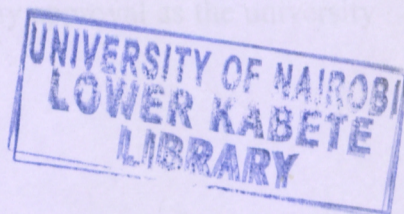


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**FACTORS INFLUENCING THE ADOPTION OF AGENCY BANKING IN
COMMERCIAL BANKS IN KENYA**

BY

GODFREY OCHIENG NYANGAYO



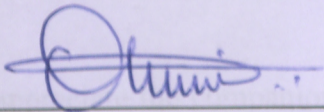
**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF
THE UNIVERSITY OF NAIROBI**

NOVEMBER, 2012

DECLARATION

This research project is my original work and has not been submitted for a degree in any other university or institution of higher learning.

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Date _____

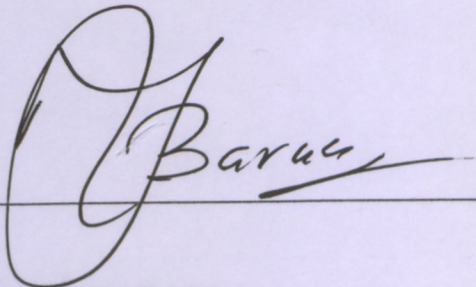
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DEDICATION

To my dear wife Ndeningombola, except for your support I wouldn't have been able to complete this project.

ABSTRACT

Agent banking took effect in Kenya in May 2010 after the publication of prudential guidelines by the Central Bank of Kenya. Agent banking has been practiced in a number of countries such as Brazil, Columbia, Pakistan, South Africa and Indonesia. Not all banks in Kenya have embraced agency banking and the researcher was out to gather information as to the factors affecting agency banking in Kenyan commercial banks.

A banking agent is a retail or postal outlet contracted by a financial institution or a mobile network operator to process clients' transactions. Prior to the 2010 Guidelines on Agent Banking, the Banking Act did not address the issue of banks using agents to deliver financial services, so the CBK approved such arrangements on a case-by-case basis. Other relevant regulations which have enabled branchless banking are a 2008 regulation allowing microfinance deposit-taking institutions to use agents; a 2009 amendment to the Banking Act that allows banks to appoint agents to take deposits and perform other activities; and a 2009 AML/CFT bill which applies to both bank and non-bank institutions.

The population of this research consists of 44 banks which have been approved by CBK to carry out banking services in the country. As at June 2012, CBK had only authorized six banks to carry out agency banking with others that have applied for the same awaiting approval by the Central Bank of Kenya. The finding of the study reveals that the banking sector is eager to embrace agent banking as an alternative service delivery channel. Agent banking presents opportunity for rapid expansion at minimal cost by leveraging on the existing investment of the retail agents through information and communication technology. The study shows that the main factors that propels agent banking adoption among commercial banks in Kenya are the prospects of cost reduction and customer service enhancement. Under factor analysis programme cost reduction still leads as the main factor for agent banking adoption

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Abbreviations

ANOVA- Analysis of Variance

ATMs - Automated Teller Machines

CBK – Central Bank of Kenya

EFT- Electronic Funds Transfer

ETF- Exchange Traded Funds

MFC- Mortgage Finance Company

PC – Personal Computer

PIN- Personal Identification Number

POS- Point of Sale

SACCOS- Savings and Credit Co-operative Societies

1.1.1 Agent banking concept

A banking agent is a retail or postal outlet contracted by a financial institution or a mobile network operator to process clients' transactions. Rather than a branch teller, it is the owner or an employee of the retail outlet who carries out the transactions and lets clients deposit, withdraw, and transfer funds; pay their bills; inquire about an account balance; or receive government benefits or a direct deposit from their employer. Banking agents can be pharmacies, supermarkets, courier shops, street vendors, post offices, and many more (Hartmann, 2006).

Globally, street vendors and post offices are increasingly utilized as important distribution channels for financial institutions. The point of service range from post offices in the United Kingdom where clients from all banks can conduct their transactions to rural France where the local Credit Agricole bank branch uses to provide financial services to small family agricultural farms, in which clients can deposit their social payments and access their bank accounts (Hartmann, 2006).

CHAPTER 1

INTRODUCTION

1.1 Background of the study

It was in pursuant of vision 2030 that the financial services sector was identified as key in mobilizing funds to implement the visions 2030 flagship projects. According to 2009 national financial access survey, 32% of Kenya's bankable populations are totally excluded from the financial services orbit (Njuguna, 2010).

Considering the impediments which lie in the way of institutions in establishing their outreach or presence in all corners of the country, the government amended the Banking Act through the Finance Act, 2009, to permit institutions to contract third parties to provide certain banking services on their behalf in the manner prescribed by the central bank (Central Bank of Kenya, 2009).

1.1.1 Agent banking concept

A banking agent is a retail or postal outlet contracted by a financial institution or a mobile network operator to process clients' transactions. Rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds, pay their bills, inquire about an account balance, or receive government benefits or a direct deposit from their employer. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices, and many more (Claessens, 2006).

Globally, these retailers and post offices are increasingly utilized as important distribution channels for financial institutions. The points of service range from post offices in the Outback of Australia where clients from all banks can conduct their transactions, to rural France where the bank Credit Agricole uses corner stores to provide financial services, to small lottery outlets in Brazil at which clients can receive their social payments and access their bank accounts (Kumar, et al. 2006).

Banking agents are usually equipped with a combination of point-of-sale (POS) card reader, mobile phone, barcode scanner to scan bills for bill payment transactions, Personal Identification Number identification number (PIN) pads, and sometimes personal computers (PCs) that connect with the bank's server using a personal dial-up or other data connection. Clients that transact at the agent use a mag-stripe bank card or their mobile phone to access their bank account or e-wallet respectively. Identification of customers is normally done through a PIN, but could also involve biometrics. With regard to the transaction verification, authorization, and settlement platform, banking agents are similar to any other remote bank channel (Ivatury, 2008).

Local regulation would determine if financial institutions are allowed to work through retail outlets. Regulators generally determine what kind of, if any, financial institutions are permitted to contract banking agents, what products can be offered at the retail outlets, how financial institutions have to handle cash transport, Know Your Customer requirements, consumer protection, and other operational areas. As banks strive to emerge from the global financial crisis, they are encountering a new era of banking. It is one marked by continuing regulatory uncertainty and economic instability, which is hindering banks' ability to move forward. These unprecedented conditions have begun to significantly alter the global banking landscape. The imperative of driving growth while managing compliance continues to compel how banks map their operational priorities to adapt successfully, yet important forward-looking decisions may be further hampered by bank executives grown averse to even controlled and reasonable risks. (Sanjiv Shankaran & Anup Roy, 2010).

Agent banking improves the bank's geographical coverage and competitiveness so that existing and potential customers can benefit from a greater level of convenience in accessing banking services. This convenience is offered through agents of the bank and when combined with new services can expand the bank's target beyond the traditional markets. The introduction of agency banking is meant to expand access to financial services, especially in rural areas where it has been expensive for banks to maintain a presence, owing to the

smaller volumes. Banks tap in to the network of SACCOs and micro-finance institutions to access their front office services while guaranteeing customers' deposits.

Although agent banking is fast growing and gaining strong roots in Latin America, Asia and South Africa, it remains untapped in most of Africa. To keep up with international trends regarding the use of agent banking to enhance financial inclusion, the Finance Act (2010) amended the Banking Act to facilitate use of third parties by banks to provide banking services. The Central Bank of Kenya amended the Banking Regulations and issued Agent Banking Regulations (2010) to allow commercial banks contract third party retail agents to provide financial services on their behalf. This decision was also driven by Kenya's blue print for economic developments, Vision 2030, to extend access to financial services for all adult Kenyans by the year 2030 (Central Bank of Kenya, 2010).

In understanding agency, there are three parties to a transaction: the customer, the agent's employee who operates the POS device and the bank. Each should authenticate itself before initiating any transaction, preferably with two factors of security. Hence, the customer and the authorized employee of the agent each have a personal card (which could possibly be embedded into their mobile phones) plus a secret PIN. To avoid fraudulent POS terminals, a bank could also announce a unique secret key to each of its clients through which the bank identifies itself to its clients before each transaction. Customer cash transactions are offset against the agent's bank account. All customer transactions are done against an account the agent has with the bank. This account may be funded with the agent's own money or from a pre-agreed (finite) credit line or overdraft facility granted by the bank. In the case of a cash deposit by a customer, the bank automatically withdraws the equivalent amount from the store's bank account to fund the deposit, and the store keeps the cash in compensation for the amount taken out of its bank account. In the case of a cash withdrawal, the opposite happens: the store provides cash from the till, but is compensated by an equivalent increase in its bank account. In this way, the customer always bears the bank's not the agent's credit threat. This is done in real-time authorization of transactions. Before authorizing a cash transaction, the bank needs to check that there are enough funds in the agent's account (in the case of a

deposit) or the client's account (in the case of a withdrawal). This needs to be done in real time to eliminate credit risks (Kumar, et al. 2006).

1.1.2 Agency Technology

Technology can enable banks and their customers to interact remotely in a trusted way through existing local retail outlets. Customers are issued bank cards with appropriate personal identification number (PIN)-based or biometric security features, and the local store the "Banking Agent" is equipped with a point-of-sale (POS) device controlled by and connected to the bank using a phone line or wireless or satellite technology. Infrastructure requirements can be further reduced by using mobile phones both to hold "virtual cards" for customers and as a POS device at the store (Kumar, et al. 2006).

An agent network is fundamentally a technology play for a bank. It is similar to the millions of existing Visa, MasterCard and debit card merchants, except that in this case the card payments at retail stores would not only be for sale of goods but also for handing out and taking in cash on behalf of banks. With appropriate technology, the bank (and by extension bank supervisors) can afford to be a little bit more relaxed about how customer transactions are captured as they are with existing payment merchants. The costs of bank service distribution can be reduced, while still effectively controlling banking risks (Ignacio Mas and Hannah Siedek, May 2008).

1.1.3 Agency Adoption

Rogers, (1962) defines an innovation as "an idea, practice, or object that is perceived as new by an individual or other unit of adoption ". He describes the technology adoption lifecycle model or acceptance of a new product or innovation, according to the demographic and psychological characteristics of defined adopter groups. The process of adoption over time is typically illustrated as a classical normal distribution or "bell curve." This model indicates that the first group of people to use a new product is called "innovators," followed by "early adopters." Next come the early and late majority, and the last group to eventually adopt a product are called "laggards."

