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

PRESENTED BY

JOHNSON KAMONI WAMBUGU

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

2011

DECLARATION

I declare that this research project is my original work and that it has not been presented for a degree in any other university.

Signature…………………………..…………… **Date**……………….………..

Johnson Kamoni Wambugu

Registration No. D61/60262/2010

This research project has been submitted for examination with my approval as University Supervisor.

Signature…………………………..…………… **Date**……………….………..

Mrs. Winnie Nyamute

Lecturer, Department of Finance and Accounting

School of Business

University of Nairobi

DEDICATION

To my loving and dear wife Catherine Nyambura (Kate), daughter - Shekinah Wanjiru and son - Gift Wambugu for being my source of inspiration throughout the entire process of my MBA programme. Your steadfast prayers towards completion of my graduate studies have indeed been answered.

ACKNOWLEDGEMENT

First, I thank the almighty God for the gift and sustenance of life and for giving me the skills, knowledge, resources and energy to be able to complete this paper.

My sincere gratitude goes to my project supervisor Mrs. Winnie Nyamute for her patience, guidance and support throughout my research work and for her incisive comments, criticism and insights, which kept me focused on the project. She was always available and ready to assist.

To my dear mum Mrs. Nancy Wanjiru Wambugu and my late dad Mr. George Wambugu for their encouragement and unwavering commitment and support to my education at all times.

Many are them who assisted me and I have not acknowledged individually here. To all of them, am truly grateful for your support.

ABSTRACT

The business environment has changed and it has been characterized by stiff competition among the players and the banking industry in Kenya is no exception. Competition amongst the commercial banks has pushed the banks towards becoming more innovative. Most of the innovations were introduced in the period between 2006 and 2010. These include ATMs, credit cards, mobile banking, internet banking, youth oriented accounts, women oriented banking, children accounts and now most recently introduced within the Kenyan banking sector – agent banking. This study sought to determine the factors influencing the adoption of agency banking by commercial banks in Kenya.

The research adopted descriptive survey approach focusing on the commercial banks in Kenya that are currently operating agency banking model. Factor analysis technique was also used to interpret the open ended questions. The population of the study consisted of four (4) commercial banks, with a target respondent of forty five (45) staff members that comprise the sample frame. Sample data was collected by use of questionnaire administered through "drop and pick" technique by the researcher. Observation and personal interviews were also conducted to validate the data obtained from the questionnaires. Data analysis method used was based on the qualitative approach using descriptive statistics; the descriptive mean and standard deviation. A comparative analysis using distribution tables, percentiles and graphical analysis was done to improve the presentation of the analyzed results for ease of interpretation. The responses from the open – ended questions were listed to obtain proportions appropriately. Frequency tabulations and cross tabulations were used to bring out the findings of the study.

The study revealed that 76.74% of the commercial banks surveyed, are locally owned whereby 51% or more of their shareholdings are domestic public owned. This was inferred by the researcher to mean that locally owned institutions are out to support local entrepreneurships hence a good enabling environment for adoption of agency banking. The study further revealed that 69.77% of the commercial banks surveyed have operated agency banking for a period between nine (9) to twelve (12) months.

The research indicated that the factors that influenced the adoption of agency banking included; Increasing customer coverage (mean 4.58, SD = 0.751), enhancing revenue (mean = 4.58, SD =

0.752), expanding customer base outside the existing branch network (mean = 4.48, SD = 0.821), high Penetration to the unbanked (mean = 4.42, SD = 0.936) and diverting customers from the crowded banking halls (mean = 4.42, SD = 0.936). This was inferred by the researcher to mean that, the major driving forces of commercial banks while adopting agency banking is increasing the banks operational capacity, while increasing revenues but at the same time reducing the operation cost.

The challenges that the research indicated to be affecting the adoption of agency banking included fraud and money laundering (mean = 4.32, SD = 0.601) and fear of break into the premises of the agents (mean = 4.13, SD = 0.645). The least of the challenges was lack of trust with the bank agents (mean = 1.194, SD = 1.147). The researcher inferred these findings to mean that, the government regulations on fraud and money laundering ought to be more stringent to deter such vices and security within the agent banking premises need to be tightened. It was also inferred that the regulations on vetting of bank agents have worked positively, thus making lack of trust with the bank agents the least of the challenges.

TABLE OF CONTENTS

Pages

DECLARATION……………………………………………………………………….……...i

DEDICATION……………………………………………………………………………...ii

ACKNOWLEDGEMENT……...………………………………………………………iii

ABSTRACT…………………………………………………………………………...iv

TABLE OF CONTENTS…………………………...……………………………......vi

ABBREVIATIONS…………………...…………..……………………………………...x

LIST OF TABLES…………………………………...………………………………….xi

LIST OF FIGURES…………………………………..………………………………..xii

CHAPTER ONE:

INTRODUCTION……………...........………………………………………………….1

1.0 Background of the study……………………………………………………………..1

1.1 Statement of the problem……………………………………………………………….5

1.2 Objectives of the study...………………………………...………………..…………….6

1.3 Significance of the study……..…………………………..…………………...……6

CHAPTER TWO:

LITERATURE REVIEW………………………………………………………………….7

2.1 Introduction…………………………………………………………………………..7

2.2 Agency Theory…………………………………………………………………………….7

2.3 Theories of Banking/ Financial Innovation…….……………………………………..11

2.3.1 Silber's Constraint Theory of Innovation…....…………..………………………11

2.3.2 Kane's Market Technology and Political Theory of Innovation....……………...12

2.3.3 Miller's Regulation and Taxation a Theory of Innovation………………………12

2.3.4 Merton's Market Efficiency Theory of Innovation..…………...………………..13

2.4 Empirical Review……………………..……………………...……………………..13

2.5 Summary of the Literature Review...……………………………………………….17

CHAPTER THREE:

RESEARCH METHODOLOGY…………………………………………………………...18

3.1 Research design………………………………………………………………………...18

3.2 Population ……………..………….……………………………………………………18

3.3 Sample……………..………..…………...……………………………………………19

3.4 Data Collection …………..……………………………………………………………19

3.5 Data Analysis and Presentation………………………………………………………...20

3.6 Reliability and Validity…………………………………………………………………21

CHAPTER FOUR:

DATA ANALYSIS, PRESENTATION AND INTERPRETATION....................................22

4.1 Introduction…………………………………………………………………………22

4.2 Demographics of the sample………………………………………………………..22

4.2.1 Position held by the Respondent with the bank………………………………….22

4.2.2 Ownership structure of Commercial banks operating agency banking………….23

4.2.3 Period of existence and operation as a commercial bank and period that the bank has operated agency banking……………….…………………………………………23

4.3 The factors influencing the adoption of agency banking by commercial banks in Kenya24

4.3.1 Investment of time and efforts by Commercial banks before adoption of agency banking…………………………………………………………………………...24

4.4 Factors influencing the continuation by commercial banks to operate agency banking in Kenya…………………………………………………………………………………26

4.5 Factors indicating the benefits derived from operating agency banking by commercial banks in Kenya…………………………………………………………………...27

4.6 Factor Analysis – Communality………………………………………………………27

4.7 Challenges affecting the adoption by commercial banks of agency banking in Kenya…27

CHAPTER FIVE:

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS…………………………….29

5.1 Introduction…………………………………………………………………………29

5.2 Summary of findings………………………………………………………………..29

5.3 Conclusions and Recommendations...……………………………………………....31

5.4 Limitations of the study……………………………………………………………….32

5.5 Suggestions for further research……………..…………………………………..........33

REFERENCES………………………………………………………………………….34

APPENDICES………………………………………………………………………….(i)

Appendix I: List of Commercial Banks Operating agency banking in Kenya……….....(i)

