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Implications of Informal Money Transfer Systems on Kenya's Financial Sector

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Abstract

Purpose: In Kenya, the informal money transfer system is widely used by its citizens, allowing them to make quick and easy payments across long distances. This system has bridged the gap between those with limited access to formal banking services, allowing them to make transactions without relying on a formal banking institution. While there are numerous benefits to using this type of system, it can also present potential risks to the economy and financial sector in general. This paper examines the implications of the informal money transfer system in Kenya, focusing primarily on its effects on financial sector development, financial inclusion, and risk management practices.

Methodology: A qualitative research approach was adopted for this study to understand the complexities and nuances involved in this type of financial transaction. Secondary data was obtained from surveys conducted by government agencies such as the Central Bank of Kenya (CBK). Other sources included reports on informal money transfers such as web-based searches on informal money transfer services, and databases used by banks and other government departments related to finances. Legal and regulatory frameworks that influence the use and activities of informal money transfer systems in Kenya were also be included.

Findings: The findings showed that informal money transfer systems provided much-needed access to finance for many individuals excluded from formal banking services, leading to increased economic development opportunities. The findings further uncovered that the drivers of informal money transfers include low-income levels, traditional banks limited geographic reach, limited capital, and a lack of trust in formal banking institutions. As such, informal money transfers aided the velocity of efficient and cheaper cross-borders and cross-regions remittances. It was however demonstrated that although informal money transfers bring benefits to their users, it also carries considerable risks.

Recommendations: It is recommended that the current regulatory framework governing informal money transfers needs to be updated to protect consumers from fraud and theft while still allowing them to access the necessary financial resources for their economic endeavours.

Keywords: *Finance, Informal Money Transfers, Central Bank, Money*

1.0 INTRODUCTION

Globally, informal money transfer systems have had a variety of impacts. In developed countries such as the United States, United Kingdom and Canada among others, informal money transfers bypass regulations and pose numerous risks to consumers and financial institutions alike (Frost, 2020). Hence, in-order-to protect their economies from threats posed by these systems, governments have implemented various regulatory frameworks to control them. For instance, in the U.S. Patriot Act of 2001, the United States launched "Know Your Customer" rules that required all money service businesses including those dealing with remittances to verify the identity of customers before sending or receiving funds (Allen et al., 2021). This rule was introduced to tackle terrorist financing and money laundering activities through these systems. Additionally, compliance measures such as Anti-Money Laundering (AML) standards and Counter Terrorism Financing (CTF) policies were implemented in-order-to enhance consumer protection by ensuring that only legal activities were supported by these services (Schmidt, 2021).

In Africa, especially in Sub Saharan Africa, there is an ever-increasing need for access to capital which can be met by informal money transfer systems (Nguimkeu and Okou, 2021). These systems serve as an alternative source of funds for individuals and small businesses who may not have access to formal banking systems. This can be seen in Nigeria, where over two thirds of people living in urban areas use informal money transfer services (Ogbeide and Igbinigie, 2019). These services also provide convenience for senders who want to avoid the hassles of waiting in long lines at banks and for receivers who want easy access to their funds without having to open a bank account.

Informal money transfer systems are alternative money remittance mechanisms or systems that operate outside of traditionally controlled financial and banking mediums by non-banking entities that are typically not involved in money transfers (Ngaba, 2021). These systems are mostly prevalent in developing countries and are used for both legal and illegal reasons. Latest statistics forecast remittances to low and middle-income countries to reach $587 billion in 2021, thrice the amount of official development assistance these countries receive and 50 per cent more than foreign direct investment (Fernandes, Aneja & Sultanov, 2022). The widespread use and popularity of informal money transfer systems in developing countries such as Kenya is thus without question.

In Kenya, a Parliamentary Act of March 24, 1966, established the Central Bank of Kenya, since then formal banking systems such as Cooperative bank, National bank among others emerged (Tyce, 2020). However, previous studies have asserted that in Kenya, informal money transfer systems are widely used compared to the formal money transfer systems. In addition, with the growth in globalization, social groups, and technology, informal money transfer systems in Kenya have become even more popular. Notable informal money transfer services in the country include M-PESA (Markus and Nan, 2020).