Adopting an innovation requires a decision to be made and action to be taken. As discussed previously, this suggests that data must become information leading in the creation of knowledge. What happens in a community is mirrored in an individual. The pioneering work of Bohlen and Beal (1957) identified a five-step process that individuals progress through as they make a decision to adopt an innovation. Each of these steps requires a conversion of tacit or explicit information, as detailed in Tacit and Explicit Information. This information either comes through external influences from outside the community or through influential members of the community. Individuals progress through these steps at different tempo often resulting in their differentiation into separate groups defined by their rate of adoption. The adoption of Change in a community describes how these diverse paces of adoption affect the ability of an organization to make a decision and accept an adoption. The steps of accepting an adoption are; Firstly Awareness, the individual is simply aware the innovation exists. Details are lacking and it is a very passive stage. This awareness is usually driven by sources outside the community and tacit sources of information. Secondly, Interest; the individual wants more information. They begin to wonder if the innovation can help them. They may actively seek out new information, both explicit and tacit. Their quest is informed by sources both outside and inside the community. Next would be evaluation; the individual mentally examines the innovation using the information gathered, trying to determine whether it would really impact their work and how it would make their effort easier or better. This is a critical stage and the first one where the voices of the community (i.e. coworkers, friends or neighbors) are often the largest influence on an individual, rather than outside contacts.

Last but not least is the trial stage. The individual actually tests the innovation to see if reality matches expectations, usually with small-scale, experimental efforts. Often at this stage, any source of information that is determined to be helpful will be used, although close community ties are still the most important. Individuals are looking for specific help for their specific need. Finally there is Adoption; the individual likes the innovation and adopts it wholeheartedly. It is applied to all areas of relevant use and the individual often becomes a strong advocate for the innovation in the community. Community voices are very important at this stage. The speed with which each individual passes through these 5 stages vary depending on the particular innovation, its overall complexity, its costs, and just how

disruptive it is to current workflows. The source of information also makes a difference. While inter conversion of both tacit and explicit information is important at each step, it is information from unbiased sources that makes the largest impact. For most people at most steps these sources consist mainly of local voices in the community. It is sometimes hardest for salesmen to engage the stages of interest and evaluation because of their perceived bias. People listen to community leaders (CGAP, 2010).

1.1.4 Development of banking sector in Kenya

The Central Bank of Kenya (CBK) recognizes the financial inclusion challenges which the country faces. These include the cost of financial services and the distance to bank branches in remote areas. Part of their approach to addressing these challenges is to promote innovation through mobile financial services and to address the delivery channel costs through increased use of agent banking (Central Bank of Kenya, 2010). In contrast to the South American countries, Kenya has experience with both bank-based and nonbank-based agent banking models. With respect to the bank-based model, Parliament gave approval for banking legislation to be amended to enable the use of agents in June 2009, and the regulations for agent banking were published by the CBK in May 2010 (Guideline on Agent Banking CBK/PG/15, 2010).

Prior to the 2010 Guidelines on Agent Banking, the Banking Act did not address the issue of banks using agents to deliver financial services, so the CBK approved such arrangements on a case-by-case basis. Other relevant regulations which have enabled branchless banking are a 2008 regulation allowing microfinance deposit-taking institutions to use agents; a 2009 amendment to the Banking Act that allows banks to appoint agents to take deposits and perform other activities; and a 2009 AML/CFT bill which applies to both bank and non-bank institutions (CGAP, 2010). The draft regulations for the Provision of Electronic Retail Transfers were launched by the CBK in February 2011. In order to speed up the development of the agent banking regulatory framework, the CBK made use of a knowledge exchange programme supported by the Alliance for Financial Inclusion (AFI). In October 2009, six representatives from the CBK, Kenya Bankers Association, and the Ministry of Finance

visited Brazil and Colombia, as these countries were identified as 'champions' of agent banking (CGAP, 2010).

The Kenyan banking industry has been expanding branch networking amid the introduction of branchless banking system, which include the use of EFTs, ATM cards, SMS banking etc. CBK (2009) clearly indicates that, branch network has been slowly expanding since 2002. By the end of June 2009, Kenya had a total branch network of 930, as compared to 486 branches in the period ended June 2007. Further it is indicated that Nairobi province has a large number of branch network while North Eastern province has never added any branch since the year 2000. It has maintained 4 branches in the whole province. This indicates that many Kenyan are left un-banked throughout the country counties, as banks have customer bases concentrating in major cities.

Fin Access Survey (2009), showed that 22.6 percent of the adult population had access to formal financial services through banks as compared with 18.9 percent in 2006. An additional 17.9 percent of adult Kenyans were served by other formal institutions, namely, micro finance institutions and SACCO societies compared with 7.5 per cent in 2006. The dynamism of the banking sector is expected to continue as banks seek new opportunities in the face of an anticipated subdued risk appetite. According to the CBK annual report 2009, banks are however expected to explore new opportunities locally and regionally to maintain growth momentum. Rapid rise of alternative channels of banking which include agent banking and electronic banking products through mobile phones and personal computers is expected.

The 2010 agent banking guidelines allowed banks to start working in partnership with nonbank-based models. In March 2010, Safaricom and Equity Bank launched a full savings account. This is issued by Equity Bank but marketed as an 'M-PESA Equity account' called M-KESHO. Like M-PESA accounts, M-KESHO accounts have no account opening fees, minimum balances or monthly charges. But unlike M-PESA accounts, M-KESHO accounts pay interest, do not have a limit on account balances, and are linked to limited emergency credit and insurance facilities. And unlike its regular Equity account holders who can only

transact at the bank's 140 branches, Equity's M-KESHO customers can transact at any of the 28,000 retail outlets that accept M-PESA. M-KESHO is fully integrated into the M-PESA user interface on customers' mobile phone, and is also accessible through Equity Bank's mobile phone banking service. Customers can deposit and withdraw money from their M-KESHO account by transferring value to/from their M-PESA account, which they can in turn cash into or cash out from at any M-PESA outlet. Deposits into M-KESHO are free but a small fee is payable for withdrawals. By the end of 2010, 600,000 M-KESHO accounts had been opened (CGAP, 2010).

A survey carried out by the World Bank in 2008, established that 80 percent of the Kenyan population did not operate a bank account, compared to 30 percent in South Africa, 60 percent in Swaziland, 90 percent in Uganda and 92 percent in Malawi (World Bank, 2008). Another World Bank report of 2009 revealed that on average only about 26 percent of people around the world had access to formal financial services. Out of these, only 20 percent of the population in Sub-Saharan Africa; 30 percent in Europe and Central Asia; 35 percent in Latin America; 32 percent in the Middle East and North Africa; and 25 percent in South Asia had accounts in formal financial institutions (World Bank, 2009).

The limited access to financial services is attributed to three main challenges: limited scale (outreach), depth and the high cost of providing financial services. Essentially, the provision of financial services to many more people, especially in the depth of rural areas, using traditional branch networks entails high costs (Helms, 2006). In an attempt to overcome these challenges, financial service providers in a growing number of countries are finding innovative ways of delivering financial services. The use of ICT is indeed providing a means to increasing scale and depth, while reducing costs in the provision of financial services. Studies suggest that technology plays a significant role in improving financial access by taking financial services in a sustainable way to under-served and un-served areas (Stegman et al., 2005, Claessens, 2006, and UNDP, 2007). Studies also reveal that technologies such as ATMs, mobile phones and points-of-sale (POS) devices are increasingly being used to reduce costs and increase access for low-income clients (Ivatury, 2006). These technologies are providing alternative delivery channels for the delivery of financial services.

1.2 Statement of the problem

Pioneering banks, microfinance institutions, and mobile operators started to experiment with banking agent networks in various countries around the world such as Brazil, Peru, Colombia, Kenya, Mexico, Pakistan, the Philippines, and South Africa. In Brazil, over 170,000 agent points, such as pharmacies, deliver a wide array of services on behalf of banks, processing approximately 2.5 billion transactions a year. Wal-Mart Bank in Mexico is using 1,000 Wal-Mart stores (totaling 18,000 points of sale) as agents to offer its clients financial services, including deposits and payments. These are not isolated examples, but rather evidence of how transformational branchless banking is rapidly changing the access to finance landscape. Giving unbanked and under banked people the opportunity to access a full range of needed formal financial services could be a significant step toward more equitable and efficient financial markets (Lyman et al., 2006).

This has been seen to gain root and interest in Kenya but has not received a lot of awareness from scholars with the emerging of technology. I have seen very little researches being done in this field to highlight the factors that influence agent banking adoption among commercial banks in Kenya. A good number of studies have been done on various aspects in the banking sector in Kenya. For instance, Ali (2008), determined the strategic issue management practiced by commercial banks in Kenya, whereas Otunya (2006), surveyed consumer adoption of mobile phone banking in Kenya, and Kisia (2006) determined factors affecting provision of services by commercial banks in Kenya to international business. Johnson (2011), sampled on the factors influencing agency banking adoption by commercial banks in Kenya. For Johnson he carried out a survey on the four banks that have been currently licensed to carry out agency banking. Given the novelty of agent banking in Kenya, there has been no in-depth research study in this topic, yet as at December 2010, Central Bank of Kenya had approved over eight thousand (8,000) applications for retail agents by various commercial banks (Central Bank of Kenya, 2010).

There are limited studies that have been done outside Kenya to highlight the factors that influence agent banking adoption among commercial banks. Kumar et al. (2006) explored expanding bank outreach through retail partnership in Brazil. Similarly Rodgers (2006)

diffusion of innovation, he looks at how technology has only been adopted. Hernandez-Coss (2009), explored the impact of introducing banking agents in Mexico. Despite these studies having been conducted in developing countries, the findings may not be applicable in Kenya owing to certain environmental differences (CBK, 2010).

The Central Bank of Kenya (CBK) recognizes the financial inclusion challenges which the country faces. These include the cost of financial services and the distance to bank branches in remote areas. Part of their approach to addressing these challenges is to promote innovation through mobile financial services and to address the delivery channel costs through increased use of agent banking (Central Bank of Kenya, 2010). Will agency banking be more successful in other countries than mobile money has been? Mobile banking was very fast to be adopted by mobile companies and took root in the Kenyan economy like bush fire. So I set out to find out what is it that is making agent banking not being adopted by our commercial banks?

The study will seek to answer the following questions

- a) What is the extent of adaptation of agent banking?
- b) What are the factors that influencing adoption of agent banking in commercial banks in Kenya?

