td>4.38</td>
<td>1.16</td>
</tr>
<tr>
<td>Financial service providers must ensure that the terms of contract are fair to consumers</td>
<td>3</td>
<td>7</td>
<td>14</td>
<td>89</td>
<td>93</td>
<td>4.27</td>
<td>1.06</td>
</tr>
<tr>
<td>Financial service providers must ensure that market practices are sound</td>
<td>2</td>
<td>5</td>
<td>14</td>
<td>128</td>
<td>57</td>
<td>4.13</td>
<td>1.09</td>
</tr>
</tbody>
</table>

4.4.1 Correlational Analysis

The study computed correlation to determine the strength and direction of the relationship between the influence of customer protection regulation and financial inclusion in the Fintech industry in Kenya. The findings were as presented in Table 4.8.

From the findings, customer protection regulation and financial inclusion had a correlation coefficient of 0.814 and significance value of 0.000. This therefore implies that customer protection has a strong positive correlation with financial inclusion. Also, customer protection and financial inclusion had a significant relationship because the p-value is less than selected significance level (i.e. p=0.000<0.01).
Table 4.8: Correlation for Customer Protection Regulation and Financial Inclusion

<table>
<thead>
<tr>
<th></th>
<th>Pearson Correlation</th>
<th>Financial Inclusion</th>
<th>Customer Protection Regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Inclusion</td>
<td>Sig. (2-tailed)</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>206</td>
<td></td>
</tr>
<tr>
<td>Customer Protection Regulation</td>
<td>Pearson Correlation</td>
<td>.814**</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>206</td>
<td>206</td>
</tr>
</tbody>
</table>

4.4.2 Regression Analysis

The study computed regression analysis to determine the influence of customer protection regulation and financial inclusion in the Fintech industry in Kenya. The findings were presented in three tables. The first table was the model summary which shows the amount of variation in financial inclusion as a result of a change in customer protection regulation. From the findings presented in table 4.9, the $R^2$ value was 0.376, an indication that a 37.6% variation in financial inclusion in the Fintech industry in Kenya can be explained by changes in customer protection regulation. The remaining 62.4% suggests that other factors can be attributed to changes in financial inclusion in the Fintech industry in Kenya other than customer protection regulation. The findings also suggest that customer protection regulation and financial inclusion are strongly and positively related as indicated by the correlation coefficient (R) value of 0.613.

Table 4.9: Model Summary for Customer Protection Regulation and Financial Inclusion

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.613*</td>
<td>.376</td>
<td>.367</td>
<td>.21507</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Customer Protection Regulation

ANOVA was used to test whether the model was significant. The significance of the model was tested at a 5% level of significance. From the findings presented in table 4.10, the significance of the model was 0.002 an indication that the model was significant since it was less than the level of significance (0.05). The ANOVA table also shows that the F-calculated value was 10.028 while the F-critical value, from the F-distribution tables was
3.887; the F-calculated value was greater than the F-critical value, an indication that customer protection regulation can be used to predict financial inclusion.

Table 4.10: ANOVA for Customer Protection Regulation and Financial Inclusion

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>0.458</td>
<td>1</td>
<td>0.458</td>
<td>10.028</td>
<td>.002b</td>
</tr>
<tr>
<td>1 Residual</td>
<td>9.317</td>
<td>204</td>
<td>0.046</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>9.775</td>
<td>205</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Inclusion
b. Predictors: (Constant), Customer Protection Regulation

From the beta coefficients table, the following regression equation was fitted;

\[ Y = 1.309 + 0.574X_2 + \varepsilon \]

Y= Financial Inclusion; \( X_2 \)= Customer Protection Regulation; \( \varepsilon \)=error term

From the above equation it is observed that when customer protection regulation is held to a constant zero, financial inclusion will be at a constant value of 1.309. The findings in table 4.11 also show that customer protection regulation had a positive, significant relationship with financial inclusion (\( \beta=0.574, p=0.001 \)); the relationship was considered significant since the p-value (0.001) was less than the selected level of significance (0.05). This suggests that a unit increase in customer protection regulation will cause financial inclusion to increase by 0.574 units.

Table 4.11: Coefficients for Customer Protection Regulation and Financial Inclusion

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.309</td>
<td>0.161</td>
<td>8.130</td>
<td>.000</td>
</tr>
<tr>
<td>1 Start-Up Cost</td>
<td>0.574</td>
<td>0.111</td>
<td>0.528</td>
<td>5.171</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Inclusion

4.5 The influence of Investor Protection Regulation on Financial Inclusion

The study sought to determine the respondent’s level of agreement on various statements on the influence of investor protection regulation on financial inclusion. Using the scale 1-strongly disagree, 2-disagree, 3-moderate, 4-agree, 5-strongly agree. The findings were presented in Table 4.12. From the findings, the respondents agreed that agency problems can be eliminated through disclosure as shown by a mean of 4.25, some organization
mislead third parties by only disclosing good news about their company as shown by a mean of 4.23, agency problems arise due to conflict is the expropriation of shareholder funds as shown by a mean of 4.20, agency problems can be eliminated through financial intermediaries as shown by a mean of 4.18, financial institutions are required to disclose their financial information to shareholders as shown by a mean of 4.15, flow of information is an essential requirement for free-market economics as shown by a mean of 4.05, optimal contracts between insiders and outsiders provide incentive for disclosure of private information as shown by a mean of 4.02, regulation help to mitigate the information problem and require a full disclosure of the private information as shown by a mean of 3.99 and due to information asymmetry investors lack sufficient information to evaluate the value of investment opportunities as shown by a mean of 3.97