Statement of the Problem

The informal money transfer system sector has been growing steadily over the past two decades, especially in developing countries (Ngaba, 2021). However, after the 9/11 terrorist attacks in 2001 in the United States, concern about its vulnerability to financial abuse grew as media reports increasingly shone a light on the direct link between informal funds transfer systems and terrorist financing activities (Elmi & Ngwenyama, 2020). Despite its popularity, research has shown that informal money transfer systems lack proper regulation due to the anonymity that characterises these systems, which plays a critical role in facilitating illegal activities such as money laundering, terrorism, the sex slave trade, and child pornography especially in developing countries (Faysal & Arifuzzaman, 2022). According to Teichmann & Wittmann (2022), this vulnerability to abuse has resulted in the need for a greater understanding of the operational features that make the systems appealing to everyday people and the required regulatory responses to mitigate it. Overlooking the informal money transfer sector can therefore no longer be an acceptable policy option, hence the necessity of the proposed research

Research Aims and Objectives

The main aim of the proposed research is to discover the potential implications of the increased usage of informal money transfer systems on Kenya's financial sector, both negative and positive. The specific objectives of the study are:

a) Determine the reasons for the widespread popularity of informal money transfer systems in Kenya;

b) Discover the challenges that the financial sector has experienced, and could continue to experience, with the widespread proliferation of informal money transfer systems;

c) Identify the opportunities that informal money transfer systems may potentially present for the formal financial sector in Kenya;

d) Provide recommendations that can guide policy direction, regulations, and strategies that governments and the formal financial sector in Kenya could adopt.

Research Questions

Based on the research aim, the proposed research will seek to answer the following research questions:

a) What are the reasons for the widespread popularity of informal money transfer systems in Kenya?

b) What challenges will the financial sector experienced as a-result-of the widespread proliferation of informal money transfer systems?

c) What opportunities does the informal money transfer systems potentially present for the formal financial sector in Kenya?

d) What recommendations can be given to guide policy direction, regulations, and strategies that governments and the formal financial sector in Kenya should adopt?

Significance of the Study

The research will mainly be beneficial to the formal financial institutions in Kenya as it will help them to understand why informal channels are popular in-order-to have the knowledge required to develop strategies and financial products that are attractive to informal channels customers. It will likewise be of interest to governments and policy makers in Kenya as it will allow them to address the illegal and harmful activities that are associated with informal money transfer systems.

2.0 LITERATURE REVIEW

Theoretical Framework

The theory of economic opportunity cost (Arnold et al., 2022) is held relevant in understanding the implications of informal money transfer systems on Kenya's financial sector. The economic opportunity cost theory explores on the cost of economic decisions made in lieu of each other. For example, when customers choose informal money transfer systems instead of formal ones, the cost of the decision is measured in terms of the lost opportunities for the legal and financial sectors in Kenya. The fiscal losses theory that is related to the economic opportunity cost theory underlines the implications of informal money transfer systems on government income. This theory holds that when informal money transfer systems are used, government income is reduced given that these activities are not taxed like their formal counterparts.

The institutional theory of rational choice (Peters, 2022) explores the motivations of individuals using informal systems instead of formal systems and the influence of government regulations. The institutional theory underscores the motivations for operating informal money transfer systems (Ruggeri et al., 2020).

Empirical Studies

Determinants of Financial Deepening

In a study conducted by Musembi and Chun (2020), the authors investigated the impact of mobile money transfer services on the financial inclusion of small and medium-sized enterprises (SMEs) in Kenya. The authors examined the effects of microfinance institutions and mobile money services on SMEs' financial inclusion. The study found a significant positive relationship between mobile money services and SMEs' financial inclusion. Furthermore, the authors concluded that the use of mobile money transfer services has been instrumental in helping Kenyan SMEs to deepen their financial activities.

However, financial inclusion thanks to informal money transfer systems is not restricted to mobile money. According to Rodima-Taylor and Grimes (2019), informal remittance networks have been operating in Kenya for decades, with the proliferation of globalization allowing them to reach an international level. Informal money transfer services are becoming increasingly popular over formal ones due to their ease and convenience (Ahmed et al., 2021). As such, informal money transfer systems can positively impact financial inclusion by providing an efficient and cost- effective way of cross-border money transfers. However, it is essential to note that for this requires these systems to be appropriately regulated and integrated into the formal financial sector to make them more secure and legitimate. Additionally, effective governance models must be implemented to ensure that informal money transfer services are not used for illegal activities, such as money laundering and terrorist financing.

Causes of Informal Money Transfer Systems

It is mainly explained by the lack of financial literacy, which can be attributed to inadequate education, low-income levels, and challenging economic conditions. Weak infrastructure in some countries and communities can also explain the use of informal money transfer systems. According to Ulyssea (2020), poverty, lack of trust in formal financial systems, and the unavailability of banking facilities in rural areas can also contribute to the growing popularity of informal money transfer systems. Moreover, the privacy offered by informal channels can be another significant attraction (Rodima-Taylor, 2022). Furthermore, Kim (2020) found that the high fees charged by formal institutions and long wait times are some of the main reasons people send remittances through informal channels. Similarly, Kim (2022) highlighted that people prefer informal channels for ease of use, affordability, and convenience.