1.3 Research Objective

The objective of the research is to determine the factors that influence the adoption of Agent Banking in commercial banks in Kenya.

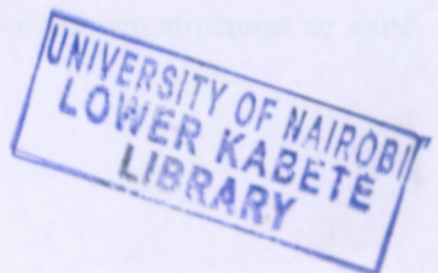
1.4 Importance of the study

This study would, first and foremost, be able to assist Kenyan commercial banks in identifying factors that that are inhibiting or influencing the adoption of agency banking to their network growth. These factors can be monitored and regulated if within the organizations ability and also those that are beyond their control to be anticipated.



It would also be important in knowing the role of agent banking for commercial banks. The research could also help in assessing the development and growth of agent banking. Fourthly, the study would also assist the banking industry in easy identification of agent set up points and their critical success factors. In addition it would help the business owners to know the challenges that banks are facing in adopting agent banking and can come in to offer adoptable solutions.

Last but not least, the research would enable banks see how successful the same has been in other countries and how they have overcome various challenges they had. This study could also contribute to the body of knowledge and to adding information on the banking industry.



CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

A major obstacle to financial inclusion is cost, not only the cost incurred by banks in servicing low value accounts and extending banking infrastructure to underserved, low-income areas, but also the cost incurred by poor customers (in terms of time and expense) in reaching bank branches. Achieving financial inclusion therefore requires innovative business models that dramatically reduce costs for everyone and thus pave the way to profitable extension of financial services to the world's poor. In this chapter it presents the concept of adoption of innovation, the global development of agent banking, agent banking in different countries and their success factors of agent banking adoption.

2.2 Theoretical Framework

2.2.1 Agency Theory

Agency theory argues that in the modern corporation, in which share ownership is widely held, managerial actions depart from those required to maximize shareholder returns (Berle and Means 1932). Agency theory broadened this risk-sharing literature to include the agency problem that occurs when cooperating parties have different goals and division of labor (Jensen & Meckling, 1976, - Ross, 1973). Specifically, agency theory is directed at the ubiquitous agency relationship, in which one party (the principal) delegates Work to another (the agent) who performs that Work.

Agency theory attempts to describe this relationship using the metaphor of a contract (Jensen & Meckling, 1976). Agency theory re-establishes the importance of incentives and self-interest in organizational thinking (Perrow, 1986). Agency theory reminds us that much of organizational life, whether we like it or not, is based on self-interest. Agency theory also emphasizes the importance of a common problem structure across research topics. As Barney and Ouchi (1986) described it, organization research has become increasingly topic, rather than theory, centered. Agency theory reminds us that common problem structures do exist

across research domains. Therefore, results from one research area (e.g., vertical integration) may be germane to others with ex common problem structure (e.g. compensation).

The cornerstone of agency theory is the assumption that the interests of principles and agents diverge. According to agency theory, the principal can limit divergence from his/her interests by establishing appropriate incentives for the agent, and by incurring monitoring costs designed to limit opportunistic action by the agent. Further, it may pay the agent to spend resources (bonding costs) to guarantee that he/ she could not take certain actions that would harm the principal, or to ensure that the principal would be appropriately compensated if he/she does take such action. That is, the agent may incur ex-ante bonding Costs in order to win the right to manage the resources of the principal (Jensen and Meckling, 1976; Ross, 1973).

Agency theory also makes two specific contributions to organizational thinking. The first is the treatment of information. In agency theory, information is regarded as a commodity: It has a cost, and it can be purchased. This gives an important role to formal information systems, such as budgeting, MBO, and boards of directors, and informal ones, such as managerial supervision, which is unique in organizational research. The implication is that organizations can invest in information systems in order to control agent opportunism. A second contribution of agency theory is its risk implications. Organizations are assumed to have uncertain futures. The future may bring prosperity, bankruptcy, or some intermediate outcome, and that future is only partly controlled by organization members. Environmental effects such as government regulation, emergence of new competitors, and technical innovation can affect outcomes. Agency theory extends organizational thinking by pushing the ramifications of outcome uncertainty to their implications for creating risk. Uncertainty is viewed in terms of risk/reward trade-offs, not just in terms of inability to pre-plan. The implication is that outcome uncertainty coupled with differences in willingness to accept risk should influence contracts between principal and agent.

2.2.2 Theories of financial innovation

Financial innovation is the act of creating and then popularizing new financial instruments, as well as new financial technologies, institutions, and markets. The innovations are sometimes divided into product or process variants, with product innovations exemplified by new derivative contracts, new corporate securities, or new forms of pooled investment products, and process improvements typified by new means of distributing securities, processing transactions, or pricing transactions. In practice, even this innocuous differentiation is not clear, as process and product innovations are often linked. Innovation includes the acts of invention and diffusion, although in point of fact these two are related as most financial innovations are evolutionary adaptations of prior products (Josh Lerner and Peter Tufano, 2011).

2.2.3 Merton theory of Innovation spiral

Merton (1992) coined the term “innovation spiral” to describe the process whereby one financial innovation begets the next. Sometimes this spiral has one successful innovation providing the raw material, or building blocks, for another. For example, the innovation of a futures market in a particular commodity can allow financial engineers to build specialized and more complex over-the-counter (OTC) products using dynamic trading strategies. An innovation need not be successful, however, to be part of the innovation spiral. The innovation spiral is not unique to financial innovations; elsewhere one innovation can produce follow-on effects including lowering the barriers to subsequent innovation. For example, in electronics, semiconductor innovations have made possible a host of products ranging from personal computers to industrial applications to handheld devices. Similarly, the technology developed for unsuccessful pioneering personal digital assistants, such as Go’s Pen Operating System and Apple’s Newton, ultimately led to the success of the BlackBerry and iPhone. Once one acknowledges the existence of an innovation spiral, one must recognize that actions that might discourage a certain innovation could have implications for the development of subsequent innovations.

2.2.4 Kane's Theory of Regulatory dialectic

According to Kane (1977) Innovators look for opportunities that exploit regulatory gaps, regulators impose new regulations, and each new regulation gives rise to new opportunities for more innovation. In this back and forth, the regulatory system can be at a disadvantage for a variety of reasons. First, many regulatory bodies have mandates that are defined by product or by institution, rather than by function. For example, consider just a few of the products that deliver equity-index exposure: baskets of stocks, index funds, exchange-traded funds (ETFs), futures contracts, index-linked annuities, indexed-linked certificates of deposit, and various structured notes. Suppose that one wanted to regulate equity exposures broadly. One would have to coordinate activities between the Securities and Exchange Commission (SEC), Commodity Futures Trading Commission, banking regulators, and state insurance regulators for just a start. Without broad mandates or functional jurisdictions, opportunities for regulatory arbitrage through innovation could occur. Second, even a well-staffed, reasonably well paid, and highly talented regulatory agency is up against a world of potential entrepreneurs and innovators. Inevitably, regulation would tend to react to innovations, typically with a lag. From the perspective of systemic risk, this responsive approach may be appropriate, as innovations early in their S-curve adoptions are unlikely to pose economy-wide risks, and are probably bought and sold by the more sophisticated set of adopters.

2.3 Agent Banking Critical Success Factors

This refers to those factors which are important to future competitive success of industry members. These factors include product attributes, competitive capabilities, resources, competencies, market achievements etc. It is very important for the strategists to understand the landscape of industry in order to identify the most important competitive success factors. Due to changes in driving forces and competitive conditions, the key success factors of one industry differ from other. Banking industry is broadly divided into two types of banks i.e. virtual banks and brick and mortar banks. CBK (2009), states that there are many technological and operational challenges in employing a successful agent banking strategy. Technology should be in place to enable banks and their customers to interact remotely in a

trusted way through existing local retail outlets. Agent banking requires a generally good infrastructure in terms of road network, communication and information technology. Considerations should be made for areas that are hard to reach due to a poor fixed infrastructure and poor transport system (Ross, 1973).

2.3.1 Technology and Best rates

Latest technology plays a very important role in the banking industry. It helps in introducing innovative products according to the demand of consumers. Technology can be used to lower down the cost of transaction and improve the quality of products. For example when the banks realized that they can lower down their transaction cost by installing ATMs and debit cards they did so. It saved the overhead cost and improved convenience for customer by providing 24/7 service. Online banking is increasing tremendously due to rapid technological change. Industry of Agent banking is attracted by low cost. Competition is such high that to survive in industry low cost is very important. As agent banks have no physical existence of branches and ATM network so they have great advantage to offer the banks products at lower rates than brick and mortar banks. Due to low overhead cost, agent banks are charging lower transaction cost which gives them a plus point (Perrow, 1986).

2.3.2 Product innovation and brand image (recognition)

Product Innovation is one of the major success factors in the banking industry, since all the banks are offering similar products therefore differentiation is very important for the future survival. Banks are trying to come with different innovative products in order to differentiate themselves from other banks. Brand image plays an important role in selecting the product or bank. For example City group and Bank of America are two major players in the industry with huge resources and they have major market share as well. That's why most of the people wish to be their customers. On the other hand, agent banks are not so much popular and have a low market share. In this way, market share and brand awareness within banking industry is a major concern for them (Moracynski, 2007).

2.3.3 Size of the company, location and convenience

Size of the company is an important key success factor. In banking industry size of bank refers to the total market share, total assets, total number of branches and ATM's, total number of customers etc. Brick and mortar banks have a good market share due to which they can compete effectively (Ross, 1973). It is important to note that convenience attracts consumers. For example if a bank has wider network then it will be convenient for the customers to make transactions easily. In this case Agent banks have advantage over brick and mortar banks. Internet only banks can be accessed anywhere in the world through internet. The growth of the internet in the last few years, has forced many brick-and-mortar banks to consider and develop online banking (The State Bank of Pakistan, 2007).

Mas and Siediek (2008) are of the view that a bank without a large network of branches faces a challenge of failure to bank with another bank due to associated charges. Ultimately, scale and ubiquity are best achieved by tapping into shared or interoperable networks of agents that serve multiple banks; much like a POS enabled store today can accept cards from Visa or MasterCard issued by any bank in their respective associations. Ivatury and Mas (2008) describe a system whereby the agent has a contract with at least one bank but may service customers of other banks with which it does not have a direct contract as long as the agent transactions for these other issuing banks are governed by the contract between the agent and its own acquiring bank and a separate agreement between the issuing bank and acquiring banks.