Table 4.12: Influence of Investor Protection Regulation on Financial Inclusion

<table>
<thead>
<tr>
<th>Statements</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Information asymmetry</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due to information asymmetry investors lack sufficient information to evaluate the value of investment opportunities.</td>
<td>5</td>
<td>12</td>
<td>16</td>
<td>124</td>
<td>49</td>
<td>3.97</td>
<td>1.02</td>
</tr>
<tr>
<td>Optimal contracts between insiders and outsiders provide incentive for disclosure of private information</td>
<td>4</td>
<td>9</td>
<td>22</td>
<td>115</td>
<td>56</td>
<td>4.02</td>
<td>0.96</td>
</tr>
<tr>
<td>Regulation help to mitigate the information problem and require a full disclosure of the private information</td>
<td>7</td>
<td>13</td>
<td>16</td>
<td>109</td>
<td>61</td>
<td>3.99</td>
<td>0.94</td>
</tr>
<tr>
<td><strong>Agency problem</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agency problems arise due to conflict is the expropriation of shareholder funds</td>
<td>3</td>
<td>6</td>
<td>10</td>
<td>115</td>
<td>72</td>
<td>4.20</td>
<td>1.07</td>
</tr>
<tr>
<td>Agency problems can be eliminated through disclosure</td>
<td>3</td>
<td>5</td>
<td>14</td>
<td>99</td>
<td>85</td>
<td>4.25</td>
<td>1.05</td>
</tr>
<tr>
<td>Agency problems can be eliminated through financial intermediaries</td>
<td>4</td>
<td>8</td>
<td>13</td>
<td>103</td>
<td>78</td>
<td>4.18</td>
<td>1.02</td>
</tr>
<tr>
<td><strong>Disclosure and Transparency</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial institutions are required to disclose their financial information to shareholders</td>
<td>7</td>
<td>14</td>
<td>19</td>
<td>68</td>
<td>98</td>
<td>4.15</td>
<td>1.01</td>
</tr>
<tr>
<td>Some organization mislead third parties by only disclosing good news about their company</td>
<td>6</td>
<td>12</td>
<td>21</td>
<td>57</td>
<td>110</td>
<td>4.23</td>
<td>1.11</td>
</tr>
<tr>
<td>Flow of information is an essential requirement for free-market economics</td>
<td>8</td>
<td>15</td>
<td>15</td>
<td>89</td>
<td>79</td>
<td>4.05</td>
<td>0.93</td>
</tr>
</tbody>
</table>
4.5.1 Correlational Analysis

The study computed correlation to determine the strength and direction of the relationship between the influence of investor protection regulation and financial inclusion in the Fintech industry in Kenya. The findings were as presented in Table 4.13.

From the findings, investor protection regulation and financial inclusion had a correlation coefficient of 0.835 and significance value of 0.000. This therefore suggests that investor protection has a strong positive correlation with financial inclusion. Also, the relationship between the investor and financial inclusion was significant because the p-value is less than selected significance level (i.e. p=0.000<0.01).

<table>
<thead>
<tr>
<th>Financial Inclusion</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investor Protection Regulation</td>
<td>Pearson Correlation</td>
<td>.835**</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>206</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>206</td>
<td>206</td>
<td></td>
</tr>
</tbody>
</table>

4.5.2 Regression Analysis

The study computed regression analysis to determine the influence of investor protection regulation and financial inclusion in the Fintech industry in Kenya. The findings were presented in three tables. The first table was the model summary which shows the amount of variation in financial inclusion as a result of a change in investor protection regulation. From the findings presented in table 4.14, the R² value was 0.299, an indication that a 29.9% variation in financial inclusion in the Fintech industry in Kenya can be explained by changes in investor protection regulation. The remaining 70.1% suggests that other factors can be attributed to changes in financial inclusion in the Fintech industry in Kenya other than investor protection regulation. The findings also suggest that investor protection regulation and financial inclusion are strongly and positively related as indicated by the correlation coefficient (R) value of 0.547.
Table 4.14: Model Summary for Investor Protection Regulation and Financial Inclusion

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.547</td>
<td>.299</td>
<td>.291</td>
<td>.22081</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Investor Protection Regulation

ANOVA was used to test whether the model was significant. The significance of the model was tested at a 5% level of significance. From the findings presented in table 4.15, the significance of the model was 0.002 an indication that the model was significant since it was less than the level of significance (0.05). The ANOVA table also shows that the F-calculated value was 9.244 while the F-critical value, from the F-distribution tables was 3.887; the F-calculated value was greater than the F-critical value, an indication that investor protection regulation can be used to predict financial inclusion.