Appendix II: Letter of Introduction to Respondents…………………………………...(ii)

Appendix III: Sample Questionnaire……………………………………………………..(iii)

Appendix IV: Pie Chart of Position held by the respondent within the bank………...(viii)

Appendix V: Distribution of ownership structure of commercial banks operating agency banking……………………………………………………………………..(ix)

Appendix VI: Distribution of the period that the banks have operated as commercial banks in Kenya…………………………………………………………….(x)

Appendix VII: Distribution of the period that the banks have operated agent banks in Kenya………………………………………………………….....(xi)

Appendix VIII: Histogram showing respondent length of time the bank has been involved in offering agency banking………………..……………….(xii)

Appendix IX: Distribution of the Factors influencing the adoption of agency banking by commercial banks in Kenya…………………………………………...(xiii)

Appendix X: Distribution of the Factors that influences banks to continue operating agency banking…………………………………………..………….(xiv)

Appendix XI: Distribution of the Factors that best explains the benefits derived from agency banking…………………………………………………………(xv)

Appendix XII: Factor analysis – Communalities…….………………………………(xvi)

Appendix XIII: Distribution of the Challenges affecting agency banking…………..(xvii)

ABBREVIATIONS

ARMS	:	Adjustable rates mortgage
CBK	:	Central Bank of Kenya
CGAP	:	Consultative group to assist the Poor
IT	:	Information technology
MFI	:	Microfinance Institution
PIN	:	Personal Identification Number
PoS	:	Point of Sale
SACCO	:	Savings and Credit Co-operative

LIST OF TABLES

Table 4.1 Distribution of position held within the bank by the respondents

Table 4.2 Distribution of ownership structure of commercial banks operating agency banking

Table 4.3 Distribution of the period that the banks have operated as commercial banks in Kenya

Table 4.4 Distribution of the period that the banks have operated agent banks in Kenya

Table 4.5 Distribution of the investment of time and effort before adopting agency banking

Table 4.6 Distribution of the Factors influencing the adoption of agency banking by commercial banks in Kenya

Table 4.7 Distribution of the Factors that influences banks to continue operating agency banking

Table 4.8 Distribution of the Factors that best explains the benefits derived from agency banking

Table 4.9 Distribution of the Factor analysis

Table 5.0 Distribution of the Challenges affecting agency banking

LIST OF FIGURES

Figure 2.1	A diagrammatic presentation of a simplified principal – Agent Model
Figure 2.2	A diagrammatic presentation of a contextual principal – Agent Model
Figure 4.1	Pie Chart of respondent by position held within the bank
Figure 4.2	Histogram showing respondent length of time the bank has been involved in offering agency banking
Figure 4.3	Pie Chart of time and effort involved before adoption of agency banking

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

There is no satisfactory definition of a bank and term bank, as such, may apply to an organization, a financial institution operated by an individual as a sole proprietor, partnership, a corporation or other type of association. In modern use it is an establishment for the custody of money (Saddiqi, 1986).

Agency theory is based on the concept of the principal – agent relationship. In this relationship, principals represent individuals, or groups of individuals, who are in control of a set of economic functions or assets that have been delegated, by the principals, to agents, who operate them on their behalf (Jensen and Meckling, 1976).

Agency banking is the most significant shift/enhancement in banking policy in recent times (http://www.wazua.co.ke). An agent bank is a form of organization commonly used by an already established and formal financial banking institution to access the un-banked population. The main institutions closely supervise their agents, have full and round – the – clock access to the internal systems, documents, reports, records, staff and premises of the agent as far as the agency banking is concerned. The agent banking business means the business carried out by an agent on behalf of an institution as permitted under some outlined guideline. An agent bank cannot function on it's own name; it acts as an agent for the parent bank. Agents brand themselves as they wish, but make it clear to customers that they are not banks, mortgage or micro – finance firms. Agents are allowed to undertake the following services; cash deposit, withdrawals, payment of salaries, loan application, repayments and transfer of funds – CBK/PG/15 - (http://www.cbk.co.ke).

Agent banking enables clients to store, send and receive electronic money through local agents, rather than travelling to the nearest bank branch. It is hoped that by moving financial services beyond banks' traditional "bricks-and-mortar" infrastructure and shifting them to a more scalable, variable-cost channel, financial services can be provided profitably and sustainably to segments of the population that are poorer or more remote and that are currently neglected by

regulated financial institutions. The agency banking minimizes fixed cost; by leveraging existing retail outlets and stores hence financial service providers do not need to invest in their own physical infrastructure and also by using mobile phones rather than POS terminals as technology platform, financial service providers do not even have to incur equipment costs, for each new retail outlet opened and further, by remunerating the outlet with a commission per transaction rather than paying salaries to tellers, service costs are incurred only if there is business. Such a variable cost structure makes the agent's economics very simple (Plok, 2009)

CGAP Technology program, (2007) in the paper: Banking agents to reach the unbanked, which described the different approaches pioneers in Latin America have taken in establishing and managing a network of banking agents and the benefits to the different actors involved. It was observed that banking agents increase convenience of existing customers since very poor, remote clients often do not feel comfortable in a branch and do not trust banks, improves indirect branch productivity and efficiency by offering additional points of sale, expanding customer base outside the existing branch network and reducing upfront cost by leveraging existing infrastructure. The study also observed that the cost of establishing and operating one branch is equal to 40 banking agents (http://www.cgap.org).

A survey conducted by CGAP in 2007 observed that the benefits of using an agent bank to the client included; access since seemingly no problem of illiterates and the bank agents operate shops and kiosks within the vicinity of the villages or estates. In Brazil, access to finance was increased from 2,623 to 4,444 municipalities (89%), convenience, since less transaction cost to reach point of service, the opening hours of the agent bank are flexible and more than the bank branches, comfort, since there is no need to enter a branch but similar transactions are carried out at a local shop outlet (http://www.cgap.org).

Brazil which has the largest agent banking network in the world with more than 113,000 agents, close to 40,000 of which offer a broad range of banking services including cash-in, cash-out, bill payments, and account opening and loan applications conducted 2.4 billion transactions in 2009. In contrast to Kenya, agency banking in Brazil is bank-based and card-based. Transactions happen with point-of-sale (POS) devices at each agent location, not via mobile phones (http://www.cgap.org).

While one of the aims of agency banking is to boost the current penetration rate of banking services by doing away with expenses of establishing bank branches. Rules should be put in place to ensure that an agent or a person operating an agency should be vetted for reputation and morals and must be one who repays his/her loans. It has emerged that such rules come with attendant costs, which Kenya Bankers Association (KBA) said would be borne by either the agent or the bank depending on the contract signed by the two. While this is built into the structure of fees, commissions, interest rates and other charges that banks levy clients, it is still likely to save the banks money needed in establishing a branch.