The success of agent banking is also based on the ease of banking by the agent. In Brazil for example, the available technological network allows any agent to deposit cash received in any bank to be transferred to his own bank at no fee. It is therefore not necessary for an agent of one bank to travel long distances to deposit cash in his own bank branch. Availability of agent channels is vital in ensuring a wide reach by the bank through its retail agents especially in rural areas. Urban areas have numerous delivery channels for example shops, supermarkets and pharmacies (Kumar, et.al, 2006).

2.4 Agent banking perception of failure

As is common with other new services, customer, provider, and regulator confidence in branchless channels is still fragile. A high-profile failure could diminish the trust of consumers to adopt, the appetite of industry to enter, and the openness of regulators to enable. Consumers, even poor consumers, appear willing to make the transition to using bank agents and electronic channels as long as they trust the provider. Trust in the brand of the ultimate provider may be sufficient. Users of branchless banking may not even have to trust the agents (Moracynski 2007).

As a side effect of pervasive communications, news and rumors spread faster than ever. A 21st century bank run could happen in hours instead of days as customers learn of problems and move their money electronically. Recently, the Kenyan news reported the effects even of a short-term disruption of the M-PESA service: “A technical hitch in the M-PESA money transfer service caused anxious customers to crowd at service outlets to have their accounts updated. Customers had initially been barred from accessing the premises on safety fears after their demands for an up-to-date reflection of their accounts got boisterous. Several administration police officers were deployed to the centre to boost the efforts of private guards in calming the angry crowd” (Business Daily 4 August 2009).

2.5 Empirical Review

Agency banking requires commercial banks to rely to on the existing infrastructure in terms of supermarkets, credit unions, hotels and petrol stations reach out to customers. Based on the ongoing announcements of financial results by commercial banks, input of agency banking into the profits is minimal though the financial institutions are vowing to intensify recruitment of more third parties to assist in expanding their market share. Industry players argue that agency banking could have a more positive impact in the results being released if Central Bank of Kenya (CBK) launched prudential guidelines early enough (The People Daily 14 march, 2011).

Only about one-quarter of households in developing countries have any form of financial savings with formal banking institutions: 10 percent in Kenya, 20 percent in Macedonia, 25 percent in Mexico, 32 percent in Bangladesh. Yet access to financial services whether in the form of savings, payments, credit, or insurance is a fundamental tool for managing a family's well-being and productive capacity: to smooth expenditure when inflows are erratic (occasional work, seasonality of crops), to be able to build up purchasing power when expenditures are large and sporadic (school fees, buying seeds), or to protect against emergencies (natural disasters, death in the family) (Ivatury, et al. 2008).

Agent banking is not new in the world. It has been used very well in Latin America and Asia. There are few African countries that have taken up agency banking. The agency banking in Kenya guidelines were enacted in 2010. Banks must first apply to central bank of Kenya to get approval to conduct agency banking business. The board of directors of each banking institution interested in agency banking must make policies guidelines and procedures to be followed to ensure that. (<http://bankinginkenya.com/233/agency-banking-kenya>). Keen to take advantage of the cost-saving and accessibility brought about by the agency banking model, Kenyan financial institutions have over the last six months embarked on an aggressive entry into the segment. But many are finding that agents lack capacity to handle large transactions of cash and under-spend on security measures.

So far, Equity Bank, Post bank, Co-Op Bank and Kenya Commercial Bank have launched forays into the segment, with some already claiming that identifying agencies that are able to provide cash to customers is becoming an industry challenge. Recent data from the Central Bank of Kenya (CBK) reveals that the regulator has licensed over 10,000 establishments to act as agent banks, with Equity claiming to have outsourced some of its operations to 5,000 active outlets (CBK, 2010). CBK data shows 6,513 agency outlets were opened in 2010, most of which are being operated by Equity and Co-operative banks. KCB hoped to open about 2,500 agency branches that year, while Post bank hoped to open 500. But identifying agents who are capable of handling cash transactions efficiently has been a challenge for the institutions, with consumers reporting that cash is often scarce even as rising fears of security mount at the outlets.

Analysts say that the development may arise from the fact that many of the available outlets have already been snagged by mobile phone companies, who have relied on their agents to fast-track uptake of mobile money solutions such as M-Pesa, YuCash, Orange Money and Airtel Money. Currently, over 30,000 outlets around the country are enrolled as mobile money transfer agents, leaving banks with a smaller pool of businesses from which they can pick the cash-rich operations they need to roll out agency banking model. Some banks, like Co-operative, have instead opted to partner with cash-rich Sacco's in order to get around this issue. The development could force some banks to consider deeper partnerships with mobile firms, a solution that the government has increasingly been advocating for. The CBK encourages banks to share infrastructure to gain economies of scale; and to reduce overheads through increased use of ICT, agency, and mobile banking. We will extend credit referencing to sharing of positive information by banks, (CBK, 2009).

The agency banking model which was rolled out in May 2010 has drawn interest from the financial institutions. As at June 30, 2011, the Central Bank of Kenya had granted approval to 6 commercial banks to roll out Agent Banking Network. Over the same period, 6,513 agents had been granted approval. The introduction of agent banking is intended to enable institutions to provide banking services more cost effectively to customers. It is expected that this initiative would enhance financial access for those people who are currently unbanked or under banked (CBK, 2011). On agency banking no much research has been done looking into the agency problem and adoption of the same. Table 1 below shows a review of individuals who have attempted to look into the agency issue and those who have come close in talking about the agent banking.

Table 1. Review of Previous researches carried out in relation to Agency banking

| Author (Year) | Title | Objective | Method |
|----------------------|--|---|---|
| Gatwiri S.K (2011) | Extent of implementation of agency banking in commercial banks | Determine to what extent commercial banks have adopted agency banking | Descriptive analysis-Sampling Technique |
| David W.N (2011) | Adoption of agent banking services among residents of Kawangware area in Nairobi | How residence are adopting to introduction of agent banking in the area. | Case study of kawangware area residents |
| Nancy K. (2011) | Relationship between electronic banking & financial performance of commercial banks in Kenya | Determine the relationship between electronic banking and commercial banks performance | Use secondary data collection framework |
| Angara E.O (2010) | Strategic response adopted by K.C.B in changes in environment | Establish the strategic response adopted by K.C.B to address changes in the environment | Use of A case study K.C.B |
| Beatrice W.K. (2010) | Analysis of financial innovation in the Kenyan banking sector | Analyze the financial innovation in the banking sector | Census survey |
| Nyangayo G.O. (2012) | Factors influencing adoption of agency banking in Kenya | Determine the factors influencing agent banking adoption | Census study |

In many developing countries, consistent economic growth over the past decade has brought new wealth and demand for financial services while liberalization has led to increased competition in retail financial services in many places. As a result, the reach and coverage of the formal financial sector has grown. Technology has played a role in this expansion, though we should not overstate its role to date. Information technology has primarily helped to enable expansion through more conventional banking channels, such as branch and ATM. For example, in growing from 0 to 8 million deposit customers in five years, Mexico's Banco Azteca used a robust electronic banking system to connect a large network of mini-branches

in stores of its parent Elektra, a large seller of consumer durables, and other retail chains (Rhyne 2009).

Branchless banking schemes to date largely have been built around payments and domestic remittance services. More than half of M-PESA customers use the service primarily for remote person-to-person payments; payments to businesses make up three quarters of transactions at Brazilian correspondents. However, services beyond payments are already on offer and are used by low-income customers. In less than five years, Banco Azteca had opened 8.1 million deposit accounts and 8.3 million loan accounts and has sold 11 million insurance policies, largely to lower income Mexicans (Rhyne 2009).

Mas and Siediek (2008) are of the view that a bank without a large network of branches faces a challenge of failure to bank with another bank due to associated charges. Ultimately, scale and ubiquity are best achieved by tapping into shared or interoperable networks of agents that serve multiple banks; much like a POS enabled store today can accept cards from Visa or MasterCard issued by any bank in their respective associations. Ivatury and Mas (2008) describe a system whereby the agent has a contract with at least one bank but may service customers of other banks with which it does not have a direct contract as long as the agent transactions for these other issuing banks are governed by the contract between the agent and its own acquiring bank and a separate agreement between the issuing bank and acquiring banks. In comparison to the other countries, a relatively large proportion of the Brazilian population is 'banked' (43%). This can partly be attributed to the fact that Brazil has the largest agent network in the world and is widely cited as a country where banking agents have been successfully used to expand financial access. An extra 13 million unbanked people have been reached (AFI, 2011) and more than 160,000 retail outlets turned into correspondents since 1999. These agents can be found in all municipalities in Brazil. Most agents are commercial establishments, such as grocery stores, post offices, notaries and lottery outlets. More than 47,000 of these outlets are authorized to handle deposits and open accounts (CGAP, 2010).

In Peru, where, as at 2007, only 26% of the adult population has a bank account. The agent network in Peru is growing rapidly, there were 1,689 agents in 2006 and 9,204 agents by December 2010. These agents are mainly pharmacies, grocery stores and other retail establishments. These tend to be small retail establishments, although there are some larger agents, such as La Curacao, a large retail chain. Roughly 8% of districts, accounting for 16% of the population, now have access to bank services exclusively through agents. These agents carried out approximately 3.8 million transactions per month (45 million transactions in the year). However, 3 times this amount of transactions per month were performed at ATMs, and the total value through ATMs was at least 2 times larger than agent transactions. In 2010, less than 50% of the total financial system transactions were conducted inside traditional bank branches and ATMs; POS terminals accounted for 36% of total transactions (SBS & CGAP, 2010).

But in Kenya, only 22.6% of the adult population has a bank account. There are, however, more than 45,500 agents offering financial services. In terms of branchless banking, Kenya is probably best known for nonbank-based models, specifically those launched by MNOs. M-PESA was the first and is the most famous of these models. This service was launched in 2007 and by April 2011 had more than 14 million³⁵ users and 27,988 agent outlets (CBK, 2010). A bank may seek to completely outsource client contact to retail agents, following a low-value, high-volume strategy. Such a bank is likely to target lower income customers who have little demand for more sophisticated financial products and for whom transacting at a local store without the formality of a branch is more appealing. The bank would need to emphasize marketing and branding. It will need to design very simple products that are easy to understand to minimize reliance on agent staff. Retail agents would have to deposit or withdraw excess funds at other banks' branches, which may result in significant interbank fees for the bank. Lemon Bank, in Northeast Brazil, has 5,700 agents and not a single physical bank branch has seen to adopt this strategy and setting up its agents. Lemon Bank uses about 16 network managers for its 5,580 point network.