Table 4.15: ANOVA for Investor Protection Regulation and Financial Inclusion

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>0.439</td>
<td>1</td>
<td>0.439</td>
<td>9.244</td>
<td>.002</td>
</tr>
<tr>
<td>Residual</td>
<td>9.688</td>
<td>204</td>
<td>0.047</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>10.107</td>
<td>205</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Inclusion  
b. Predictors: (Constant), Investor Protection Regulation

From the beta coefficients table, the following regression equation was fitted;

\[ Y = 1.418 + 0.502X_2 + \varepsilon \]

\( Y \) = Financial Inclusion; \( X_2 \) = Investor Protection Regulation; \( \varepsilon \) = error term

From the above equation it is observed that when investor protection regulation is held to a constant zero, financial inclusion will be at a constant value of 1.418. The findings in table 4.16 also show that investor protection regulation had a positive, significant relationship with financial inclusion (\( \beta=0.502, p=0.003 \)); the relationship was considered significant since the p-value (0.001) was less than the selected level of significance (0.05). This suggests that a unit increase in investor protection regulation will cause financial inclusion to increase by 0.502 units.
Table 4.16: Coefficients for Investor Protection Regulation and Financial Inclusion

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>1.418</td>
<td>0.196</td>
<td></td>
<td>7.235</td>
</tr>
<tr>
<td>Start-Up Cost</td>
<td>0.502</td>
<td>0.120</td>
<td>0.487</td>
<td>4.183</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Inclusion

4.6 Financial Inclusion

The study sought to determine the respondent’s level of agreement on financial inclusion. Using the scale 1-strongly disagree, 2-disagree, 3-moderate, 4-agree, 5-strongly agree. The findings were as presented in Table 4.17. From the findings, the respondents agreed that consumer protection has promoted people with disability access to funds as shown by a mean of 4.23, consumer protection has promoted youth access to funds as shown by a mean of 4.21, consumer protection enables the creation of jobs as shown by a mean of 4.20, investor protection guidelines ensures equal access of financial services as shown by a mean of 4.13, regulations ensure that consumers are not exploited by financial firms as shown by a mean of 4.12, consumer protection guidelines ensures equal access of financial services as shown by a mean of 4.12, access to and usage of affordable financial services promote financial inclusion as shown by a mean of 4.11, consumer protection has promoted women access to funds as shown by a mean of 4.10, investor protection enables businesses to expand as shown by a mean of 4.00 and secure formal financial services promote financial inclusion as shown by a mean of 3.99.
Table 4.17: Financial Inclusion

<table>
<thead>
<tr>
<th>Statements</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to and usage of affordable financial services promote financial inclusion</td>
<td>1</td>
<td>4</td>
<td>16</td>
<td>135</td>
<td>50</td>
<td>4.11</td>
<td>1.12</td>
</tr>
<tr>
<td>Secure formal financial services promote financial inclusion</td>
<td>3</td>
<td>6</td>
<td>14</td>
<td>151</td>
<td>32</td>
<td>3.99</td>
<td>1.23</td>
</tr>
<tr>
<td>Consumer protection guidelines ensures equal access of financial services</td>
<td>1</td>
<td>7</td>
<td>19</td>
<td>119</td>
<td>60</td>
<td>4.12</td>
<td>1.02</td>
</tr>
<tr>
<td>Investor protection guidelines ensures equal access of financial services</td>
<td>2</td>
<td>4</td>
<td>13</td>
<td>133</td>
<td>54</td>
<td>4.13</td>
<td>1.12</td>
</tr>
<tr>
<td>Regulations ensure that consumers are not exploited by financial firms</td>
<td>4</td>
<td>4</td>
<td>18</td>
<td>117</td>
<td>63</td>
<td>4.12</td>
<td>1.02</td>
</tr>
<tr>
<td>Consumer protection has promoted youth access to funds</td>
<td>3</td>
<td>8</td>
<td>15</td>
<td>96</td>
<td>84</td>
<td>4.21</td>
<td>1.02</td>
</tr>
<tr>
<td>Consumer protection has promoted women access to funds</td>
<td>5</td>
<td>7</td>
<td>21</td>
<td>103</td>
<td>70</td>
<td>4.10</td>
<td>0.95</td>
</tr>
<tr>
<td>Consumer protection has promoted people with disability access to funds</td>
<td>2</td>
<td>6</td>
<td>25</td>
<td>83</td>
<td>90</td>
<td>4.23</td>
<td>0.99</td>
</tr>
<tr>
<td>Investor protection enables businesses to expand</td>
<td>4</td>
<td>9</td>
<td>20</td>
<td>124</td>
<td>49</td>
<td>4.00</td>
<td>1.01</td>
</tr>
<tr>
<td>Consumer protection enables the creation of jobs</td>
<td>3</td>
<td>6</td>
<td>21</td>
<td>92</td>
<td>84</td>
<td>4.20</td>
<td>0.99</td>
</tr>
</tbody>
</table>

4.6.1 Multiple Regression Analysis

The study computed regression analysis to determine the influence of regulatory requirements on financial inclusion in the Fintech industry in Kenya. The results were discussed in the tables hereunder. Model summary was used to determine amount of variation in financial inclusion that can be explained by changes in start-up cost, customer protection regulation and investor protection regulation. From the findings, the value of $R^2$ was 0.629 which is an indication that 62.9% variation in financial inclusion can be explained by changes in start-up cost, customer protection regulation and investor protection regulation. The remaining 37.1% suggest that there are other factors other than start-up cost, customer protection regulation and investor protection regulation that can be attributed to changes in financial inclusion in the Fintech industry in Kenya. The findings also suggests that start-up cost, customer protection regulation and investor protection regulation and financial inclusion are strongly and positively related as indicated by correlation coefficient (R) value of 0.799.
Table 4.18: Model Summary for Regulatory Requirements and Financial Inclusion

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.799a</td>
<td>.638</td>
<td>.629</td>
<td>.02174</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Start-Up Cost, Customer Protection Regulation, Investor Protection Regulation

Analysis of variance was computed to determine model significance at selected significance level of 0.05. The f-calculated 100.023 is greater than 2.649 f-critical obtained from f critical tables. This implies that regulatory requirements influences financial inclusion. The p value obtained was 0.000 which is less than selected significance level (p=0.000<0.05); this therefore suggests that the model is significant.