Fraud and money laundering is a major challenge within the use of agency banking, thus measures, guideline and a stringent regulatory framework need to be put in place to counter this challenge. Analysts reckon that there is need for thorough scrutiny of the agents and monitor their operations to ensure that banks embrace the concept as was the case in the uptake mobile transfer solutions, and banks do not lose out the benefits inherent. While as the governments and regulatory agencies should boost the legal framework to seal any loopholes in agency banking, the greatest task will be upon the commercial banks to ensure that the appointed agents do their work efficiently, since they will be the only visible contacts with a bank's customers in the rural areas. The regulations put responsibility to the bank to determine, based on agent risk assessment, which services a particular agent should provide. Banks must also address concerns arising from third party risks like misappropriation of funds, delayed payment, short payment, excessive transaction charges and non-delivery of services when needed most in appointing and retaining agents. (http://www.financialtechnologyafrica.com)

More often than not, it has widely been discussed that financial markets are quite simply failing to meet the needs of a vast swath of society – those who are poor, and especially the poor living in rural areas – in a way that is affordable, convenient and safe. Because finance is about exchanging the cash people need on a daily basis for promises of value, and vice versa, proximity is objective number one. And because those promises need to be maintained if people are going to find finance at all useful, trust becomes the second important objective. Enter technology; if customer, retail outlet and bank are linked by a common secure technology platform, they can transact with sufficient certainty that they are dealing with whom they think they are, that transactions will be recorded and that promises will be kept. Also enter regulation;

the government will be looking over the bank's shoulder to ensure that it is doing right by the small depositor in the rural village. (Plok, 2009)

A World Bank research paper titled Measuring Financial Access around the World show that only 28 per cent of adults in developing countries have bank accounts against 81 per cent in developed countries. Even in view of the research findings, in Kenya, the Central Bank of Kenya (CBK) has decided to move cautiously and go only half the mile rather than the full hog in taking banking to the bottom of the pyramid. Bankers interviewed conceded that it was a good start that would lead to developing a learning curve on what the model holds for the sector. The fear of risks in taking banking services to the poorest has emerged as the overriding theme in new agency banking rules.

In Kenya, agency banking is regulated by the Finance Act, 2009 that became operational in January 2010. It is the prerogative of CBK to approve individual agents, who can be owner – operators, a partnership or a company. Currently, only 4 out of the 44 commercial banks in Kenya have been awarded licenses by CBK to operate agency banking. (http://www.cbk.co.ke).

The Central Bank of Kenya published on May 3rd 2010; the guidelines under which the agency banking model will be operated in Kenya and which are meant to minimize risk inherent in the agency banking system by providing a clear regulatory framework. This marked the launch of agency banking in Kenya, whereby banks, deposit – taking microfinance institutions, and mortgage finance companies could roll out their agency banking services, as per the Guideline on Agent Banking – CBK/PG/15, (http://www.cbk.co.ke).

Financial innovations can be grouped as new products for example, subprime mortgages or services which includes new organizational form like internet banking, Agency banking, which are introduced to enable the banks to respond better to changes in market demand or to improve the efficiency of the institution. Financial innovation enhances sustainability of institutions and their outreach to the poor. Various theories have been put across to explain why financial innovations occurs and they include, Silber's (1972) constraint theory, which is one of the most influential theories of financial innovation, this theory considers product innovation as the response of an organization to the constraints placed upon it. The other theory is Kane's (1984) technology and political theory which explain financial innovation as an institutional response to

financial costs created by technology. Then there is Miller's (1986) regulation and taxation theory that attributes financial innovation to attempts to alter the amount and timing of taxable income. Lastly, there is the Merton's (1990) market efficiency theory which is based on the notion that financial innovations are motivated by forces designed to increase market efficiency and improve social welfare.

1.2 STATEMENT OF THE PROBLEM

The World Bank estimates that in many countries, over half of the population, "the unbanked", has never had a bank account. The poor tend to be terrified of banks, since they are often humiliated or ignored when they try to enter them. That means they cannot leave their savings anywhere safe, pay a bill without walking with the cash to the office, or prove that they are credit worthy (wireless Intelligence, 2007).

Studies done by CGAP in other countries, specifically in Brazil, Peru and Chile has shown that there is growing interest in many parts of the developing world in delivering financial services through retail agents, including post offices, airtime resellers, and local shops. Many potential advantages have also been indentified in those countries for providers of banking services being able to transact at local retail agents.

Despite the introduction of Agency banking within the Kenyan economy in May 2010, there have been no published academic studies done so far in Kenya on factors influencing the adoption of agency banking by commercial banks in Kenya. This constitutes a gap in literature that the present study sought to bridge and to establish. This study is therefore necessary as it is informative in analyzing the factors of agency banking in Kenya specifically those that are influencing the adoption of agency banking by commercial banks. This study therefore sought to answer the question; what are the factors that have influenced the adoption of agency banking within the Kenyan banking sector?

1.3 OBJECTIVES OF THE STUDY

1. To ascertain the factors influencing the adoption of agency banking by commercial banks in Kenya.
2. To determine the challenges facing the adoption of agency banking by commercial banks in Kenya.

1.4 SIGNIFICANCE OF THE STUDY

The findings of this research may be important to the following:

- Commercial Banks – The study will be a good source of information on the factors that banks would capitalize on while operating agency banking.

- Investors / Agents – The study will assist existing and potential investors to make investment decisions when being contracted as bank agents, based on many variables. These variables will include not only the fundamental and the technical aspect, but also the psychological biases or factors that are in play within the investor and also the market.

- Corporate Managers – The management of companies may wish to examine potential benefits attributed to operating agent banks vis – a – vis opening branches.

- Academicians – By adding to the body of knowledge and form as a basis for further studies.

- Others include: Governments, Central Bank of Kenya as a regulator of agency banking in Kenya and other regulatory institutions to ensure that the regulations that exist cover all the innovations and no gaps exist.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews the literature on the agency theories, the various financial innovation and studies that have been propagated by different authors, scholars and researchers of agency banking, motivations behind agency banking, benefits and challenges faced by adoption and operation of agency banking model.

2.2 AGENCY THEORY

Agency theory is part of the positivist group of theories which derives from the financial economics literature. It postulates that the firm consists of a contract between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources. Furthermore, agency theory is based on the premise that agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor effectively whether their interests are being properly served by agents. It also assumes that principals and agents act rationally and that they will use the contracting process to maximize their wealth. This means that because agents have self-seeking motives they are likely to take the opportunity to act against the interest of the owners of the firm, for example by partaking in high levels of perquisite consumption (that is, perks) (Brigham and Gapenski, 1993). Amulyoto, (2004) refers to this dilemma as the "moral hazard" problem.

Another type of agency problem, which arises, is "adverse selection". This occurs when the principal does not have access to all available information at the time a decision is made by a manager and is thus unable to determine whether managers' actions are in the best interest of the firm. Amulyoto, (2004) argues that a state of efficiency, or "pareto – optimality", exists in the contracting relationship between principal and agent when neither party can enhance their wealth at the expense of the other. To ensure pareto – optimality in the contracting process, both principals and agents will incur contracting costs. For, instance, to minimize the risk of shirking

by agents, principals will incur monitoring expenditures, for example the cost of subjecting financial statements to external audit scrutiny. Agents, on the other hand, incur bonding cost, for example the cost of internal audit, in order to signal to principal/owners that they are acting responsibly and in a manner consistent with their contract of employment. Such action also helps managers to secure their positions in the firm and to protect their salary levels. Indeed, Wallace argues that the principal's expenditures for monitoring agents' actions are reflected in the salary paid to the agent. Therefore, it is in the agents' interest to demand monitoring services, like internal auditing, in order to reduce the risk of principals making adverse adjustments to executive compensation.