Moreover, Oduor and Kebba (2019) concluded that the lack of transparency and accountability in the banking sector is also explains the increased popularity of informal money transfer systems. In addition, Arthur et al., (2020) argued that a significant driver of the use of informal channels is the growth in diaspora remittances.

Challenges of Informal Money Transfer Systems

The primary challenge posed by the informal money transfer system is the need for increased regulation, as they can facilitate illicit activities. Money laundering, terrorism financing, and other illegal activities exploit the anonymity and lack of oversight of informal channels to launder money and finance illegal activities (Teichmann, 2019). Moreover, the challenges in tracking informal channels money flows make it difficult to trace the source of funds when suspicious activity is detected. The lack of informal channels regulation also creates a risk that any savings or deposits in the system will not be insured in case of an emergency such as a market crash or fraud.

Additionally, the absence of formal verification or validation processes in informal channels enables scammers to steal money from users without repercussions (Mutio, 2019). Although informal channels may seem convenient, there is apparent lack of a regulatory framework. This makes enlightened customers reluctant to use these channels, as they cannot guarantee their funds will be secure. Moreover, a lack of due diligence may make it hard for the sender to know whether the receiver will get the money. This raises questions about the services' reliability and the system's trustworthiness (Ndung'u, 2019).

Despite the glaring absence of regulatory framework and the associated risks with informal money transfer system, Rodima-Taylor and Grimes (2019), reported that informal remittance networks have been operating in Kenya for decades and has become increasingly popular over formal ones due to their ease and convenience (Ahmed et al., 2021), little is mentioned about its effect on the central economy. There is therefore need to investigate the effect of this informal money transfer system to understand why it is flourishing and its effect on the economy.

Based on the literature review, it is evident that informal money transfers have significant implications for Kenya's financial sector, both positive and negative. On the positive side, informal money transfers enable financial access to unbanked and rural areas while enabling people to remit money quickly and easily. On the negative side, however, the lack of regulation puts customers at risk and creates potential money laundering and tax evasion issues.

To ensure the continued growth and development of Kenya's financial sector, proper governance models should be implemented to regulate and integrate informal money transfer systems into the formal financial sector. These models should also ensure that these systems do not facilitate illegal activities, such as money laundering or terrorism financing. Hence, there is a need to study the informal money transfer systems extensively to fully comprehend their impact on the Kenyan financial sector.

3.0 METHODOLOGY

The research philosophy employed in the study was interpretivism, which centred on the idea that reality is socially constructed, thus meaning that each person's understanding is shaped by their subjective experiences (Pandey and Pandey, 2021). This research method relied heavily on qualitative techniques. To gain the necessary information, multiple layers of analysis was conducted to identify any patterns or trends.

Research Design

A research design provides a framework within which relevant information can be gathered and analysed effectively (Dannels, 2018). As supported by Flick (2022) the qualitative research design was used to allow the exploration of phenomena in their natural settings. It also enabled in- depth knowledge about how individuals perceive certain events and their impact on their lives (Merriam & Grenier, 2019).

Data Collection and Analysis

The required data for this research was collected from existing sources instead of conducting primary surveys (Mazhar et al., 2021). Sources include online databases, academic journals, newspapers, books, magazines, websites, and other written sources that can provide valuable insights. Qualitative analysis techniques such as content analysis, discourse analysis, and semiotic analysis were employed to analyse the content of text and images associated with informal money transfers (Selvi, 2019). Content analysis examined the structure and patterns of language used in the texts related to informal money transfers. Discourse analysis examined context, power relationships between the different actors involved in the transfer system, and narratives created around informal money transfers (Jacobs and Tschötschel, 2019). Lastly, as professed by Tayebi Abolhasani (2019), semiotic analysis allows researchers to identify cultural messages attached to certain symbols or words related to informal money transfers.

The secondary data sources include surveys conducted by government agencies such as the Central Bank of Kenya (CBK) and other sources included reports on informal money transfers such as web-based searches on informal money transfer services, and databases used by banks and other government departments related to finances. Legal and regulatory frameworks that influence the use and activities of informal money transfer systems in Kenya will also be included. Statistical data and economic indicators released by the CBK and other international organizations, such as World Bank, will help support the findings of this research. Furthermore, informal money transfer activities historical trends in Kenya will be examined, both formally and informally, to conclude the current state-of-affairs regarding the subject matter. The data has been presented in form of graphs and charts for visual clarity.