Table 4.19: ANOVA for Regulatory Requirements and Financial Inclusion

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>34.548</td>
<td>3</td>
<td>11.516</td>
<td>100.023</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>23.257</td>
<td>202</td>
<td>0.115</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>57.805</td>
<td>205</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Inclusion
b. Predictors: (Constant), Start-Up Cost, Customer Protection Regulation, Investor Protection Regulation

The regression equation was:

\[ Y = 0.805 + 0.419 X_1 + 0.396X_2 + 0.428 X_3 \]

The above regression equation shows that holding start-up cost, customer protection and investor protection to a constant zero; the variables will significantly influence financial inclusion as shown by constant value of 0.805 units.

From the findings strat-up cost is statistically significant to financial inclusion in Fintech industry in Kenya (\( \beta = 0.419, P = 0.000 \)). This implies that start-up cost has a significant positive relationship with financial inclusion. Therefore a unit increase in strat-up costs will result to increase in financial inclusion in Fintech industry in Kenya by 0.419 units.

Customer protection regulation is statistically significant to financial inclusion in Fintech industry in Kenya (\( \beta = 0.396, P = 0.000 \)). This implies that customer protection regulation
has a significant positive relationship with financial inclusion. Therefore, a unit increase in customer protection regulation will result in an increase in financial inclusion in the Fintech industry in Kenya by 0.396 units.

Investor protection regulation is statistically significant to financial inclusion in the Fintech industry in Kenya ($\beta = 0.428$, $P = 0.000$). This implies that investor protection regulation has a significant positive relationship with financial inclusion. Therefore, a unit increase in investor protection regulation will result in an increase in financial inclusion in the Fintech industry in Kenya by 0.428 units.

Table 4.20: Coefficients for Regulatory Requirements and Financial Inclusion

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>0.805</td>
<td>0.113</td>
<td></td>
<td>7.124</td>
</tr>
<tr>
<td>Start-up Cost</td>
<td>0.419</td>
<td>0.099</td>
<td>0.392</td>
<td>4.232</td>
</tr>
<tr>
<td>Customer Protection</td>
<td>0.396</td>
<td>0.086</td>
<td>0.363</td>
<td>4.605</td>
</tr>
<tr>
<td>Regulation</td>
<td>Investor Protection</td>
<td>0.428</td>
<td>0.091</td>
<td>0.402</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Inclusion

4.7 Chapter Summary

Chapter four presented the findings of the study. Specifically, the study presented the findings on the start-up cost and financial inclusion, customer protection and financial inclusion, and investor protection and financial inclusion. The study found that start-up cost, customer protection, and investor protection had a positive significant influence on financial inclusion in the Fintech industry in Kenya. Chapter five covers discussion, conclusions, and recommendations.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made thereto. The conclusions and recommendations drawn were focused on addressing the objective of the study. The researcher had intended to examine the influence of start-up cost on financial inclusion in the Fintech industry in Kenya, to assess the influence of customer protection regulation on financial inclusion in the Fintech industry in Kenya and to examine the influence of investor protection regulation on financial inclusion in the Fintech industry in Kenya.

5.2 Summary

The general objective of the study was to establish the influence of regulatory requirements on financial inclusion in the Fintech industry in Kenya. The specific objectives of the study were to examine the influence of start-up cost on financial inclusion in the Fintech industry in Kenya, to assess the influence of customer protection regulation on financial inclusion in the Fintech industry in Kenya and to examine the influence of investor protection regulation on financial inclusion in the Fintech industry in Kenya.

This study adopted a descriptive research design. The target population for this study were the managers in the Fintech companies. The target population was 435 respondents. The study used stratified random sampling technique to select 50% of the target population. The sample size of this study was therefore 218 respondents. The research collected primary data using structured questionnaires. Data analysis used quantitative methods of analysing data using IBM Statistical Package for Social Sciences (SPSS). Descriptive statistics provided description of data in terms of frequencies and percentages that were presented in form of figures, tables and charts. Pearson Correlation was used to establish the existence, nature and strength of the relationships between the independent variables and their significance of the relationship to sales force performance. Multiple regressions were used to determine the level of significance in relationship between start-up costs, customer protection regulation, investor, customer protection regulation, credit allocation and financial inclusion.
The first objective of the study was to determine the influence of start-up cost on financial inclusion in the Fintech industry in Kenya. The study found that loan guarantee ensures provision of loans to young people in the society (mean of 4.22), loan guarantee ensures provision of loans to women in the society (mean of 4.18), loan guarantee ensures provision of loans to people with disability in the society (mean of 4.14), loan guarantee provided a low credit risk associated with publicly- or privately-guaranteed loans (Mean of 4.08) and in loan guarantees lending choice is left with banks because they carry a part of the risk of default (mean of 4.09). It was also established that microcredit provide loans to the poor to engage in an income generating activity (mean=4.08), microcredit is most often extended without traditional collateral hence encouraging entrepreneurs to take loans (mean of 3.99) and microcredit increase access to credit to the financially excluded individuals (mean of 3.94). Further, crowdfunding has low intermediation costs hence it is a cheaper source of finance (mean of 4.16), financial education of entrepreneurs help them to understand obligations related to crowdfunding transactions (mean of 4.14) and crowdfunding is a source for start-ups (mean of 4.10).