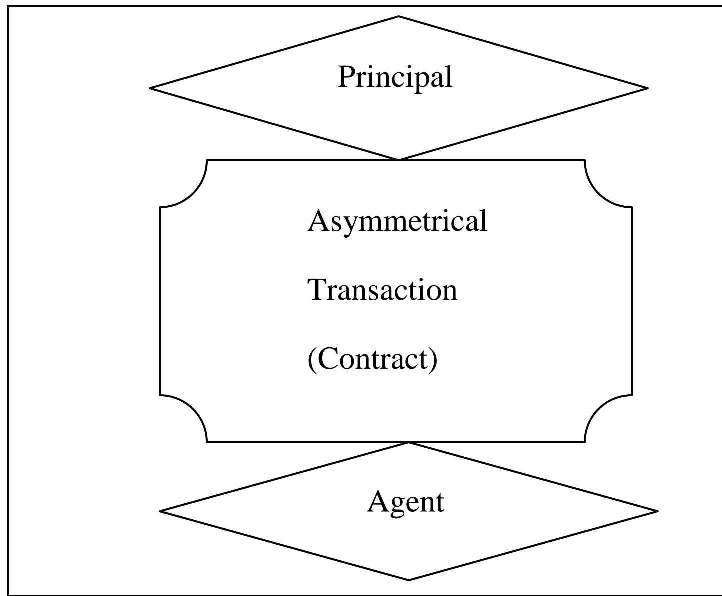
The theory of agency was first explicitly modeled by Jenses and Meckling (1976) in their study of the structure of the firm. Agency theory addresses all exchanges involving cooperative effort and delegation of work and decision making by one party (called the principal) to another (called agent). Jensen and Meckling describe an agency relationship as a contract (implicit or explicit) in which one or more persons, the principal(s), engage another person, the agent(s), to take actions on behalf of the principal(s) which involves the delegation of some decision – making authority to the agent. It is taken as unquestionable that an uninformed principal can benefit from this delegation to an informed agent and that it is in fact optimal for an uninformed principal to do so given their lack of skills, information, qualifications, knowledge and experience (Bendor, et al.. 2001).

The notion of agency is widely used in economics, philosophy, legal and social sciences, albeit with different but comparable meaning (Eck and Wieringa, 2001). In law, agency is the relationship between two legal bodies where one legal body, the agent, acts on behalf of the other (the principal), and represents the other legal body towards third parties (Eck and Wieringa, 2001). In e-business, there is a similar relationship between organizations and their information systems that represent them at a digital market place: these information systems act on behalf of the organizations that deploy them. These agents are autonomous actors in an economic or legal sense. Motivations for actions may vary with a common guide found in "self-interest" however defined (Jenses and Meckling, 1976). Critical are particular usages of 'self-interest'. Human agents autonomously choose to engage in agency relations with principals, presumably because doing so promotes, or does not conflict with their own interest (Eck and

Wieringa, 2001). By engaging in an agency relationship, however, an agent is bound to moral and legal rights that protect the interest of the principal through a legally enforceable contract entered into by both the principal and the agent (Eck and Wieringa, 2001). Neither negotiation nor strategic behavior has to stop after a contract is signed. During the execution phase of a contract, a business party may try to act as strategically as possible within the borders set by the contract.

In the simplest agency models, the organization is reduced to these two contracting characters: the principal and the agent, as demonstrated in Figure 2.2. The principal's roles are to supply capital, to bear risk, and to construct incentives, while the role of the agent are to make decision on the principal's behalf and to also bear risk (this is frequently of secondary concern) (Lambert, 2002). The principal can be thought of as a representative shareholder or the board of directors and the agent, the CEO. In more complicated agency models, there can be multiple principals and/or multiple agents. Some agents can even be both a principal and an agent. For example, in a hierarchical firm a middle level manager might be the agent of the managers above him and the principal to employees below him (Lambert, 2002). In other contexts the principal and the agent could be bondholders versus Shareholders, or Regulators versus regulate or citizens versus government policy makers, or doctor versus patient, or even two separate firms (Lambert, 2002). They, however, do not have equally proportionate roles. The principal and the agent are an asymmetric form. Agency theory thus explores the form taken by the contracting parties and the contracts used to discipline the contracting parties. Agency theory, thus seeks to determine the most efficient contract governing the two parties given its assumptions about the parties, organization and its formation. Njuguna, G. (2010). In agency banking, the contracting bank is the principal while the shop, kiosk, postal outlets are the agents.

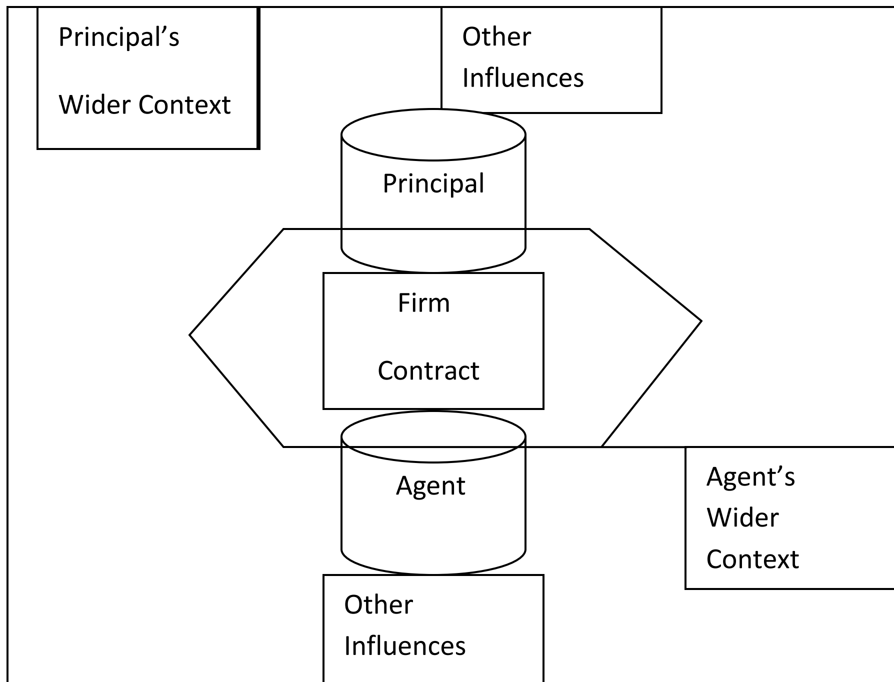
Figure 2.1: A Simplified Principal – Agent Model



Source: (Lambert, 2002)

This simplified model however ignores contextual factors which come in practical application of the principal agency model, leading to the contextual model shown in figure 2.2 below

Figure 2.2: Contextual Principal – Agent Model



Source: (Lambert, 2002)

Figure 2.2 above clearly demonstrates a confined examination of the principal – agent relationship and transaction. It is confined in the sense that only certain areas are examined and to limited depths. This is shown by the encircled area of the figure which is confined to examining solely the contract to the almost ignorance of the characteristics and components of the agent. The extent of this confinement is demonstrated in Figure 2.2 by the barest and principals contextual influences. Formulations in agency may be improved by considering the depth of the principal and agent to the relationship, and the transaction as objects with properties, that is their context, and hence examining the implications of the contextual formulations.

2.3 THEORIES OF FINANCIAL INNOVATION

2.3.1 Silber's Constraint Theory of Innovation

Silber (1975) attributes financial innovation to attempts by profit maximizing firms to reduce the impact of various types of constraints that reduces profitability. The theory points out that the purpose of profit maximization of financial institutions is the key reason of financial innovations. Silber notes that there are some restrictions (including external handicaps and internal handicaps such as organizational management) in the process of pursuing profit maximization. Although these restrictions not only guarantee the stability of management they reduce the efficiency of financial institutions so the institutions strive to cost them off.

Research literature has shown that firms that are less profitable in their respective sector are dis-proportionately innovative. Moreover, their decrease in profitability, which can be attributed to external competition or government regulation, has provided these firms with the necessary motivation to innovate in a bid to increase profitability. This finding is consistent with the suggestion in the work of Silbler that investment in innovation is a rational response to an unfavorable competition positive (Sibler, 1975, 1983). The theory discusses financial innovation from a micro – economics perspective.

2.3.2 Kane's Market Technology and Political Theory of Innovation

Kane (1984) sees financial innovation as an institutional response to financial costs created by changes in technology, market needs and political forces, particularly laws and regulations. Kane refers to the interactive process of regulation that follows institutional avoidance and innovations as dialectical process. Financial industry is special, it has stricter regulations and financial institutions have to deal with these regulations in order to reduce the potential risks to the minimum.