A 2007 study conducted in Kenya by synovate, covering 69 districts in Kenya showed that small retail; informal outlets (kiosks) are the most reliable credit issuers to many people. The

study showed that the ubiquitous shopkeepers found in every estate, village and even footpath are the most frequent sources of soft loans as well as goods on credit and that THE Majority of Kenyans turns to them frequently. This study revealed 74% of those that had loans obtained credit from their local shopkeeper, whose Main strength is the proximity to the customer and the fact that they are normally liquid. The study indicated that banks, though for long believed to be the main source of credit to Kenyans, ranked third with saving and credit societies (Sacco's) coming second. The realization made policy makers to brainstorm on how to bring more inclusion in the prejudice that banking was a preserve of big banks with no place for customers wearing gumboots and carrying crumpled notes.

Kamotho, (2009) carried a study on mobile phone banking. The study covered the two main dominant mobile banking service providers- safaricom and zain. From inception the mobile phone subscribers have a total of 8000 outlets agents. This number tripled compared to 876 branches and 1424 ATM for commercial banks (CBK, 2008). The survey was informed by a quantitative survey on m-banking services and demand. Data on usage and exploration patterns were gathered through reliable cluster sampling techniques using comprehensive questioners. It was observed that competition triggers innovation and creativity. Continuous innovation not only yield new products but rather promotes efficiency in the performance of activities. Hence lowering the transaction cost. This finding is also confirmed by (Tufano, 1989). Contrary to popular wisdom that mobile phone money services are meant for transfer and remittance, his findings concluded that 96% of the respondents used the M-banking services as form of funds storage. It is from this that commercial bank management tapped to get these deposits to boost the banks liquidity in these changing times of the economy. Agency banking is seen to assist customers offload the extra funds that they have to agents at minimal fees and avoid risks of money loss.

2.6 Conclusion

This study seeks to determine the factors that influence agent banking adoption among commercial banks in Kenya. Various countries have embraced it with open hands like Brazil, Columbia, Peru and South Africa. This study is set out to identify what drives the banks in Kenya to embrace the agent banking technology or detest from its operation to

agents. The technology kicked off like rapid fire with the introduction of Safaricom agents but slowed down when CBK approved the use of agents by commercial banks in 2009.

Agency should be viewed as a precursor to a more robust framework designed to increase access to credit as this is the key that could unlock economic activities in the so called remote areas. Agency banking enhances the opening of bank accounts to the unbanked and increases the financial literacy by aiding people to have a better appreciation of and consumption financial services. The commercial banks stand to benefit more on the embracement of agent banking as it allows more roll out of much more granular distribution network without increasing the costs on setup and operational costs of large branches and ATM lobbies. For the client agency could reduce the cost of service delivery as they do not have to walk far in search of an operational branch network to be able to access financial assistance. Fraud and money laundering still remain s the major enemy to agency banking, thus measures, guidelines and a stringent regulatory framework is necessary to counter this challenge. This study would assist in knowing what needs to be changed, adopted or removed from current policies to ensure agent bank strives like in the aforementioned countries.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focused on overall methodology that was used in the study. It involved the methods the researcher used to collect the data for the study. These included research design, target population, sampling procedures, data collection and analysis procedures with the expected results as a representation of the study.

3.2 Research Design

The study was conducted by the use of the descriptive research design aimed at determining the factors affecting adoption of agent banking amongst commercial banks in Kenya. The choice of the study was favored by the small number of banks currently listed in the NSE and those already operating agency banking in Kenya. Also most of these if not all have their headquarters in Nairobi thus making it easy and cost effective to contact them. Descriptive study aims at finding out the what, where and how of a phenomenon. According to Serakan (2003) a descriptive study is taken in order to ascertain and be able to describe the characteristics of the variable of interest in a situation. This was the best method as the study seeks to find out the factors influencing the adoption of agency banking by commercial banks in Kenya.

3.3 Study Population and sample

The target study population comprised of all the 44 commercial banks in Kenya as per the CBK 2010 annual report. Due to the small size of the target population a survey of the universe was done.

3.4 Data Collection Methods

In this study, emphasis was given to primary data. The primary data was collected using questionnaire. The targeted respondents were top management and middle management who do the implementation. These questionnaires were administered to the respondents personally to shorten the response time and enable on-the-spot clarification of any doubt that the

respondents might have regarding any questions. It would in essence help me introduce the topic motivating the respondent to give honest, reliable answers. According to Anderson and Pole (2001), postulates that once data has been collected, the researcher must be able to interpret it reliably also a self-administered questionnaire is the only way to elicit self-report on people's opinion, attitudes, beliefs and values, however questioners were dropped to be collected later on for respondents who had no time to answer on the spot.

3.5 Data analysis method

Descriptive statistics were used to analyze the research data. Descriptive statistics describe the main features of a collection of data quantitatively using frequency tables, percentages, arithmetic mean and standard deviation. I incorporated factor analysis in the data analysis. The arithmetic mean is a measure of central tendency which may be used to represent data in an entire population. Standard deviation is a widely used measure of variability in statistics and probability theory. It shows how much variation there is from the mean. A low standard deviation indicates that the data points tend to be very close to the mean, whereas high standard deviation indicates that the data are spread out over a large range of values.

3.6 Reliability and Validity

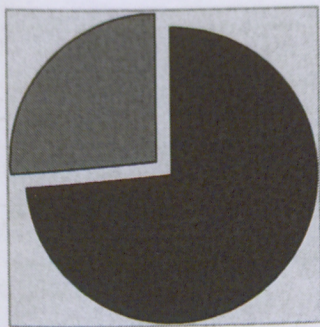
Reliability means dependability or consistency and validity means truthfulness. It refers to the bridge between the construct and the data (Neuman, 2000). True worthiness of the data collected can only be evaluated by the participants themselves. In this study given that questionnaires are used to collect data, the findings could be the opinions of respondents hence the findings may not represent the real practices of those commercial banks, their reliability and validity can only be derived from the trustworthiness of the respondents.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents analysis and findings of the study based on the interpretation of the data collected. The researcher received thirty (32) responses from a total of forty three (44) questionnaires distributed, which represents 73% response rate, thus enabling meaningful data analysis.



■ Respondents
 ■ Non Response

Source (Author 2011)

Chart on response rate received

4.2 Respondents' Profiles

This section shows the demographic details of the respondents. The respondents were asked to indicate their position in the bank. The results are shown in Table 4.1.

Table 4.1 Respondent level in the bank

| Position | Frequency | Percentage |
|-------------------|-----------|------------|
| Top Management | 12 | 38 |
| Middle Management | 15 | 47 |
| Lower Management | 5 | 15 |
| Total | 32 | 100 |

Source (Author 2012)

Table 4.1 shows that 38% of the respondents were in top management positions, 47% in middle management, and only 15% in lower management. This shows that agent banking in

most of the bank is still, in the table been debated by top management and overlooked by middle management. Most of the agent banking activities has not yet been full operationalized.

This section shows the period respondent has worked. The respondents were asked to indicate number of years worked in the bank. The results are shown in Table 4.2.

Table 4.2 Respondents' length of service in the bank

| Number of Years | Frequency | Percentage |
|-----------------|-----------|------------|
| 0-5 | 11 | 34% |
| 6-10 | 16 | 50% |
| 11-15 | 4 | 13% |
| 16 and above | 1 | 3% |
| TOTALS | 32 | 100% |

Source (Author 2012)

As shown in Table 4.2, 84% of respondents had served for up to 10 years in their respective banks, possibly implying new employment opportunities due to growth, high turnover and /or early retirement. The respondents were asked in a follow up interview for how long they have served in their current role. All the respondents had served in their current positions for less than 5 years, which may imply job rotation, upward career mobility, and the creation of posts arising from the introduction of agent banking.

4.3 Bank's Profile

The respondents were asked to indicate how many years the banks have been in operation. The results are shown in Table 4.3.

Table 4.3 Years the bank has been operational

| Years in operation | Frequency | Percentage |
|--------------------|-----------|------------|
| 0-5 | 8 | 25% |
| 6-10 | 13 | 41% |
| 11-15 | 7 | 22% |
| 16 and above | 4 | 12% |
| TOTALS | 32 | 100% |

Source (Author 2012)

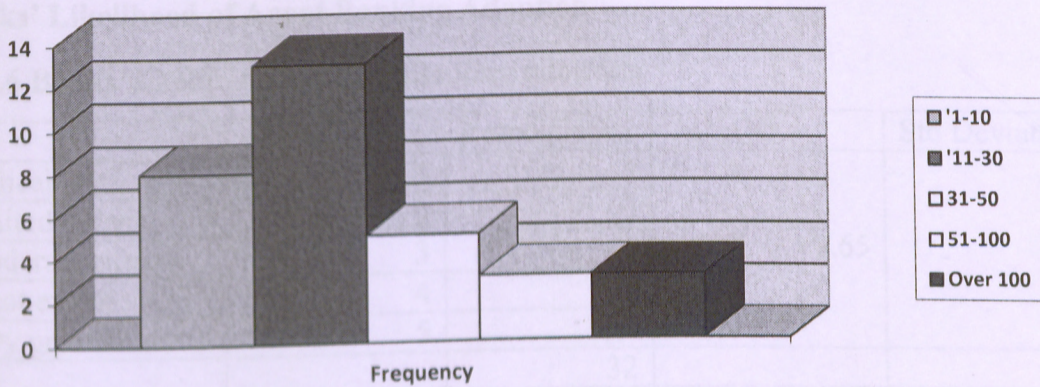
As shown in Table 4.3, 25% of the banks have been in operation for less than 5 years with 41% been operational for between 6-10 years. This shows than many new banks are coming up to take up the market that is yet to meet the countries requirements for diverse banking. Only 34% of the banks have been operational for above 10 years but compared to the number of years employees have worked its only 16% of the employees have been able to be maintained for years above 10. Only 12% of the banks have survived beyond 16 years showing that our country is still young in terms of banking services.

The respondents were asked to indicate the number branches their respective banks have in Kenya. The results are shown in Table 4.4.

Table 4.4 Branch Network

Source (Author 2012)

| Number of branches | Frequency | Percentage |
|--------------------|-----------|------------|
| 01-10 | 8 | 40 |
| 11-30 | 13 | 37 |
| 31-50 | 5 | 10 |
| 51-100 | 3 | 3 |
| Over 101 | 3 | 10 |
| Total | 32 | 100 |



Source (Author 2012)

Figure 4.4 Branch network Bar graph

As shown in Table 4.4, 77% of the respondent banks had a total of 30 or less branches, while only 13% had a branch network of more than 50 branches. This shows that only a few market players own the majority of banking outlets which may imply that the costs of setting up a branch are prohibitive.