The second objective of the study was to assess the influence of customer protection regulation on financial inclusion in the Fintech industry in Kenya. The study found that financial education provides information on consumer protection (mean of 4.12), financial education focuses on increasing the level of knowledge regarding financial products and services (mean of 4.06) and financial education programs are provided through public campaigns (mean of 3.89). It was also revealed that disclosure rule require providers to use clear language and present information in a format that is easily visible (mean of 4.04), to ensure transparency, regulators publish a list of all rates in newspapers or other freely accessible medium (mean of 3.95) and financial institutions provide schedule of fees and charges to customers (mean of 3.93). Also, financial service providers must ensure that sales promotion materials are not misleading (mean of 4.38), financial service providers must ensure that the terms of contract are fair to consumers (mean of 4.27) and financial service providers must ensure that market practices are sound (mean of 4.13).

The third objective of the study was to examine the influence of investor protection regulation on financial inclusion in the Fintech industry in Kenya. The study revealed optimal contracts between insiders and outsiders provide incentive for disclosure of private information (mean of 4.02), regulation help to mitigate the information problem
and require a full disclosure of the private information (mean of 3.99) and due to information asymmetry investors lack sufficient information to evaluate the value of investment opportunities (mean of 3.97). It was also established agency problems can be eliminated through disclosure (mean of 4.25), agency problems arise due to conflict is the expropriation of shareholder funds (mean of 4.20) and agency problems can be eliminated through financial intermediaries (mean of 4.18). Further, some organization mislead third parties by only disclosing good news about their company (mean of 4.23), financial institutions are required to disclose their financial information to shareholders (mean of 4.15) and flow of information is an essential requirement for free-market economics (mean of 4.05).

5.3 Discussion

5.3.1 The Influence of Start-Up Cost on Financial Inclusion

The study found that start-up costs influences financial inclusion. This concurs with the work of Zins and Weill (2016) who noted that a well-functioning financial system can provide worthwhile investment opportunities to as many participants as possible, and channel funds to their most productive uses. Therefore, financial development is crucial to the formation of entrepreneurs and their entrepreneurial activities. Fan and Zhang (2015) indicated that financial inclusion is often beneficial to the formations of entrepreneurs in sectors with lower entry barriers.

The study also found that loan guarantee ensures provision of loans to young people in the society, loan guarantee ensures provision of loans to women in the society, loan guarantee ensures provision of loans to people with disability in the society loan guarantee provided a low credit risk associated with publicly- or privately-guaranteed loans and in loan guarantees lending choice is left with banks because they carry a part of the risk of default. The findings relate to those of Santos (2017) who indicated that loan guarantee leverages private sector know-how and resources through the banks participating in the programme to favour the access of disadvantaged entrepreneurs to traditional sources of debt finance. The main driver of banks’ participation in this policy is the lower credit risk associated with publicly- or privately-guaranteed loans. Fan, Tapscott and Tapscott (2016) noted that government provides a sizeable last-resort counter-guarantee to banks on top of first-level guarantees offered by local mutual guarantee associations.
It was also established that microcredit provide loans to the poor to engage in an income generating activity, microcredit is most often extended without traditional collateral hence encouraging entrepreneurs to take loans and microcredit increase access to credit to the financially excluded individuals. The findings concur with those of Islam et al. (2015) who indicated that many poor individuals are able to build assets for themselves, improve their consumption and in most cases are able to mitigate the effect of household shocks through microcredit. Wenner (2015) noted that microcredit is most often extended without traditional collateral. If physical collateral were a requirement for borrowing, most MFI clientele would be unable to participate due to their extreme poverty level. Because borrowers do not have physical capital, MFIs focus on using social collateral. Michelle (2016) indicated that microfinance institutions enhance financial inclusion since they operate and have products and services that are accessible and affordable to the unbanked.

The study revealed that crowdfunding has low intermediation costs hence it is a cheaper source of finance, financial education of entrepreneurs help them to understand obligations related to crowdfunding transactions and crowdfunding is a source for start-ups. The findings concur with those of Kilara and Rhyne (2015) posits that the main advantage for both entrepreneurs and investors lie in the low intermediation costs of crowdfunding, which makes it a cheaper source of finance compared to loan and loan guarantees. Yawe and Prabhu (2015) indicated that the relevance of crowdfunding is related to being one of the few equity options available to disadvantaged entrepreneurs. Small sums of equity are especially useful to innovative entrepreneurial projects run by young or migrant entrepreneurs.