An example of Kane's theory where an institution responds (or adopts) to the changes in it's operating environment is the rise of the shadow banking system in the US. Economists believe the current financial crisis was triggered by the shadow banking system. This "parallel" banking system especially caused the credit market to freeze, due to lack of liquidity in the banking system. These entities which make up the shadow banking system include hedge funds. "Borrowed short-term in the liquid and then purchased long-term, illiquid risking assets". Banks cannot operate in such a manner but since they existing legislature were only designed to regulate banks, investment vehicle like hedge funds came up with risky innovative techniques in a bid to minimize their operation costs.

2.3.3 Miller's Regulation and Taxation a Theory of Innovation

Miller (1986) stated that major innovations in the last 20years have been almost exclusively the results of change in tax laws and regulations changes. The author attributed the development of many financial claims to attempts to alter the amount and timing of taxable income. Miller also notes that financial innovations are as a result of regulatory barriers and desire of financial firms to avoid the impact of regulatory constraints.

In a speech to the western Finance Association in 1986, Miller pointed out that financial innovation was a response to regulatory impediments to the working of market forces, he further acknowledged that role of Milton Friedman in the creation of financial future to speculate on the pound by taking a short position in the early 1970's at a time when one would only take a forward short position with a bank. No bank was willing to be his counterparty.

Adjustable rates mortgage (ARMS) is an example of innovations that are consistent with this theory. The tax Reform Act of 1986 which ended federal income tax deductions for non – mortgage consumer debt, spurred substantial growth in home equity lending. The theory is further supported by one of the Modigiliani and Miller proposition that states that taxes and regulations are the only reasons for investors to care what securities firms issue whether debt, equity or any other security.

2.3.4 Merton's Market Efficiency Theory of Innovation

Merton (1990) also provides a valuable rationale for financial innovation. His theory is based on the notion that financial innovations are motivated by forces designed to increase market efficiency and improve social welfare. Merton argued that the market is not perfect hence financial institutions must innovate to improve market efficiency.

According to Rene (2000) financial economists generally view the flow of funds to take advantage of investment opportunities and financial innovations lead to instability crashes and other disasters especially the 1987 crash and the derivative disasters in the 1990's but Merton was not convinced that financial innovation was to blame for the crashes.

Merton (1990) gives three motivations for producing innovations namely the creation of new financial structures that allow risk sharing, risk pooling and hedging as well as new financial structures for transferring resources, the improvement of economic efficiency and liquidity and reduction of agency costs.

2.4 EMPIRICAL REVIEW

A 2007 study conducted in Kenya by Steadman Group (now 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 shopkeeper found in every estate, village and even footpath are the most frequent source of soft loans as well as goods on credit and that the majority of Kenyans turn to them frequently. The study revealed that 74 per cent of those that had loans obtained credit from their local shopkeeper, whose main strength is 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 sources of credit to Kenyans, ranked third with savings and credit societies (Sacco's) coming second. The realization made policy makers to brainstorm on how to bring more inclusion in the financial services sector and the agency banking model came to be entertained despite the long-held prejudice that banking was a preserve of big banks with no place for customers wearing gumboots and carrying crumpled notes.

According to CGAP Technology program, (2007) in the paper: Banking agents to reach the unbanked, which described the different approaches pioneers in Latin America have taken in establishing and managing a network of banking agents and the benefits to the different actors involved. It was observed that banking agents increase convenience of existing customers since very poor, remote clients often do not feel comfortable in a branch and do not trust banks, improves indirect branch productivity and efficiency by offering additional points of sale, expanding customer base outside the existing branch network and reducing upfront cost by leveraging existing infrastructure. The study also observed that the cost of establishing and operating one branch is equal to 40 banking agents.

The study further observed that there are two different models used in agent banking; i.e Direct and Indirect model. Banamex in Mexico trains all its 2,700 banking agents. In Brazil, lemon Bank has bought the network manager Paguefacil to manage it's 4,200 agents. Banco Banespa in Brazil is using a network manager to manage it's 1,300 agents. (Presentation of Banespa representative at Banking Association event, Bogota, Colombia, (November 2006). When a mobile operator is involved, the airtime wholesales act as the network managers like in the case of Globe Telecom has a fleet of 700,000 airtime resellers in the Philippines. 2,000 of them are "Gxchange" agents and can provide GXchange clients with banking service, this includes Burger King, National Bookstore, Mercury Drugstore, and others (Interview with GXchange representative , (January 2007).

The study further observed that there were other benefits to an existing business to operate as a bank agent. In Brazil, when the POS terminal in a pharmacy broke down for three days, it's sales volume were down by 53%. In another case, revenue increased by 20% when the shop started working as a banking agent. In Brazil, many agents are able to employ staff specifically devoted

to manning the POS terminal (minimum salary is US$ 171/month). Yet in other findings of a research done by Banco Bradesco, Brazil, of all clients using the agent for bill payments and other services, 54% also purchased something else. When the research was conducted in the state of Pernambuco, Brazil showed that 90% of all interviewed clients of the 3 poorest segments, use banking agents to pay their bills. CGAP Technology program, (2007).

The survey observed that the benefits of using an agent bank to the client. They included, Access since seemingly no problem of illiterates and the bank agents operate shops and kiosks within the vicinity of the villages or estates, in Brazil, access to finance was increased from 2,623 to 4,444 municipalities (89%). Convenience, since less transaction cost to reach point of service, the opening hours of the agent bank are flexible and more than the bank branches. Comfort, since there is no need to enter a branch.

A study conducted by CGAP in 2009 in Brazil that covered 750 banking agent users and non – users whereby 90% of the sample, especially in the urban areas used agent banking showed that, Brazil has the largest agent banking network in the world with more than 113,000 agents, close to 40,000 of which offer a broad range of banking services including cash-in, cash-out, bill payments, and account opening and loan applications. Agents in Brazil conducted 2.4 billion transactions in 2009. In contrast to Kenya, agency banking in Brazil is bank-based and card-based. Transactions happen with point-of-sale (POS) devices at each agent location, not via mobile phones (http://www.cgap.org).

The study further observed that, in Brazil, banking agents are popular and their access is not a problem, Banking agents have reach to new clients, within a period of 5 years (2002-2007), 6.3 million bank accounts were opened in Brazil through banking agents whereby even the very poor segment of the population had access to financial services. CGAP Technology program, (2007).

The survey further show that it takes only 1,000 transactions per month to reach breakeven while as the negative side of it is that above 3,000 transactions per month, risk of fraud and robbery get too high. The study observed that agency banking minimizes fixed cost. By leveraging existing retail outlets and stores, financial service providers do not need to invest in their own physical infrastructure. By using mobile phones rather than POS terminals as technology platform, financial service providers do not even have to incur equipment costs, for each new retail outlet

opened. And, by remunerating the outlet with a commission per transaction rather than paying salaries to tellers, service costs are incurred only if there is business. Such a variable cost structure makes the agent's economics very simple (Plok, 2009)

The study concluded that there is growing interest in many parts of the developing world in delivering financial services through retail agents, including post offices, airtime resellers, and local shops. Being able to transact at local retail agents has many potential advantages. For providers of banking services, it allows the rollout of a much more granular distribution network without incurring the large fixed setup and operational cost of branch and ATM networks. Retail agents are very cheap to set up and are typically remunerated on a per – transaction basis, so their cost to the provider is largely variable.