The respondents were asked to indicate the number of employees in their respective banks. The results are shown in Table 4.5.

Table 4.5 Number of employees

| Number of employees | Frequency | Percentage |
|---------------------|-----------|------------|
| Up to 200 | 6 | 19% |
| 201 – 500 | 6 | 19% |
| 501 – 1000 | 10 | 31% |
| 1001 – 2000 | 4 | 12% |
| Above 2001 | 6 | 19% |
| Total | 30 | 100 % |

Source (Author 2012)

As shown in Table 4.5, 38% of the respondent banks had less than 500 employees, while 31% had over 1000 employees. Only 19% of these banks had over 2,000 employees. This reflects the market dominance by a few banks.

4.4 Banks' Likelihood of Agent Banking Adoption

Table 4.6 Banks' likelihood of agent banking adoption

| | Score | Respondents | MEAN | Std Deviation |
|------------------------|-------|-------------|------|---------------|
| Not applicable | 1 | 4 | 3.65 | 1.56 |
| To a limited extent | 2 | 0 | | |
| To a moderate extent | 3 | 6 | | |
| To a great extent | 4 | 15 | | |
| To a very great extent | 5 | 7 | | |
| | | 32 | | |

Source (Author 2012)

The likert scale gave 5 levels. "Not applicable" is the first level and it represents banks which are not considering having retail agents. The next level is "to a limited extent" representing banks which are considering having only very few agents. The third level is "to a moderate extent" and represents banks that are considering having a good number of retail agents. The fourth level "to a great extent" represents banks that are considering recruiting a large number of agents. The fifth level "to a very great extent" represents banks which are considering having a very wide coverage of retail agents and have already embarked on recruitment of agents.

As shown in Table 4.6, the mean score of 3.65 and the standard deviation of 1.56 indicate a high inclination towards the adoption of agent banking by most respondent banks.

4.5 Level of agency rating in relation to the market

Table 4.7 Agency rating in the market

| | Frequency | Percentile |
|--------------------|-----------|------------|
| Market leaders | 9 | 28% |
| Market Challengers | 6 | 19% |
| Market followers | 7 | 22% |
| Market Nicher | 10 | 31% |
| TOTALS | 32 | 100% |

Source (Author 2012)

As indicated in table 4.7, 31% of the banks believe they have a market niche in their area of operation i.e. they have netted customers according to either their class of income or level of borrowing and ability to appreciate service at a higher cost. While 28% of the banks, feel that they are the market leaders whereby they come up with innovative ideas on banking like Agency banking then the rest follow suit in adopting the same.

4.6 Factors Affecting Agent Banking Adoption

The respondents were asked to indicate the factors that affect the adoption of agent banking. The factors are grouped as “general” and “specific” factors. The results of the general factors are given in Table 4.8.

Table 4.8 General factors affecting agent banking adoption

| Factors | 1 | 2 | 3 | 4 | 5 | Mean | Ranking |
|---------------------------------|---|---|---|----|----|------|---------|
| Cost reduction | 0 | 0 | 3 | 1 | 28 | 4.78 | 1 |
| Enhancement of customer service | 0 | 2 | 4 | 6 | 20 | 4.41 | 3 |
| Market outreach | 1 | 1 | 3 | 4 | 23 | 4.56 | 2 |
| Technology | 0 | 0 | 7 | 8 | 16 | 4.16 | 6 |
| Competition | 0 | 0 | 8 | 6 | 18 | 4.31 | 4 |
| Infrastructure | 0 | 1 | 6 | 10 | 15 | 4.22 | 5 |

Source (Author 2012)

As shown in Table 4.8, among all the factors cited as influencing the adoption of agent banking by the respondents, the drive to reduce costs reduction ranked highest with a mean of 4.78. As agent banking does not require the traditional brick and mortar branches, it would save banks the cost of putting up branches. The opportunity to expand market outreach ranked second. Agent banking would expand the market outreach by banks through the presence of banking agents in places that could otherwise not be accessed by banks, thus reaching new customers. Pursuit of customer service enhancement ranked third. Agent banking creates convenience for customers through availability of agent outlets offering banking services. Availability of appropriate ICT infrastructure is vital for the success of provision of banking services by agents and ranked fifth with a mean of 4.22. Competition ranked fourth among the factors cited as influencing agent banking adoption with a mean of 4.31.

The respondents were asked to indicate the extent to which they agree with each of the factors listed as influencing adoption of agent banking. The results are shown in Table 4.9.

Table 4.9: Specific Factors affecting Agent Banking

| Factors | 1 | 2 | 3 | 4 | 5 | Mean | Rank | δ |
|--|---|---|----|----|----|------|------|----------|
| Enhance access of the bank's services by both existing and new customers | 0 | 0 | 0 | 12 | 20 | 4.63 | 1 | 0.49 |
| Managing credit risk, operational risk, liquidity risk and reputation risk | 0 | 0 | 4 | 10 | 18 | 4.43 | 6 | 0.72 |
| Availability of appropriate agency channels | 0 | 0 | 0 | 13 | 19 | 4.60 | 2 | 0.49 |
| The level of development of ICT infrastructure and the road network | 0 | 0 | 4 | 9 | 19 | 4.47 | 4 | 0.71 |
| Compatible Agent services with the bank's existing service offerings. | 0 | 3 | 3 | 15 | 11 | 4.06 | 11 | 0.91 |
| Competition | 0 | 2 | 4 | 8 | 18 | 4.31 | 10 | 0.93 |
| Proximity and accessibility to a bank branch by the retail agents | 2 | 5 | 10 | 8 | 7 | 2.75 | 17 | 1.18 |
| Existence of regulatory guidelines on agency banking positively supports agency banking adoption | 1 | 0 | 0 | 13 | 18 | 4.47 | 5 | 0.80 |
| Education level of agents and customers | 3 | 4 | 7 | 15 | 3 | 3.43 | 14 | 1.12 |
| Agency banking is easy to understand and use | 0 | 8 | 12 | 10 | 2 | 3.19 | 16 | 0.80 |
| Availability of physical security | 0 | 0 | 4 | 13 | 15 | 4.34 | 9 | 0.70 |
| Agency banking should initially be experimented on a limited basis | 0 | 0 | 3 | 10 | 19 | 4.5 | 3 | 0.67 |
| Collaboration with other banks on various aspects | 2 | 9 | 4 | 9 | 8 | 3.38 | 15 | 1.31 |
| Increase in revenue | 0 | 0 | 5 | 8 | 19 | 4.43 | 7 | 0.76 |
| Increased savings in customers side | 0 | 0 | 4 | 11 | 17 | 4.4 | 8 | 0.71 |
| The population of an area | 0 | 0 | 9 | 12 | 11 | 4.06 | 12 | 0.80 |
| Lack of proper support from management | 2 | 2 | 8 | 8 | 12 | 4 | 13 | 1.20 |

Source (Author 2012)

As shown in Table 4.9., the responses were scored on a scale of 1 – 5, with 1 representing the respondent's strong disagreement and 5 representing strong agreement with each of the factors. The prospects that agent banking could enhance access to the banks 'services by both existing and new customers ranked highest with a mean score of 4.63. The second factor was

availability of appropriate agency channel with a mean score of 4.6, followed by agency banking should initially be experimental with a mean of 4.5

Out of the 17 factors, 13 had a standard deviation of less than 1, indicating a general consensus by respondents on the factors influencing adoption of agent banking. Three factors namely, collaboration with other banks, simplicity of agent banking and level of information technology infrastructure, had a standard deviation greater than 1 indicating varied opinions on their influence on agent banking adoption.

4.7 Benefits derived from Agency banking operation

Table 4.10 Benefits derived from Agency banking operation

| factors | 1 | 2 | 3 | 4 | 5 | MEAN | RANK | δ |
|--|---|----|----|----|----|------|------|----------|
| Increase in accounts opened | 0 | 0 | 3 | 4 | 25 | 4.69 | 1 | 0.64 |
| Add new branches | 6 | 15 | 8 | 0 | 3 | 2.34 | 8 | 1.09 |
| Increase in revenue | 0 | 0 | 2 | 18 | 12 | 4.31 | 2 | 0.59 |
| Increase in No. of transactions | 5 | 5 | 9 | 8 | 5 | 3.09 | 5 | 1.31 |
| Reduced staff numbers | 6 | 5 | 13 | 8 | 0 | 2.72 | 7 | 1.05 |
| Population density | 1 | 8 | 11 | 9 | 3 | 3.16 | 4 | 1.01 |
| Enlightened clients/customers | 0 | 10 | 10 | 12 | 0 | 3.06 | 6 | 0.84 |
| Decrease in human traffic in the banking halls | 2 | 5 | 9 | 12 | 4 | 3.34 | 3 | 1.10 |

Source (Author 2012)

From table 4.10 we see a summary of the benefits anticipated with the adoption of agent banking. All agree that they would be able to increase the number of accounts opened with a mean of 4.69. Increase in revenue follows with decrease in traffic in the banking halls coming third in the benefits derived from agent banking. There was a high divergence in response on increase of number of transaction as a result of agent banking; this is explained by the high standard deviation on the component of 1.3.

4.8 Factors affecting the adoption/continued operation of agent banking

As shown in table 4.11 below, the major factor that would entice adoption of agent banking was to reach more unbanked population which carried a mean of 4.25. The second factor top on consideration would be cost effectiveness in its operations as a result of opening less cost consuming agent banking centre's in places of branches. The least factor to be considered was keeping up with trend in the market. This was seen as none consequential as all banks fight for customer base in all ways possible. This was followed by increased opening of new branches and reduced cost of operation respectively. The cost of running the existing branch would still be there irrespective of opening new branches.