5.3.2 The Influence of Customer Protection Regulation on Financial Inclusion

The study established a positive significant relationship between customer protection regulation and financial inclusion. Lewis and Lindley (2015) noted that although many financial institutions adopt practices to ensure customers are well served, some have used their information advantage (often abetted by regulatory loopholes intended to promote financial inclusion), to increase profits at the expense of consumers who may find themselves over-indebted, under-insured or without a return on their investment, this adversely affects financial inclusion.
The study found that financial education provides information on consumer protection, financial education focuses on increasing the level of knowledge regarding financial products and services and financial education programs are provided through public campaigns. The findings concur with Wang (2018) who indicated that governments combine financial education and financial; the mission is to undertake massive finance education campaigns to help people manage money more effectively to achieve financial well-being by accessing appropriate financial products and services through regulated entities with fair and transparent machinery for consumer protection and grievance redressal. Gardeva and Rhyne (2015) found that low levels of financial literacy are most likely to be considered a major barrier to financial inclusion. Financial literacy is seen as an enabling factor that unlocks other key dimensions of financial inclusion. According to Remmele (2016) financial education can improve levels of financial literacy, help individuals to overcome financial vulnerability caused by personal circumstances and potentially breakdown psychological barriers.

It was also revealed that disclosure rule require providers to use clear language and present information in a format that is easily visible, to ensure transparency, regulators publish a list of all rates in newspapers or other freely accessible medium and financial institutions provide schedule of fees and charges to customers. According to Love and Pería (2015) to improve financial inclusion, disclosure rules requiring providers to use clear language and present information in a format that is easily visible can help to ensure that disclosed information is comprehensible, particularly for low-income consumers. Shukla (2015) indicated that where literacy rates are low, it is particularly important that information be orally communicated to consumers in addition to being conveyed in writing. Sufficient time and distance from a credit provider and a potential transaction is necessary for consumers to fully consider disclosed information and assess affordability and risks (World Bank, 2014).

It was also established that, financial service providers must ensure that sales promotion materials are not misleading, financial service providers must ensure that the terms of contract are fair to consumers and financial service providers must ensure that market practices are sound. Brown (2016) explained that financial service providers must ensure that sales promotion materials are not misleading, the terms of contract are fair to consumers, and market practices are sound. Even when activities are outsourced,
financial service providers remain accountable and must ensure that outsourced agents perform their functions in a reliable and professional manner.

5.3.3 The Influence of Investor Protection Regulation on Financial Inclusion

The study established that investor protection had a significant influence on financial inclusion. Daehyun and Starks (2016) notes that the legal approach to inclusion holds that the key mechanism is the protection of outside investors, whether shareholders or creditors through the legal system, meaning both laws and their enforcement. Wardhani (2017) explains that one way to think about legal protection of outside investors is that it makes the expropriation technology less efficient. At the extreme of no investor protection, the insiders can steal a firm's profits perfectly efficiently. Without a strong reputation, no rational outsider would finance such a firm.

The study revealed optimal contracts between insiders and outsiders provide incentive for disclosure of private information, regulation help to mitigate the information problem and require a full disclosure of the private information and due to information asymmetry investors lack sufficient information to evaluate the value of investment opportunities. According to Mhlongo (2019) insider transactions which modify the ownership structure statement give investors relevant information regarding future opportunities of prosperity for the firm. Boot and Thakor (2017) concluded that investors in the market can be business experts and having more information about the variation in the preferences of customers and the industries.

It was also established agency problems can be eliminated through disclosure, agency problems arise due to conflict is the expropriation of shareholder funds and agency problems can be eliminated through financial intermediaries. The agency frameworks present a variety of mechanisms to eliminate the agency problem such as contracts, disclosure, financial intermediaries, corporate governance and market for corporate control (Cheong & Zurbruegg, 2016). Busch (2019) noted that optimal contracts such as compensation agreements and debt contracts seek to align the interests of insiders to the external equity and debt claimants.

The study found that some organization mislead third parties by only disclosing good news about their company, financial institutions are required to disclose their financial information to shareholders and flow of information is an essential requirement for free-market economics. Chu (2019) believes that the expanded flow of information is an
essential requirement for free-market economics. This flow of information facilitates transparency and encourages competition, which leads to the improvement of the work at hand. Without this flow of information, it would be impossible for companies to grow and survive within the competitive business environment.

5.4 Conclusions

5.4.1 The Influence of Start-Up Cost on Financial Inclusion

The study found that start-up cost had a strong positive correlation with financial inclusion. Further, strat-up cost was statistically significant to financial inclusion in Fintech industry in Kenya. Further, a unit increase in strat-up costs would result to increase in financial inclusion in Fintech industry. Start-up cost had a strong positive correlation with financial inclusion. The study concluded that strat-up cost had a significant positive relationship with financial inclusion in Fintech industry in Kenya.

5.4.2 The Influence of Customer Protection Regulation on Financial Inclusion

The study revealed that customer protection and financial inclusion had a significant relationship. This implies that customer protection has a significant positive relationship with financial inclusion. Also, a unit increase in customer protection would result to increase in financial inclusion. Customer protection had also a strong positive correlation with financial inclusion. The study concluded that customer protection had a significant positive relationship with financial inclusion in Fintech industry in Kenya.