Financial service providers can use agents to decongest branches, expand coverage to areas where they do not have branches, or develop lower cost services for lower – value customer segments. For the customer, agents further reduce the cost of accessing financial services by cutting down on travel time and waiting time at banking outlets. It was also observed that modern agent networks rely on technology to eliminate credit risk and ensure the finality of transactions at the point of transactions between customer and agent. Some agents use POS devices at the store in combination with customers' bank cards, while others use people's existing mobile phone as both are virtual bank card and a POS device. In either case, the technology platform is used to ensure that the bank or account issuer is able to authorize and execute transactions in real time. (Plok, 2009)

A study conducted in both Chile and Peru observed that the model being pursued by BancoEstado in Chile through its 1,600 Carjas Vecinas, as well as by large banks in Colombia (Some 4,000 agents, led by Bancolombia and Citibank) and Peru (some 2,500 agents, led by Banco de Credito del Peru and Interbank). All of those work on a card/POS system. It was also observed that there are fundamentally two types of agents: those placed near a bank branch with the objective of decongesting branches (incentisizing customers to shift lower-value transactions off-branch), and those placed in more remote areas as bank outposts. Both models were found to increase banking access, by either lowering the cost of service or expanding coverage.(Plok, 2009)

The study in Peru observed that 50% of agents have been set up in districts with no bank branches at all, which has almost tripled the number of districts with a bank presence from 5% to 14%. It is hard to assess the net impact of these schemes on financial inclusion with the public information currently available. What is known is that the use of agents is still relatively low, ranging from 30% per agent per day as reported by Banco de Credito del Peru (BCP) to 12% per agent per day as reported by Banco Estado. (Plok, 2009)

2.5 SUMMARY OF THE LITERATURE REVIEW

This chapter highlights findings that have emerged as a result of the empirical work on the study of agency banking. The studies concludes that, because finance is about exchanging the cash people need on a daily basis for promises of value, and vice versa, proximity is objective number one. And because those promises need to be maintained if people are going to find finance at all useful, trust becomes the second important objective. Enter technology; if customer, agent bank and banks are linked by a common secure technology platform, they can transact with sufficient certainty that they are dealing with whom they think they are, that transactions will be recorded and that promises will be kept. Also enter regulation; the government will be looking over the bank's shoulder to ensure that it is doing right by the small depositor in the rural village.

Agency banking should be viewed as a precursor to a more robust framework designed to increase access to credit as this is the key that will un lock economic activities in the so called remote areas. It will also enhance opening of bank accounts to those within the unbanked and increase financial literacy by aiding people to have a better appreciation of and consumption of financial services. Agency banking also helps financial institutions to divert customers from the crowded banking halls. Banks stand to benefit more as it allows the rollout of a much more granular distribution network without incurring the large fixed setup and operational cost of branch and ATM networks, additional delivery channels will make it easier to tap more deposits and transaction based income. Since retail agents are typically remunerated on a per – transaction basis, cost to the provider is largely variable. For the customer, agents further reduce the cost of accessing financial services by cutting down on travel time and waiting time at banking outlets. Fraud and money laundering is the major challenge within the use of agency banking, thus measures, guideline and a stringent regulatory framework is necessary to counter this challenge.

CHAPTER THREE

RESEARCH METHODOLOGY

The chapter presents the research design, where a brief summary of the methods of data collection that were used are outlined, the population of the study and the procedure for data analysis methods are expounded.

3.1 RESEARCH DESIGN

The research design adopted descriptive survey study on the factors that are influencing the adoption of agency banking by commercial banks in Kenya. This enabled the researcher to document the enabling and inhibiting factors in the rapid adoption and development of agency banking in Kenya the study covered only the commercial banks that have already adopted agency baking in Kenya. Consequently, this research adopted an interpretive methodology (Russell, 1996) in an interactive fashion (Hoque et. Al, 2004), where the researcher conducts both a reflective analysis (Bryman, 2001) with an initial problem focus and then observes what other issues duly emerge. This enabled the researcher build up interpretations from the direct experience, perceptions and beliefs of participants.

The choice of the study was favored by the small number of commercial banks currently licensed to operate agency banking in Kenya by CBK and the fact that most of the banks 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 will be the best method as the study seeks to find out the factors influencing the adoption of agency banking by commercial banks in Kenya.

3.2 POPULATION

The target population for the study was the commercial banks licensed by CBK to carry out agency banking. The study covered the period between the years 2010 – 2011 since agency banking was launched in Kenya on May 3rd 2010 (http://www.cbk.co.ke). The targeted

respondents were 45 bank managers and operations managers in the four commercial banks that operate agent banks.

3.3 SAMPLE

Currently there are only four (4) listed commercial banks licensed by CBK to operate agency banking as at 31st August 2011. The information was obtained from the CBK website. Thus the sample consisted of all the four (4) commercial banks which are operating agency banking. The study will focus on the operation of agency banking in Kenya with emphasis on the Kenyan capital city - Nairobi.

The study used snowball sampling method to identify the respondents in the study. The choice of this method was informed by the nature of agency banking whose data may be regarded as highly confidential by the respondents. Where the researcher was referred by a known individual to the respondent, it became easier for the respondents to divulge information even that which may be of a confidential nature.

3.4 DATA COLLECTION

The study used primary data. The primary data focused on the enabling and inhibiting factors in the adoption of agency banking. Primary data was collected by use of questionnaires (Appendix III) administered through “drop and pick technique” targeting bank managers and operations managers in the bank as the respondents. The questionnaires contained structured and semi – structured questions and consisted of three parts. Part I contains introductory and background questions pertaining personal and organizational issues considered relevant to the study. Part II contained questions to analyze the level of agency banking in the Kenyan banking sector. Part III contained questions on factors influencing the adoption of agency banking by commercial banks in. Part III also contained questions on motivation, benefits, challenges of agency banking in the Kenyan banking sector and recommendations for better conclusion on issues at hand.

The use of questionnaire was justified because they provide an effective way of collecting information from a large literate sample in a short period of time and that at a reduced cost than other methods. Moreover, questionnaire facilitates easier coding and analysis of data collected. Observations and personal interviews were conducted to validate on the questionnaires. Study's based on questionnaires have their limitations in that it is assumed that data garnered from respondent is reliable thus additional data collection methods such as interviews, observation of non-quantitative factors were used to help boost the results obtained from the questionnaires.

3.5 DATA ANALYSIS AND PRESENTATION

The process of data analysis involved several stages. After collecting data, the questionnaires were edited for completeness and consistency before processing. Data was then coded and checked for any errors and omissions. The responses from the open – ended questions were listed to obtain proportions appropriately and factor analysis technique was used to interpret the open ended questions. For the closed questions, a comparative analysis using distribution tables, quantiles (percentiles) and graphical analysis was done to improve the presentation of the analyzed results for ease of interpretation. The data was analyzed using qualitative as well as quantitative methods. Data was analyzed using Statistical Package for Social Sciences (SPSS) and the content analysis used in summarizing the findings. SPSS was considered as it is user friendly especially for coding purposes and analysis of qualitative data.

Internal consistency of the multi –item scales was tested using Cronbach's alpha. Factor analysis technique was used to interpret the open ended questions and also used to test the reliability of the items in the multi-item scales. Information was grouped into meaningful subsets and analyzed using descriptive statistics. Pie Charts, bar charts, frequency tables, percentages, mean and deviation was used to analyze the data. For better presentation and analysis, tabular presentation in the form of graphs and summary statistics that are in a self explanatory format were used to display the results of the data analyzed. Tests were also carried out to determine the extent of relationships among study variables. This formed the basis of the conclusions to the study.