Quality of Secondary Data

Four criteria were used to assess the quality of the secondary data collected for this research: relevance, credibility, accuracy, and appropriateness (Roller, 2019). A qualitative analysis will be performed to determine whether the collected data is suitable for this research. The relevance and appropriateness of the collected data was judged considering the context in which it was collected and its relationship to the research topic. To assess credibility and accuracy, a review of the sources of information used to collect the data were conducted. This was to determine whether they are reliable and authoritative (Ruggiano and Perry, 2019).

Additionally, a comparison between different sources will be done to ensure accuracy in the reported information (Johnson et al., 2020). Once all data has been verified, it will be synthesized into meaningful patterns for the assessment the impact of informal money transfer systems on Kenya's financial sector. Moreover, the appropriateness of the data will be evaluated by determining whether it corresponds with known theories and facts related to the topic (Stenfors et al., 2020). Furthermore, potential biases in the secondary sources will be identified to limit their impact on the overall results. Thus, the quality of secondary data collected for this research will be highly scrutinized and assessed against multiple criteria to ensure accuracy and reliability.

Secondary Data Ethical Measures

Ethical issues related to confidentiality, respect for privacy, and autonomy must be considered (Weston et al., 2019). All participants must be informed about the nature of the study and the data that will be collected, their right to withdraw at any point, and their right to privacy and confidentiality.

4.0 FINDINGS

The current study examined the implications of informal money transfer systems on Kenya’s financial sector. The four main areas addressed are: the reasons for the widespread popularity of informal money transfer systems in Kenya, the challenges faced by the financial sector due to these systems, the potential opportunities they present and policy recommendations.

Cause of Informal Money Transfer Systems in Kenya

The results of the research showed that several reasons explain the prevalence of informal money transfer systems in Kenya. These included ease of access and lower fees compared to traditional banking services, lack of access to the traditional banking system due to geography or lack of trust in the traditional banking system, and lack of knowledge about digital payment solutions. The most frequently reported reason was convenience (43%).

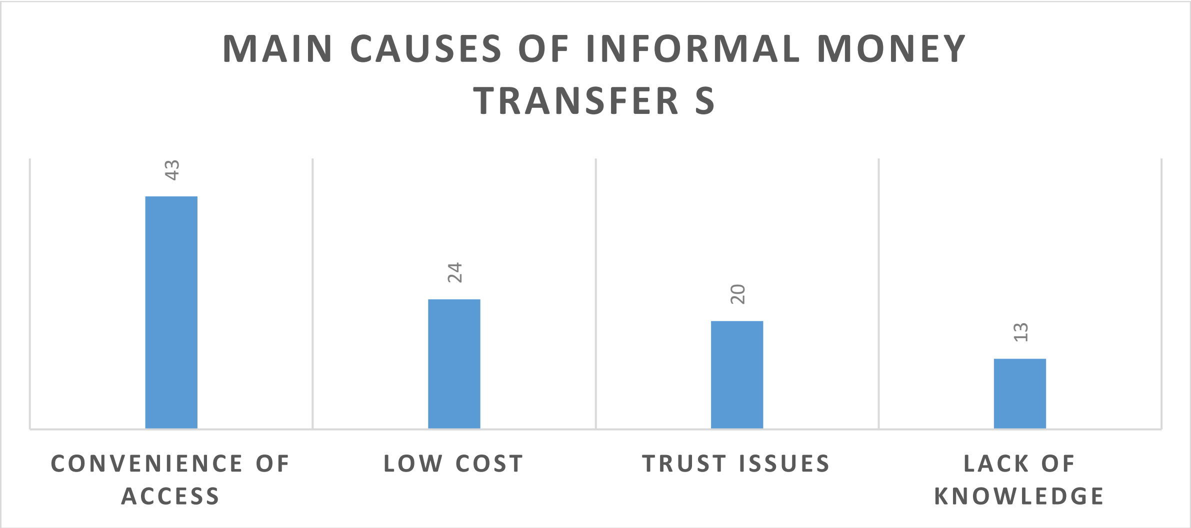

Figure 1: Causes of Informal Money Transfer Systems

Source: Author, 2023

Challenges of Informal Money Transfer Systems in Kenya

Results indicate that users face several challenges when using informal money transfers. These include security risks, loss of personal data, difficulty tracking down recipients, low liquidity. Security risks are particularly salient when dealing with informal money transfer agents since there is no guarantee about their reliability. Agents may withhold payments once instructed to do so or may take longer times to transfer money as compared to traditional banking services. This puts users at risk of potential fraud and scams. Loss of personal data is also a key challenge reported by users. Customers need to provide personal data to the agents, which exposes them to risk of identity theft should the agent misuses this data.