Table 4.11 Factors affecting the adoption/continued operation of agent banking

| FACTORS | Strongly Disagree | Disagree | Not sure | Agree | Strongly Agree | MEAN | rank | δ |
|--|-------------------|----------|----------|-------|----------------|------|------|----------|
| Cost effectiveness of its operation | 4 | 6 | 0 | 8 | 14 | 3.69 | 2 | 1.51 |
| Reach more unbanked population | 0 | 6 | 0 | 6 | 20 | 4.25 | 1 | 1.16 |
| Keep up with trend | 14 | 5 | 8 | 3 | 2 | 2.19 | 9 | 1.28 |
| Enhance customer satisfaction | 2 | 8 | 0 | 12 | 10 | 3.63 | 3 | 1.33 |
| Increased opening of new branches | 12 | 10 | 2 | 4 | 4 | 2.31 | 8 | 1.42 |
| Divert customers from banking halls | 2 | 4 | 5 | 15 | 6 | 3.59 | 4 | 1.13 |
| Improved financial literacy to customers | 11 | 5 | 2 | 10 | 3 | 2.56 | 7 | 1.49 |
| Reduce cost of operation | 10 | 8 | 0 | 8 | 6 | 2.75 | 6 | 1.59 |
| Increase in customer base | 5 | 6 | 8 | 10 | 3 | 3.00 | 5 | 1.24 |

Source (Author 2012)

4.9 General feedback

The respondents identified the most of the respondents say that with the introduction of agent banking it would be able to boost their customer base and thus increase the customer numbers. They also identified reaching the unbanked in the reserves as a major change that has been influenced by agent banking. Those who have not implemented agent banking but

have intentions of the same say that their income levels would increase greatly and thus favorable branch network in the country.

The respondents suggested that we need government intervention; this covers the strict regulations that are laid down in setting up agencies. It was also identified there was lack of knowledge by the indented persons for use of agents in transacting with the bank. Some persons would walk for distances in search of a branch leaving an agent just a block away from their residential homes. This calls for the financial institutions to educate and sensitize the public on the use of agents as alternative to the banking halls.

4.10 Factor Analysis

This part sets out to correlate the findings analyzed manually with the findings as per the factor analysis schedule used

4.11 Specific factors affecting Agent banking adoption

Table 4.12: Reduce cost of operation influences agent adoption

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------|-----------|---------|---------------|--------------------|
| Strongly disagree | 10 | 31.3 | 31.3 | 31.3 |
| Disagree | 8 | 25.0 | 25.0 | 56.3 |
| Agree | 8 | 25.0 | 25.0 | 81.3 |
| Strongly agree | 6 | 18.8 | 18.8 | 100.0 |
| Total | 32 | 100.0 | 100.0 | |

Source (Author 2012)

As shown in table 4.12 there was a high percentage in agreement that adoption of agent banking is influenced by the notion of reduction in cost of operations. 25% of the respondents agree that agency banking is introduced as a way of reducing the total operation cost. This is equally matched with those who disagree with the same notion giving an indifferent on cost reduction among half of the respondents. 31.3% of the respondents strongly disagree with the introduction of agent banking as a way of reducing total cost of operation. This is part of the percentage that has also not introduced agent banking in their

operations. Accordingly 18.8% representing six of the respondent banks think and agree that reduction of cost of operation greatly influences the adoption of agency banking.

Table 4.13: Increase in customer base influences agent adoption

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------|-----------|---------|---------------|--------------------|
| Strongly disagree | 5 | 15.6 | 15.6 | 15.6 |
| Disagree | 6 | 18.8 | 18.8 | 34.4 |
| Valid Neutral | 8 | 25.0 | 25.0 | 59.4 |
| Agree | 10 | 31.3 | 31.3 | 90.6 |
| Strongly agree | 3 | 9.4 | 9.4 | 100.0 |
| Total | 32 | 100.0 | 100.0 | |

Source (Author 2012)

In table 4.13, 34% of the respondents disagree that increase in customer base would influence the adoption of agent banking. But 41% of the respondents say that the customer base is a factor to consider in operation of an agent point. This is ranked fifth in factors affecting the adoption of agent banking from the manual computation of the same.

Table 4.14: Lack of proper support from management

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------|-----------|---------|---------------|--------------------|
| Strongly disagree | 2 | 6.3 | 6.3 | 6.3 |
| Disagree | 2 | 6.3 | 6.3 | 12.5 |
| Valid Neutral | 8 | 25.0 | 25.0 | 37.5 |
| Agree | 8 | 25.0 | 25.0 | 62.5 |
| Strongly agree | 12 | 37.5 | 37.5 | 100.0 |
| Total | 32 | 100.0 | 100.0 | |

Source (Author 2012)

Management is a key factor in the success of an operation. As shown in table 4.14, 63% of the respondents agree that lack of proper support from the management inhibits the adoption of agent banking in the various commercial banks. Only 12.6% of the respondents think that management has nothing to do with the operation of agent banking.

Table 4.15: Correlation of Factors affecting agent banking

| | | Enhance access of the bank's services | Cost effectiveness of its operation | Enhance customer satisfaction | Reach more unbanked people | Increase in revenue |
|---------------------------------------|---------------------|---------------------------------------|-------------------------------------|-------------------------------|----------------------------|---------------------|
| Enhance access of the bank's services | Pearson Correlation | 1 | .878** | .858** | .845** | -.471** |
| | Sig. (2-tailed) | | .000 | .000 | .000 | .007 |
| | N | 32 | 32 | 32 | 32 | 32 |
| Cost effectiveness of its operation | Pearson Correlation | .878** | 1 | .961** | .889** | -.320 |
| | Sig. (2-tailed) | .000 | | .000 | .000 | .074 |
| | N | 32 | 32 | 32 | 32 | 32 |
| Enhance customer satisfaction | Pearson Correlation | .858** | .961** | 1 | .849** | -.254 |
| | Sig. (2-tailed) | .000 | .000 | | .000 | .160 |
| | N | 32 | 32 | 32 | 32 | 32 |
| Reach more unbanked population | Pearson Correlation | .845** | .889** | .849** | 1 | -.211 |
| | Sig. (2-tailed) | .000 | .000 | .000 | | .247 |
| | N | 32 | 32 | 32 | 32 | 32 |
| Benefit of Increase in revenue | Pearson Correlation | -.471** | -.320 | -.254 | -.211 | 1 |
| | Sig. (2-tailed) | .007 | .074 | .160 | .247 | |
| | N | 32 | 32 | 32 | 32 | 32 |

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

Source (Author 2012)

From the above table 4.15, we are able to see that there is a high correlation between Enhancement of customer satisfaction and effective cost of operation with a Pearson correlation factor of 0.961 at a significance level of 0.01. This may be as a result of satisfied customer complain less and thus less case handling leading to reduced cost or even lack of transport costs to meet customers who are far from the branches. There is a low correlation or none at all between increased revenue and the other factor influencing adoption of agent banking. This may mean the revenue is not a primary consideration in agency implementation.

In summary appendix III shows the full analysis of all the factors affecting agent banking. Taking the lead is cost reduction with a mean of 4.72, std. deviation of 0.813. This factor also

happens to be the major factor when the data is analyzed manually. Secondly we have the benefit of increased accounts opened with a mean of 4.68 and a std. deviation of 0.64 this is followed by enhanced access of the bank's services by both existing and new customers. Least important factors are to keep up with the trend which has a mean of 2.18 and also increase in opening up new branches.

4.12 Limitation of the Study

The time set was short. The cost of carrying out the research was another limitation since it was self sponsored. Financial expenses of travelling from library to another to obtain the right materials write up and binding were a problem. Finally some respondents were uncooperative as some of them were busy during the working hours and could not get time for my questions.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings, conclusions and recommendations of the study. It also presents the proposed future studies that would widen the knowledge base of Agency Banking in Kenya

5.2 Summary

The findings indicated that the general factors influencing the adoption of agent banking were cost reduction in provision of banking services, followed by market outreach, enhancement of customer service, competition and technology. Infrastructure affects the same but comes in last in the general factors. Chief among the specific factors were Enhance access of the bank's services to both existing and new clients, availability of appropriate retail channels, they also agree with agency banking should be initially experimented on a limited basis before growing it exponentially.

There were significantly divergent views as regards the impact of collaboration with other banks in provision of various agent banking services for example receiving agents deposits on behalf of other banks. Sharp differences were also noted as to whether proximity and accessibility to a bank branch by the agent would make them more successful or not. There was a clear indication that the banking sector is enthusiastic about agent banking, particularly given the mobile money transfer success in Kenya and the opportunity to reach the unbanked and under-banked population in otherwise remote areas. There were sharp differences on the benefits the banks think they would generate from agency banking. Decrease in human traffic in the banking hall was leading with a mean of 1.1, then followed by reduces staff numbers as most thought it would not affect the staff numbers in anyway.

Factor analysis brings in the correlation of different factors showing the extent to which they are depended to each other. It is seem that there is a high correlation between the various factors influencing agent banking adoption. It is high between customer satisfaction and cost

reduction and also in relation to reaching more of the unbanked population. Increase in revenue as per the study is a secondary consideration as it has no major correlation with the other factors analyzed.

There was a clear indication that the general public needs to be educated in the use of agents as an alternative to visit physical branches to transact their financial needs. More banks need to embrace agency banking to tap to the more than 50% who are still unbanked due to proximity of physical banking halls.

5.3 Conclusion

The findings of the study reveal that the banking sector is eager to embrace agent banking as an alternative service delivery channel. Agent banking presents opportunity for rapid expansion at minimal cost by leveraging on the existing investment of the retail agents through information and communication technology. The study shows that the main factors that influence agent banking adoption among commercial banks in Kenya are the prospects of cost reduction, and customer service enhancement.

5.3 Recommendations

This study found that the introduction of third party retail agents presents several risk factors with regard to effective regulation and supervision of banks, which include operational risks, money laundering, credit risk and reputational risk. It is therefore recommended that, the regulator closely monitors the banking sector and strictly enforces compliance with the agent banking guidelines, while the banks continuously ensure careful vetting of agents.

5.4 Limitation of the Study

The study like other research studies had limitations in that the not all respondent were able to give feedback with some delegating to juniors staff to fill out the questionnaires. The cost of carrying out the research was another limitation since it was self sponsored. Financial expenses of travelling from library to another to obtain the right materials write up and binding were a problem. Finally some respondents were uncooperative as some of them were busy during the working hours and could not get time for my questions

5.5 Suggestions for Further Research REFERENCES

This study determined the factors that influence agent banking adoption among commercial banks in Kenya. However, it did not establish the impact of agent banking with regard to financial access by the un-banked population. Therefore, future research studies could be conducted to gauge the extent of financial inclusion through agent banking in Kenya. Also research needs to be done on residents of the country of a sample of a town have embraced agent banking as an alternative banking channel.