3.6 RELIABILITY AND VALIDITY

According to Neuman (2000), “Reliability and validity are central issues in all measurements. Both concerns how concrete measures are connected to constructs. Reliability and validity are salient because constructs in social theory are often ambiguous, diffuse, and not directly observable. Perfect reliability and validity are virtually impossible to achieve. Rather, they are ideals researchers strive for”

Reliability means dependability or consistency, and validity means truthfulness. It refers to the bridge between the construct and the data (Neuman, 2000). When an interview is conceived as an opportunity for construction of meaning, “one cannot expect a replication of answers because they emerge from different circumstances of production” (Holstein & Gubrun, 1995). Thus, the trust worthiness of the data can only be evaluated by the participants themselves. In the case of this study, given that a questionnaire was used to collect data, the findings could be the opinions of the respondents hence the findings may not represent the real practices of those commercial banks, their reliability and validity can only be derived from the trust worthiness of the respondents.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 INTRODUCTION

This chapter gives the analysis and findings of the questionnaire administered. Generally, each question thereon has been analyzed through the use of Statistical Package for Social Sciences (SPSS) and the findings presented in frequency tables computed to show the mean, standard deviation and the percentage of each response. The analysis was presented in the form of pie charts, bar charts and tables. Cross tabulation of variables where considered apt and value adding were computed and presented in tabular format.

The respondents of this study were bank managers and operations managers of Commercial banks. Out of the sample consisting of 45 questionnaires, 1 was considered spoilt due to inconsistencies and another 1 questionnaire was not brought back. 96% of the questionnaires intended for the analysis were therefore processed. The high percentage of valid response was attributed to the simplicity of the questions, the questionnaire design and the appointment of a research assistant in the field to help collect data and provide guidance to respondents.

4.2 DEMOGRAPHICS OF THE SAMPLE

It was appropriate that demographic factors of those who completed the questionnaires be analyzed in order to provide insight into the general characteristics of the sample studies. The relevant key demographic factors identified by the researcher were; position held within the bank, ownership of the bank, the period within which the commercial bank has operated as a bank in Kenya and the period within which the commercial bank has operated agency banking in Kenya.

4.2.1 Position Held By The Respondent Within The Bank

Out of the 43 questionnaires analyzed, the respondents held the positions in their respective banks as follows. From the findings as shown in table 4.1 and figure 4.1 the bank managers

represents 44.19% of the respondents while as the operations managers represented 55.81% of the respondents. This is a fair representation as the bank managers are viewed as the policy developers while as the operation managers are the first line supervisors in the implementation of the policies hence they have deep understanding of the policies; in this case the adoption of agency banking by their respective commercial banks.

Table 4.1 Position of respondent held within the bank

Position held within the bank	**DISTRIBUTION**	
	Response	**Percentage**
Bank Manager	19	44.19
Operational Manager	24	55.81
TOTAL	**43**	**100**

Source: Research Data

4.2.2 Ownership Structure of Commercial Banks Operating Agency Banking

Commercial banks can be owned by locals, foreigners, governments or a combination of either or all. The respondents were asked to indicate the nature of ownership of their institution and the results were as shown in the table 4.2. From the research data in table 4.2, majority of the institutions are locally owned, that is the ones that are predominantly local (51% or more) which had a response rate of 76.74% and the ones that balance between locally owned with government participation which had a response rate of 23.26%. This is an indication that locally owned institutions are out to support local entrepreneurships hence a good enabling environment for adoption of agency banking which targets the unbanked population that extends to the rural areas.

4.2.3 Period of Existence and Operation as a Commercial Bank and Period That the Bank Has Operated Agency Banking in Kenya

The period within which the commercial bank has been in operation in Kenya, can influence an institutions experience in business operations and growth strategy. The Agency network can also be motivated by the customer base and performance of the commercial bank towards agency banking. The respondents were asked to indicate the length of time that the bank has been operational in Kenya and the length of time that the bank has operated agent banks in Kenya.

From the results as shown in table 4.3, most commercial banks 58.14% have operated for a period between 11 to 30 years as commercial banks in Kenya, while as 41.86% as per the respondents have operated as commercial banks for a period between 31 to 50 years. This is a clear indication that commercial banks that have participated are more experienced in their operations as commercial banks.

From the results as shown in table 4.4, most commercial banks 69.77% have operated agency banking for a period of between 9 months to 12 months. While as only 2.33% have operated for a period above 12 months. This is a clear indication that commercial banks that have participated are less experienced in the operational of agency banking. Thus the issue under research may not be too familiar to the respondents.

From the results as shown in figure 4.4, most commercial banks 69.77% have operated agency banking for a period of between 9 months to 12 months. While as only 2.33% have operated for a period above 12 months.9.3% of the respondents indicated that they have been involved in agency banking for a period of less than 3 months while 18.6% indicated that they have been involved in agency banking for a period between 4 months to 8 months. This is a clear indication that commercial banks that have participated are less experienced in the operational of agency banking. Thus the issue under research may not be too familiar to the respondents.

4.3 THE FACTORS INFLUENCING THE ADOPTION OF AGENCY BANKING BY COMMERCIAL BANKS IN KENYA

The Adoption of Agency banking is influenced by a number of factors: Some factors can be seen as measures taken in order to facilitate quick adoption as others are seen as inhibitors. Below is the discussion on the factors.

4.3.1 Whether the Commercial Banks Have Invested Time and Efforts Before The Adoption of Agency Banking

In order to gather the factors influencing the adoption of agency banking, the researcher sought also to know whether different banks have invested on both time and efforts before the adoption of agency banking. This would enable a clearer understanding as to whether the banks have taken time before the adoption of agency banking, which would in turn inform whether there

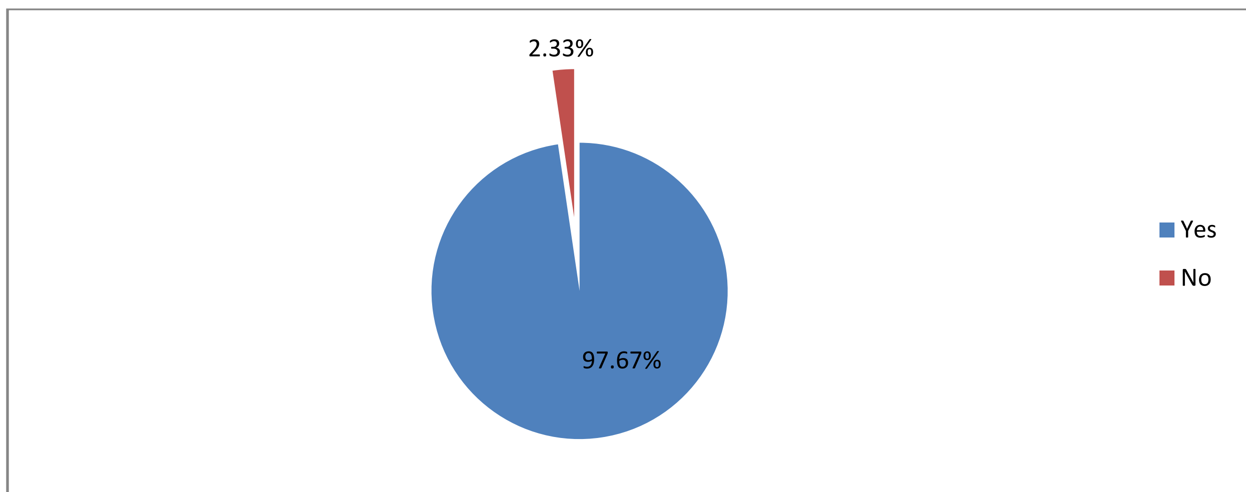
were factors that they did consider. The respondents were asked to indicate whether the commercial banks have invested time and efforts before adopting agency banking model. The following were the results.

Table 4.5 Investment of time and effort before adopting agency banking

Whether the bank has invested time and effort	DISTRIBUTION	
	Response	Percentage
Yes	42	97.67
No	1	2.33
TOTAL	**43**	**100**

Source: Research Data

Figure 4.3: Pie Chart of Time and Effort invested before adoption of agency banking



Source: Research Data

From the results as shown on the table 4.5 and in figure 4.3 above , 97.67% of the respondents indicated that their respective commercial banks have invested time and efforts in order to adopt agency banking while only 2.33% of the respondents indicated that time and efforts have not been invested before the adoption of agency banking. This was inferred by the researcher to mean that the respective commercial banks have undertaken market survey and study before launching the agent banks.