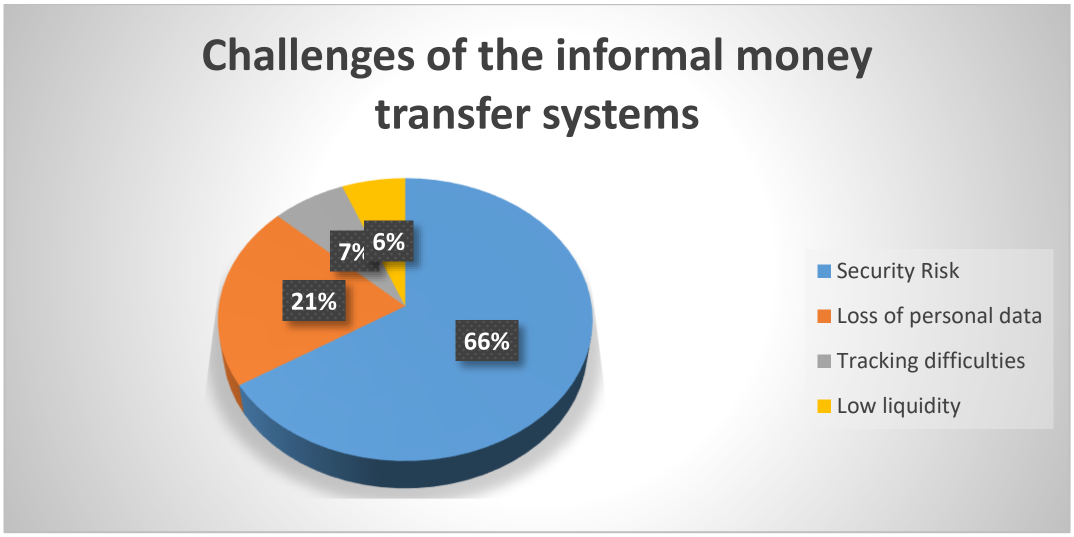

Figure 2. Challenges of informal money transfer system in Kenya

Source: Author, 2023

Opportunities of Informal Money Transfer Systems in Kenya

On the other hand, the informal money transfer systems present opportunities for the formal financial sector. These included potential customer acquisition via improved customer service, potential partnerships with providers of mobile money technology, and improved customer experience through streamlined transactions. Notably, the research also highlighted the potential for banks to leverage the informal money transfer system to increase their customer base, particularly in rural areas. By partnering with informal money transfer operators, banks could gain access to customers needing help accessing formal banking due to geographical constraints. Formal banks could leverage the expertise of informal money transfer operators to improve their mobile money offerings, allowing them to compete better with the informal system. Finally, banks could also use the informal system to gain valuable customer data, which can then be used to improve and customize products and services.