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APPENDICES

Appendix I: List of Commercial Banks in Kenya

- 1) Bank of Africa (K) Ltd.
- 2) Bank of India
- 3) Citibank N.A. Kenya
- 4) Bank of Baroda (K) Ltd.
- 5) Barclays Bank of Kenya Ltd.
- 6) Consolidated Bank of Kenya Ltd.
- 7) City Finance Bank Ltd.
- 8) Commercial Bank of Africa Ltd.
- 9) Co-operative Bank of Kenya Ltd.
- 10) Credit Bank Ltd.
- 11) Charterhouse Bank Ltd.
- 12) Chase Bank (K) Ltd.
- 13) Diamond Trust Bank Kenya Ltd.
- 14) Development Bank of Kenya Ltd.
- 15) Ecobank Ltd
- 16) First Community Bank
- 17) K-Rep Bank Ltd.
- 18) Standard Chartered Bank (K) Ltd.
- 19) Gulf Africa Bank (K) Ltd
- 20) Prime Bank Ltd.
- 21) Habib Bank A.G. Zurich
- 22) Habib Bank Ltd.
- 23) Kenya Commercial Bank Ltd.
- 24) National Bank of Kenya Ltd.
- 25) Jamii Bora Bank Ltd.
- 26) CFC Stanbic Bank Ltd.
- 27) African Banking Corporation Ltd.
- 28) Dubai Bank Kenya Ltd
- 29) Equatorial Commercial Bank Ltd.
- 30) Equity Bank Ltd.
- 31) Family Bank Ltd.
- 32) Fidelity Commercial Bank Ltd.
- 33) Fina Bank Ltd.
- 34) Giro Commercial Bank Ltd.
- 35) Guardian Bank Ltd.
- 36) Imperial Bank Ltd.
- 37) Middle East Bank (K) Ltd.
- 38) NIC Bank Ltd.
- 39) Oriental Commercial Bank Ltd.
- 40) Paramount Universal Bank Ltd.
- 41) UBA Kenya Bank Ltd.
- 42) Trans-National Bank Ltd.
- 43) Victoria Commercial Bank Ltd.
- 44) Housing finance ltd (Mortgage financial institution)

Source: Central Bank of Kenya (2011)

Appendix II:

QUESTIONNAIRES

Part One:

1. Name of your Bank.....

Agent name used by your Bank.....

2. Position held in the bank

Top management.....

Middle management.....

Lower management.....

3. How long have you worked in the bank

| Number of Years | |
|-----------------|--|
| 0-5 | |
| 6-10 | |
| 11-15 | |
| 16 and above | |

4. How long has the bank been in operation as a commercial bank?

| Number of Years | |
|-----------------|--|
| 0-5 | |
| 6-10 | |
| 11-15 | |
| 16 and above | |

5. How many branches does the bank have in operation?

| Number of branches | |
|--------------------|--|
| 1-10 | |
| 11-20 | |
| 21-40 | |
| 41-60 | |
| 61-80 | |
| 81 and above | |

6. How many employees does the bank have?

| | |
|---------------------|--|
| Number of employees | |
| Up to 200 | |
| 201-500 | |
| 507-1000 | |
| 1001-2000 | |
| 2001 and above | |
| | |

Part two

1. In a scale of 1-5, to what extent is your bank considering agent banking adoption?

| Factors | Tick as applicable |
|------------------------|--------------------|
| Not applicable | |
| To a limited extent | |
| To a moderate extent | |
| To a great extent | |
| To a very great extent | |

2. In relation to the market and competition, where would you rate the level of agency for your bank?

- i) Market leaders
- ii) Market Challengers
- iii) Market Followers
- iv) Market nicher

3. Indicate in a scale of 1-5 which factors are affecting agent banking adoption

3.1 General factors

| Factors | 1 | 2 | 3 | 4 | 5 |
|---------------------------------|---|---|---|---|---|
| Cost reduction | | | | | |
| Enhancement of customer service | | | | | |
| Market outreach | | | | | |
| Technology | | | | | |
| Competition | | | | | |
| Infrastructure | | | | | |

3.2 Specific factors affecting agent banking

| Factors | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| Enhance access to the bank's services by both existing and new customers | | | | | |
| Managing credit risk, operational risk, liquidity risk and reputation risk greatly influences Agency Banking adoption. | | | | | |
| Availability of appropriate agency channels influences agency banking adoption | | | | | |
| The level of development of ICT infrastructure and the road network significantly impacts agency banking adoption. | | | | | |
| Agency banking services are compatible with the bank's existing service offerings. | | | | | |
| Competition influences the adoption of agency banking | | | | | |
| Proximity and accessibility to a bank branch by the retail agents impacts agency banking success | | | | | |
| Existence of regulatory guidelines on agency banking positively supports agency banking adoption | | | | | |
| Education level of agents and customers has a direct impact on agency banking success | | | | | |
| Agency banking is easy to understand and use | | | | | |

| | | | | | |
|---|--|--|--|--|--|
| Availability of physical security has an impact on provision of agency banking services. | | | | | |
| Agency banking should initially be experimented on a limited basis before extending it further | | | | | |
| Collaboration with other banks on various aspects e.g. receiving agents deposits on behalf of other banks, has an impact on provision of agent banking services | | | | | |
| Increase in revenue | | | | | |
| Increased savings in customers side | | | | | |
| The population of an area | | | | | |
| Lack of proper support from the owners of the business (management) | | | | | |
| | | | | | |

4. What are the benefits derived or expected from agency banking operation?

| factors | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| Increase in accounts opened | | | | | |
| Add new branches | | | | | |
| Increase in revenue | | | | | |
| Increase in No. of transactions | | | | | |
| Reduced staff numbers | | | | | |
| Population density | | | | | |
| Enlightened clients/customers | | | | | |
| Decrease in human traffic in the banking halls | | | | | |

5. Indicate Agree/ Disagree with the following factors would influence your adoption/continued operation of agent banking.

| FACTORS | Strongly Disagree | Disagree | Not sure | Agree | Strongly Agree |
|--|-------------------|----------|----------|-------|----------------|
| Cost effectiveness of its operation | | | | | |
| Reach more unbanked population | | | | | |
| Keep up with trend | | | | | |
| Enhance customer satisfaction | | | | | |
| Increased opening of new branches | | | | | |
| Divert customers from banking halls | | | | | |
| Improved financial literacy to customers | | | | | |
| Reduce cost of operation | | | | | |
| Increase in customer base | | | | | |

Part Three

1. In your own opinion, in what ways has the bank changed/will change from its manner of operation and serving customers due to agency banking introduced?

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2. What other challenges are being faced in the implementation of agent banking?

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Appendix III: Factors affecting agent banking analysis table

Table showing factors affecting agent banking adoption/continuity

| | N | Mean | Std. Deviation | Std. Error Mean |
|--|----|--------|----------------|-----------------|
| To what extent does cost reduction affect agent banking adoption | 32 | 4.7188 | .81258 | .14364 |
| To what extent does Enhancement of customer service affect agent banking adoption | 32 | 4.0313 | 1.35562 | .23964 |
| To what extent does Market Outreach affect agent banking adoption | 32 | 4.1563 | 1.41671 | .25044 |
| To what extent does Technology affect agent banking adoption | 32 | 3.9688 | 1.23090 | .21759 |
| To what extent does competition affect agent banking adoption | 32 | 3.8125 | 1.49056 | .26350 |
| To what extent does infrastructure affect agent banking adoption | 32 | 3.6563 | 1.53685 | .27168 |
| Enhance access of the bank's services by both existing and new customers | 32 | 4.6250 | .49187 | .08695 |
| Managing credit risk, operational risk, liquidity risk and reputation risk | 32 | 4.4375 | .71561 | .12650 |
| Availability of appropriate agency channels | 32 | 4.5938 | .49899 | .08821 |
| The level of development of ICT infrastructure and the road network | 32 | 4.4688 | .71772 | .12688 |
| Compatible Agent services with the bank's existing service offerings. | 32 | 4.0625 | .91361 | .16150 |
| Competition | 32 | 4.3125 | .93109 | .16460 |
| Proximity and accessibility to a bank branch by the retail agents | 32 | 3.4063 | 1.18755 | .20993 |
| Existence of regulatory guidelines on agency banking positively supports agency banking adoption | 32 | 4.4688 | .80259 | .14188 |
| Education level of agents and customers | 32 | 3.3438 | 1.12478 | .19883 |
| Agency banking is easy to understand and use | 32 | 3.1875 | .89578 | .15835 |
| Availability of physical security | 32 | 4.3438 | .70066 | .12386 |

| | | | | |
|--|----|--------|---------|--------|
| Agency banking should , initially be experimented on a limited basis | 32 | 4.5000 | .67202 | .11880 |
| Collaboration with other banks on various aspects | 32 | 3.3750 | 1.31370 | .23223 |
| Increase in revenue | 32 | 4.4375 | .75935 | .13424 |
| Increased savings in customers side | 32 | 4.4063 | .71208 | .12588 |
| The population of an area | 32 | 4.0625 | .80071 | .14155 |
| Lack of proper support from management | 32 | 3.8125 | 1.20315 | .21269 |
| Benefit of Increase in accounts opened | 32 | 4.6875 | .64446 | .11392 |
| Leads to addition of new branches | 32 | 2.3438 | 1.09572 | .19370 |
| Benefit of Increase in revenue | 32 | 4.3125 | .59229 | .10470 |
| Benefit of Increase in No. of transactions | 32 | 3.0938 | 1.30407 | .23053 |
| Benefit of Reduced staff numbers | 32 | 2.7188 | 1.05446 | .18640 |
| Increase in customer population density | 32 | 3.1563 | 1.01947 | .18022 |
| Leads to Enlightened clients/customers | 32 | 3.0625 | .84003 | .14850 |
| Decrease in human traffic in the banking halls | 32 | 3.3438 | 1.09572 | .19370 |
| Cost effectiveness of its operation influences agent adoption | 32 | 3.6875 | 1.51205 | .26729 |
| Reach more unbanked population influences agent adoption | 32 | 4.2500 | 1.16398 | .20576 |
| Keep up with trend influences agent adoption | 32 | 2.1875 | 1.28107 | .22646 |
| Enhance customer satisfaction influences agent adoption | 32 | 3.6250 | 1.33803 | .23653 |
| Increased opening of new branches influences agent adoption | 32 | 2.3125 | 1.42416 | .25176 |
| Divert customers from banking halls influences agent adoption | 32 | 3.5938 | 1.13192 | .20010 |
| Improved financial literacy to customers influences agent adoption | 32 | 2.6875 | 1.49056 | .26350 |
| Reduce cost of operation influences agent adoption | 32 | 2.7500 | 1.58623 | .28041 |
| Increase in customer base influences agent adoption | 32 | 3.0000 | 1.24434 | .21997 |