5.4.3 The Influence of Investor Protection Regulation on Financial Inclusion

The study found that investor protection was statistically significant to financial inclusion in Fintech industry in Kenya. This implies that investor protection has a significant positive relationship with financial inclusion. Further, a unit increase in investor protection will result to increase in financial inclusion. Investor protection had also a strong positive correlation with financial inclusion. The study concluded that investor protection had a significant positive relationship with financial inclusion in Fintech industry in Kenya.
5.5 Recommendations

5.5.1 Recommendations on Regulatory Requirements on Financial Inclusion

5.5.1.1 The Influence of Start-Up Cost on Financial Inclusion

The study recommends that the Fintech firms should focus on providing start-up costs for firms. This would help the entrepreneurs to develop essential skill training, operating innovations, building production facilities, and constructing distribution networks and hence promote financial inclusion.

5.5.1.2 The Influence of Customer Protection Regulation on Financial Inclusion

The study recommends that the government should ensure that the customer protection regulations are adhered to. This can be ensured by punishing those who fail to adhere to the customer protection regulations. This would ensure that the consumers are not harmed through excessively high prices and predatory lending, to loss of savings and hence ensure financial inclusion.

5.5.1.3 The Influence of Investor Protection Regulation on Financial Inclusion

The study recommends that the investor protection regulation should be fully implemented. This is because when outside investors finance firms, they face a risk, and sometimes near certainty, that the returns on their investments would never materialize because the controlling shareholders or managers expropriate them. The regulation would therefore protect the investors and ensure financial inclusion.

5.5.2 Recommendation for Further Research

The objective of the study was to establish the influence of regulatory requirements on financial inclusion in the Fintech industry in Kenya. The study recommends that other studies should be conducted to determine other regulatory requirements that influence financial inclusion.
REFERENCES


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APPENDICES

Appendix I: Introduction Letter

Lilian Gichuru
Chandaria School of Business
United States International University-Africa
30th June 2020

Dear Respondent,

RE: SELF ADMINISTERED QUESTIONNAIRE

My name is Lilian Gichuru, pursuing a Master’s degree at United States International University. Am conducting a study on the ‘INFLUENCE OF REGULATORY REQUIREMENTS ON FINANCIAL INCLUSION: A CASE OF THE FINTECH INDUSTRY IN KENYA’. I kindly request you to appropriately fill in the provided questionnaires.

Your cooperation and assistance is highly appreciated.

Thank you

Yours Sincerely,

Lilian Gichuru
Appendix II: Informed Consent Form

My name is Lilian Gichuru, I am a Master’s student at United States International University- Africa. In order to fulfill the requirements of this course, am conducting a study titled ‘INFLUENCE OF REGULATORY REQUIREMENTS ON FINANCIAL INCLUSION: A CASE OF THE FINTECH INDUSTRY IN KENYA’. I am kindly inviting you to participate in this study by filling the provided questionnaire.

Participation in the study is entirely voluntary; participants may withdraw from the study in case they feel uncomfortable. The study participant will comprise senior managers from Fintech companies in Kenya. Senior managers are targeted because they have knowledge on the regulatory requirements for financial inclusion. The respondents will be identified from their organizations. Questionnaires will be used for data collection.

The study will be important to the financial institutions since it will provide insights on the effect of regulatory requirements on financial inclusion. The financial firms will be able to appreciate the importance of regulatory requirements in promoting financial inclusion.

The study does not involve any risks since it is entirely academic. No penalties will come as a result of non-participation. Those who may discontinue participation will not be penalised. You may skip questions that you don’t feel comfortable answering.

The collected data will be stored in the University database and University repository and it will be accessible to authorised individuals

My Consent to Participate:

By signing below, I confirm my questions have been answered I consent to participate in this study.

Signature of Participant ………………………………. Date……………………………...
Principal Researcher……………………………………Date…………………………..
Appendix III: Questionnaire

Section A: Demographic Information

Kindly tick appropriately in the provided spaces

1. Kindly indicate your gender

   Male ( )     Female ( )

2. How long have you been working in the organization?

   1-4 years ( )
   5-8 years ( )
   9-12 years ( )
   Above 13 years ( )

Section B: Start-Up Cost

3. Indicate your level of agreement or disagreement on the following statement. 1- strongly disagree, 2-disagree, 3-moderate, 4-agree, 5-strongly agree

<table>
<thead>
<tr>
<th>Statements</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loan guarantee</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan guarantee ensures provision of loans to young people in the society</td>
<td></td>
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<tr>
<td>Loan guarantee ensures provision of loans to women in the society</td>
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<tr>
<td>Loan guarantee ensures provision of loans to people with disability in</td>
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<tr>
<td>the society</td>
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<tr>
<td>Loan guarantee provided a low credit risk associated with publicly- or</td>
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<tr>
<td>privately-guaranteed loans</td>
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<td>In loan guarantees lending choice is left with banks because they carry</td>
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<td>a part of the risk of default</td>
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<tr>
<td><strong>Microcredit</strong></td>
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<tr>
<td>Microcredit provide loans to the poor to engage in an income</td>
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</tr>
</tbody>
</table>
generating activity

Microcredit increase access to credit to the financially excluded individuals

Microcredit is most often extended without traditional collateral hence encouraging entrepreneurs to take loans

**Crowdfunding**
Crowdfunding is a source for start-ups

Financial education of entrepreneurs help them to understand obligations related to crowdfunding transactions

Crowdfunding has low intermediation costs hence it is a cheaper source of finance

---

**Section C: Customer Protection**

4. Indicate your level of agreement or disagreement on the following statement. 1- strongly disagree, 2-disagree, 3-moderate, 4-agree, 5-strongly agree