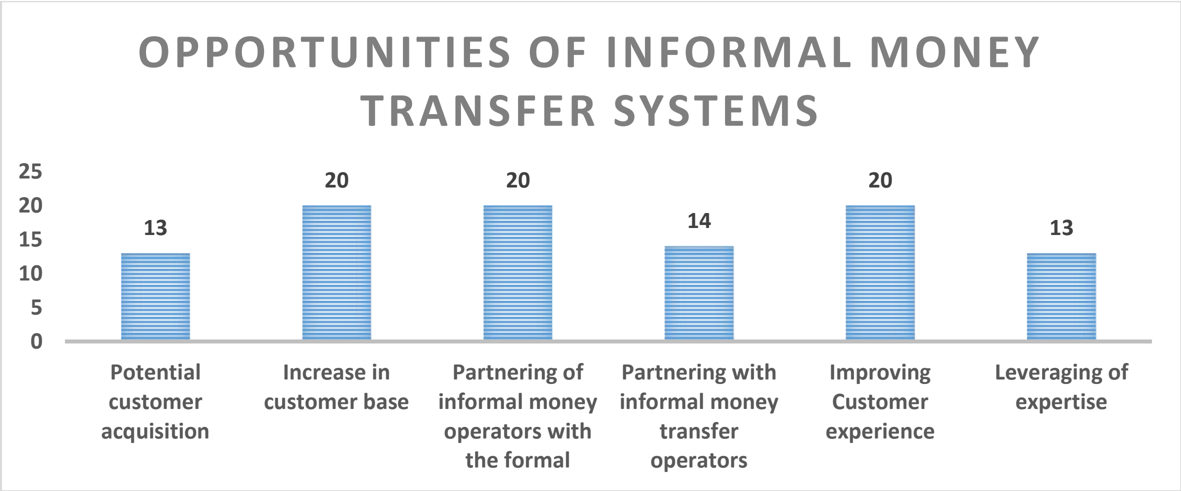

Figure 3: Opportunities of Informal Money Transfer Systems

Source: Author, 2023

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In conclusion, informal money transfer systems in Kenya have both benefits and drawbacks. While they can provide convenient access to funds at lower transaction costs, they pose various threats to the formal financial sector. These include difficulty competing with lower fees, lack of data due to privacy concerns, customer acquisition difficulties, and the possibility of breaking rules and regulations. However, by implementing various policies such as increased regulation, better education around mobile money technology, improved integration between banks and MMTs, and greater investments in innovative technologies, it is possible to enable both the informal and formal sectors to co-exist successfully and support economic growth in Kenya. Informal money transfer systems can play a vital role in enabling economic development if managed properly.

Evaluation of Findings

According to Luke and Sommer (2020), informal money transfer systems in Kenya are estimated to facilitate up to 70 percent of all transactions, providing an important economic lifeline to most of the population. The use of such systems has grown exponentially over the past decade, while the banking system has remained largely static, with limited coverage of rural and low-income populations.

Research Question 1 - Cause of Informal Money Transfer Systems in Kenya

Based on results, the convenience of access accounted for 43% of the primary reason for using informal money transfer systems, demonstrating that for most Kenyans, accessing informal money transfers was easier than accessing banks and other formal financial institutions due to the need for more knowledge to navigate banking platforms. Low cost accounted for 24%, indicating that people believed everyday transactions would be more cost-effective through informal money transfers than through a bank. Besides, Ndung'u (2019) asserted that formal banking systems charges range from insurance rates and processing fees to storage fees, making it expensive for a consumer to regularly deposit with them.

Additionally, 20% of respondents cited trust issues as the main reason for using informal money transfers. Many felt banks needed to be more reliable, trustworthy, and efficient in managing customer funds because of cases of fraudulent activities such as Ponzi schemes and other unethical activities happening in Kenyan Banks and causing customers to lose their hard-earned savings.

Lastly, lack of knowledge accounted for 13%. The findings suggest that customers need to possess adequate information concerning how banks work, causing them to opt out of using their services. Overall, it is evident that many factors drive informal money transfer systems in Kenya. These findings show it is important for formal banking services to be accessible, affordable, trustworthy, and convenient.

Nonetheless, Klapper and Hess (2019) asserted that the widespread popularity of informal money transfer systems in Kenya illustrates the potential benefits these systems offer. The formal money transfer sector is estimated to represent 20% of the economy, leaving most of the population reliant upon informal money transfers.

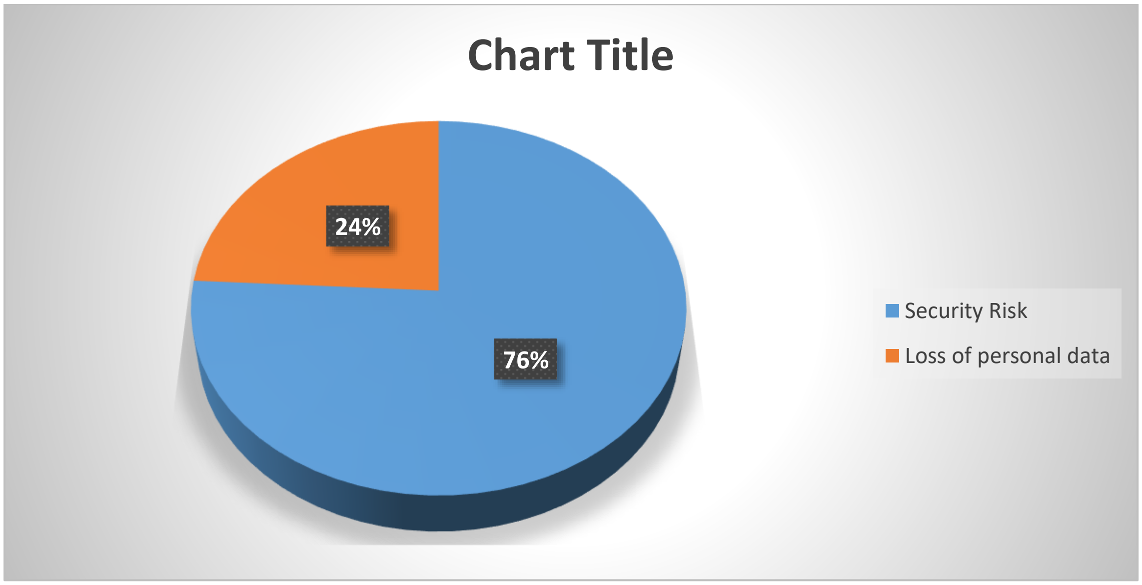

Figure 4: The formal vs the Informal Banking Sector

Source: Author, 2023

Research Question 2 - Challenges of Informal Money Transfer Systems in Kenya

The need for clear regulations and oversight is a significant challenge. As a result, operators often go unchecked and can use their services to engage in fraud or other illegal activities. Security risks pose another major challenge for users of these services. Due to the nature of these transactions, it is difficult for authorities to track funds used for criminal purposes.

Additionally, many informal providers do not maintain adequate records, which could help detect fraud and monitor cross-border financial flows which further increases risks. Furthermore, Elzahi Saaid Ali (2022) found that since no formal regulatory body oversees these transactions, disputes between customers and providers must be settled without legal protection.

Personal data loss also arises due to the lack of proper controls associated with informal money transfer systems in Kenya. For example, customer information like bank account numbers, names, phone numbers, and addresses can easily fall into the wrong hands due to a lack of encryption mechanisms. Notably, tracking difficulties associated with informal money transfer systems in Kenya limit the reach of taxation of foreign remittances.

Finally, the challenges of tracing payment origin hinder Kenyan authorities' ability to crack down on illicit activities and money laundering. As a result, money laundering poses a significant threat to Kenya's financial sector. Low liquidity also presents a challenge to informal money transfer operators in Kenya. Since users can only access their funds through limited means (cash pickups and mobile money apps), they are left with limited options for withdrawing cash or making payments and constrains the amount of money available for everyday purchases. Nonetheless, as illustrated below, curbing informal money transfer challenges starts with policy makers, financial institutions then to companies and finally the end user.

Research Question 3 - Opportunities of Informal Money Transfer Systems in Kenya

Opportunities of customer acquisition are created by the informal system since customers can access better services than banks and other formal financial institutions. Formal financial institutions may partner with providers of mobile money technology to improve their operations efficiency and enable customers to access services quickly. Furthermore, David-West et al (2019) found that banks and other financial institutions may leverage the expertise of informal money transfer operators to improve their services and gain an edge over the competition, particularly when it comes to offering mobile money services. Additionally, banks can use data from the informal system for customer segmentation and targeted marketing campaigns, thus helping them to retain existing customers and acquire new ones. Finally, the informal system provides a cheaper and more efficient alternative for banks, without the high transaction fees and regulatory hurdles of the formal financial sector. Thus, leveraging the informal systems' potential opportunities can benefit both the formal sector and its customers.

5.2.4 Research Question 4 - Recommendations for Informal Money Transfer Systems in Kenya

According to results, increased efforts must be made to improve access to digital payment systems across developing countries. Governments must aim to bridge the digital divide by building secure digital infrastructures to enable safer online payments. This includes enhanced collaboration between public and private actors across various countries to create effective public-private partnerships that encourage digital innovation. Achieving widespread adoption of digital payments requires greater investment in technology and better awareness campaigns to educate people about digital payment options. Additionally, appropriate laws and regulations must be enforced to safeguard data, prevent fraud, and ensure consumer protection. Such measures must also include appropriate monetary incentives for financial institutions and merchants to encourage them to adopt digital payment systems. With the right combination of regulation and incentives, digital payment methods can revolutionize global commerce, provide opportunities for businesses and entrepreneurs, and improve the quality of life worldwide.

In summary, theories and the findings from the study have shown that informal money transfers in Kenya have both positive and negative implications. On one hand, informal networks help increase access to financial services for those who do not have access to traditional banking services. On the other hand, these networks are not regulated, leading to potential risks such as fraud. Additionally, educational campaigns should be launched to promote safe practices using informal money transfers, including using only verified senders and receivers. Overall, understanding how informal networks operate will help create a more inclusive financial system for all Kenyans, especially those living in rural areas.