<table>
<thead>
<tr>
<th>Statements</th>
<th>1</th>
<th>2</th>
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<tbody>
<tr>
<td><strong>Financial education</strong></td>
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<tr>
<td>Financial education programs are provided through public campaigns</td>
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<tr>
<td>Financial education focuses on increasing the level of knowledge regarding financial products and services</td>
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<tr>
<td>Financial education provide information on consumer protection</td>
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<tr>
<td><strong>Disclosure</strong></td>
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<tr>
<td>To ensure transparency, regulators publish a list of all rates in newspapers or other freely accessible medium.</td>
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<tr>
<td>Financial institutions provide schedule of fees and charges to customers</td>
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<tr>
<td>Disclosure rule require providers to use clear language and present information in a format that is easily visible</td>
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</tr>
<tr>
<td><strong>Enabling Environment</strong></td>
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<td></td>
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</tr>
</tbody>
</table>

69
Financial service providers must ensure that sales promotion materials are not misleading

Financial service providers must ensure that the terms of contract are fair to consumers

Financial service providers must ensure that market practices are sound

<table>
<thead>
<tr>
<th>Statements</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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</thead>
<tbody>
<tr>
<td><strong>Information asymmetry</strong></td>
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<tr>
<td>Due to information asymmetry investors lack sufficient information to evaluate the value of investment opportunities.</td>
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<tr>
<td>Optimal contracts between insiders and outsiders provide incentive for disclosure of private information</td>
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<tr>
<td>Regulation help to mitigate the information problem and require a full disclosure of the private information</td>
<td></td>
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<tr>
<td><strong>Agency problem</strong></td>
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<td>Agency problems arise due to conflict is the expropriation of shareholder funds</td>
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<td>Agency problems can be eliminated through disclosure</td>
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<td>Agency problems can be eliminated through financial intermediaries</td>
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<td><strong>Disclosure and Transparency</strong></td>
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<tr>
<td>Financial institutions are required to disclose their financial information to shareholders</td>
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<td>Some organization mislead third parties by only disclosing good news about their company</td>
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<td>Flow of information is an essential requirement for free-market economics</td>
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Section D: Investor Protection

5. Indicate your level of agreement or disagreement on the following statement. 1-strongly disagree, 2-disagree, 3-moderate, 4-agree, 5-strongly agree
Section E: Financial Inclusion

6. Indicate your level of agreement or disagreement on the following statement. 1-strongly disagree, 2-disagree, 3-moderate, 4-agree, 5-strongly agree

<table>
<thead>
<tr>
<th>Statements</th>
<th>1</th>
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<tr>
<td>Access to and usage of affordable financial services promote financial</td>
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<td>inclusion</td>
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<td>Secure formal financial services promote financial inclusion</td>
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<td>Consumer protection guidelines ensures equal access of financial services</td>
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<td>Investor protection guidelines ensures equal access of financial services</td>
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<td>Regulations ensure that consumers are not exploited by financial firms</td>
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<td>Consumer protection has promoted youth access to funds</td>
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<td>Consumer protection has promoted women access to funds</td>
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<td>Consumer protection has promoted people with disability access to funds</td>
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<td>Investor protection enables businesses to expand</td>
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<td>Consumer protection enables the creation of jobs</td>
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</table>

THANK YOU
Appendix IV: Debrief Form

Thank you for participating in this study. The purpose of this study is gain an understanding of effect of regulatory requirements on financial inclusion in Fintech industry in Kenya. Your participation will help researchers gain more insights into different regulatory requirements that promote financial inclusion.

In the event that you experience any distressful reactions or concerns regarding the questions presented to you in this study, feel free to seek support through counselling at the USIU-A counselling centre.

If you have any questions regarding the research, you may contact the researcher at the following number +254725788231 or through the following e-mail address gichuruliliana@gmail.com

Once again, thank you for your participation.

Regards,

Lilian Gichuru
Appendix V: Sample Frame (Fintech Companies in Kenya)

1. Abacus
2. BambaPos
3. Beyonic
4. BitPesa
5. Bitsoko
6. Branch International
7. CarePay
8. Caytree Financial
9. Cellulant
10. Chura Limited
11. ConnectAfrica
12. Direct Pay Online Group
13. Eastpesa
14. Eclectics International
15. Esacco
16. FarmDrive
17. Forex
18. GrassRoots Bima
19. InsureAfrika
20. Inuka Pap
21. Jambopay
22. Jumo
23. Kipochi
24. Kopo Kopo
25. Kwanji
26. Lakt
27. LelapaFund
28. Lipisha
29. M-Changa
30. M-Pesa
31. Musoni
32. Nomanini
33. Packline Systems
34. Pesap al
35. Remit
36. Tala
37. Tangazoletu
38. Umati Capital

Source: Central Bank of Kenya (2019)
Appendix IV: NACOSTI Permit

Ref No: NACOSTILP/20/0558

Date of Issue: 13/September/2020

This is to certify that Ms. GICHURU LILIAN NYAGUTHI of United States International University, has been licensed to conduct research in Nairobi on the topic: INFLUENCE OF REGULATORY REQUIREMENTS ON FINANCIAL INCLUSION: A CASE OF THE FINTECH INDUSTRY IN KENYA for the period ending 13/September/2021.

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Director General
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