5.0 CONCLUSIONS AND RECOMMENDATIONS

Conclusion

In conclusion, this research aimed at evaluating the implications of informal money transfer systems on Kenya's financial sector. Through examining the qualitative data, it has been found that informal money transfer systems provide much-needed access to finance for many individuals excluded from formal banking services, leading to increased economic development opportunities. The findings showed that the drivers of informal money transfers include low-income levels, traditional banks limited geographic reach, limited capital, and a lack of trust in formal banking institutions. As such, informal money transfers allow more efficient and cheaper cross-borders and cross-regions remittances. Cheaper and faster remittances lead to increased spend on household goods and investments. The findings also showed that despite perceived risks, informal money transfer systems could contribute positively towards financial inclusion when adequate regulations are in place.

Furthermore, it was determined that informal money transfer systems enable cost-effective and faster payments. Additionally, the research demonstrated that although informal money transfers bring benefits to their users, it also carries considerable risks, such as high fees and higher risks of fraud and identity theft. In addition, the liquidity levels in the economy increase when larger volumes of international remittances flow through the country, increasing access to credit among small businesses, fostering entrepreneurship, and stimulating economic growth. The results of this research indicate that the current regulatory framework governing informal money transfers needs to be updated to protect consumers from fraud and theft while still allowing them to access the necessary financial resources for their economic endeavours. Therefore, appropriate regulations must be enforced to protect both users and providers of these services from exploitation. Moreover, policymakers must ensure that regulations are designed to maximize the benefit of these services while minimizing associated risks.

Finally, governments should collaborate with industry stakeholders and civil society to create an environment where informal money transfers can provide access to finance and enable economic growth. Nonetheless, informal money transfer systems in Kenya have positively impacted the country's financial sector, providing access to necessary financing and economic opportunities. Inherent risks can be mitigated with adequate regulation.

Overall, it was determined that while informal money transfer systems present benefits and drawbacks, they provide valuable financial services when appropriately regulated. This research has provided insights into the impact of informal money transfer systems on Kenya's financial sector, helping policymakers and financial institutions understand the implications and formulate appropriate strategies for regulating informal money transfer systems. The research supports the hypothesis that informal money transfer systems can increase financial inclusion in developing countries.

Recommendations for Business Application

The research has demonstrated the impact informal money transfer systems can have on Kenya's financial sector. Considering these findings, it is recommended that businesses operating within the sector enhance their digital infrastructure and capabilities. This would make it easier for customers to transfer money securely and quickly through digital channels without compromising security. Furthermore, it is also recommended that businesses increase their focus on customer service and building stronger relationships. This would create more opportunities for collaboration and enable companies to understand their customers' needs better. Additionally, businesses should consider working with regulators to establish guidelines and regulations to ensure compliance and allow safe and effective informal money transfers. Notably, it is also recommended that businesses invest in technology and data science to better analyse customer behaviour.

In addition, it is essential to recognize that while informal money transfer systems offer many advantages to both customers and businesses, they also present some challenges in regulation and transparency. Therefore, businesses must remain aware of potential risks such as fraudulent activities, and strive to mitigate them wherever possible. To achieve this, companies should collaborate with both local authorities and international bodies to ensure compliance. Finally, businesses need to assess the benefits and risks of offering informal money transfer systems before deciding to adopt them. By adequately evaluating both sides of the equation, businesses can make an informed decision about whether offering these systems is worth the risks involved.

Limitations

One major limitation of this research was the need for comprehensive empirical data on informal money transfer systems in Kenya as much of the information gathered was through anecdotal evidence and qualitative sources such as interviews. Additionally, there was limited information on informal money transfer users and their socio-economic status. Another limitation was time, as it would have benefited from a more thorough quantitative analysis. Furthermore, since only some regions of Kenya were examined, regional biases likely influenced the results, making it difficult to make accurate predictions about Kenya's entire financial sector. Lastly, more comprehensive surveys would have improved our understanding of the use of informal money transfer systems by different social groups across Kenya.

Implications for Future Research

Future studies should focus on a more granular understanding of the implications of informal money transfer systems for financial institutions in Kenya, differentiating between banks and microfinance institutions. Other potential topics for further exploration would include understanding the socio-economic effects of money transfer systems, including possible changes in their behaviours around saving, investing, and spending decisions. Furthermore, it would be interesting to examine whether users of informal money transfer feel more financially secure compared to non-users, given their access to quick and convenient financial services without going through formal banking channels. Additionally, more studies can explore how mobile money services can increase financial inclusion and reduce poverty among low-income populations by providing access to formal banking services. Finally, more research is needed to examine how technology can improve financial literacy and promote financial stability among users

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