The respondents were asked to indicate the factors that have influenced the adoption of agency banking, this were rated on a five point scale. This was on a scale of 1 – 5, in which: 1 - Not at

all influences, 2 – Small Extent, 3 - Not sure, 4 – Large Extent, 5 – Very Large Extent. The results are as in table 4.6.

From the research data as shown in table 4.6, the factors to a very great extent that have facilitated the adoption of agency banking include; Increasing customer coverage, enhancing revenue, expanding customer base outside the existing branch network, high Penetration to the unbanked and diverting customers from the crowded banking halls. These were factors that indicated a representation or equivalent to influence by a very large extent. The factors that were found to be least influential included; increased savings and aid people to have a better appreciation of and consumption of financial services. This therefore means that the former factors are the major drivers.

4.4 FACTORS INFLUENCING THE CONTINUATION BY COMMERCIAL BANKS TO OPERATE AGENCY BANKING

To determine the factors that influenced the banks to continue operating agency banking, the respondents were asked questions rated on a five point scale where one (1) represented a strong level of disagreement with the statement and five (5) represented a strong level of agreement. According to the statistics in the table above, To keep up with the trend in the banking sector had a mean score of 3.36, meaning the respondents are not sure about whether to keep up with the trend in the banking sector had an influence or not. On the other hand, all the other factors had a mean score above 3.5, meaning the respondents either agree or strongly agree with the statements as factors that influenced the banks to continue operating agency banking. The findings show that being cost effective had the highest mean score of 4.75 which is equivalent to the highest level of agreement. This means that being cost effective is the single most important factor. As per the research findings, the following are the other important factors; reaching more of the unbanked population, to increase the number of customers, to reduce the operation cost of opening new branches.

4.5 FACTORS INDICATING THE BENEFITS DERIVED FROM OPERATING AGENCY BANKING BY COMMERCIAL BANKS IN KENYA

From the research data as shown in table 4.8, the factors that best explain the benefits derived from agency banking include Expansion of the bank geographical coverage, Reduction in no. of customers in the baking halls, Reduction in operational cost and Increase in the bank revenue. These were factors that indicated a representation or equivalent to influence by a very large extent. The factors that were found to least explains the benefits derived from agency banking include Increase in the market share, thus an indication that the respondents were not sure of its influence and improved customer services which was the least factor.

4.6 FACTOR ANALYSIS

Factor analysis is a statistical method used to describe variability among observed variables in terms of a potentially lower number of unobserved variables called factors. Factor analysis searches for joint variations in response to unobserved latent variables. The observed variables are modeled as linear combinations of the potential factors, plus “error” terms. The information gained about the interdependencies between observed variables can be used later to reduce the set of variables in a dataset. Factor analysis estimates how much of the variability is due to common factors (‘communality’).

The table 4.9 helps in estimating the communalities for each variance. This is the proportion of variance that each item has in common with other factors. For example high customer coverage has 95.3% communality or shared relationship with other factors. Increasing bank revenue has a communality of 97.1% with other factors. Reducing upfront cost by leveraging existing infrastructure has a communality of 88.8% while increased savings has the least communality with others of 4.13%.

4.7 CHALLENGES AFFECTING THE ADOPTION OF AGENCY BANKING IN KENYA

From the research data as shown in table 5.0, the challenges affecting the adoption of agency banking includes fraud, money laundering and fear of break into the premises of the agents are

the major challenges that the respondents anticipate to affect agency banking. These were factors that indicated a representation or equivalent to influence by a strongly extent. The factors that were found to be least challenging included Introduction of similar product by the competitors and Lack of proper government policies. This therefore means that the former factors are the major challenges affecting agency banking.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter provides a summary of the findings of this study, the conclusion, limitations of the study and recommendations for further research. The objectives of the study were to determine the factors influencing the adoption of agency banking by commercial banks in Kenya and the challenges facing the adoption of agency banking by commercial banks in Kenya.

5.2 SUMMARY OF FINDINGS AND DISCUSSIONS

The respondents of this study were the bank managers who comprised 44.19% of the total respondents and the operational managers who comprised 55.81% of the total respondents. These are staff members of commercial banks that are already operating agency banking in Kenya. Out of the 45 who were sampled, 43 of the questionnaires were analyzed, giving a response rate of 96%. (Ninety six percent).

The study revealed that majority of the commercial banks operating agency banking are locally owned whereby 51% or more of their shareholding are domestic public owned, this represented 76.74% of the commercial banks surveyed. 58.14% of those banks have operated as commercial banks for a period between 11 years and 30 years, while as 41.86% have been in operation as commercial banks within the Kenyan market for a period between 31 years and 50 years. Out of the commercial bank surveyed, 69.77% have operated agency banking for a period between 9 months and 12 months, while as 18.60% have operated agency banking for a period between 4 months and 8 months.

The above findings show that banks that are locally owned are the pioneers of agency banking in Kenya, while as the foreign owned banks have taken a skeptical approach in adopting agency banking. This can be inferred that locally owned banks are more robust in assisting and reaching to the unbanked population. It was also concluded that the period of time that the institutions have operated as commercials banks in Kenya thus gained experience has no direct influence on business operation and growth strategy of the agency banking model.

The study further revealed that 97.67% of the respondents were in agreement that their respective banks had invested time and effort before adopting agency banking, while as only 2.33% of the respondents indicating that no time and effort was invested before the adoption of agency banking. This was inferred by the researcher to mean that the respective commercial banks have undertaken market survey before launching the agent banks. Thus, the researcher further inferred that the commercial bank, after undertaking market survey, must have considered certain factors before adopting agency banking.

The study revealed that, increasing customer coverage (mean = 4.58, SD = 0.751) and enhancing revenue (mean = 4.58, SD = 0.751) were the main factors influencing the adoption of agency banking by commercial banks in Kenya. These factors were closely followed by; expanding customer base outside the existing branch network (mean = 4.48, SD = 0.821), high penetration to the unbanked (mean = 4.42, SD = 0.936) and diverting customers from the crowded banking halls (mean = 4.42, SD = 0.936). Increased customer savings, was the least influential factor in the adoption of agency banking (mean = 2.7, SD = 1.237).

From the above findings, the researcher adduced that, commercial banks were largely motivated by increasing their revenue and hence profitability thus increasing the shareholders wealth when adopting agency banking.

The study revealed that the two most influential factors for commercial banks to continue operating agency banking included; It is cost effective (mean= 4.75, SD= 0.707) and reaches more of the unbanked population hence increasing the number of customers (mean= 4.12, SD= 0.990). This was further inferred to mean that, commercial banks are motivated while carrying out their business by reducing their operation cost as they increase their operational capacity.

The study further revealed that, expansion of the bank geographical coverage (mean =4.73, SD= 0.905) and reduction in operational costs (mean =4.64, SD= 0.505) were the benefits that most of the respondents were in agreement with, brought about by the adoption of agency banking. Lack of aggressive advertisement and customer low reception of the agency banking were identified as some of the limiting factors to the successful roll out of agency banking. This was inferred by the researcher to mean that there is a positive correlation between advertisement of the bank products and the acceptability of the same by the customer.

It was revealed that the commissions paid out to agents was a motivator and therefore was the reason behind the rapid expansion of the service (mean = 3.1, SD = 1.017). The respondents cited that the agents carrying out agency banking services are conveniently located making them easily accessible to the clients (mean = 3.3, SD = 1.159). Thus, the researcher inferred that remunerating the agents on commission basis was the single most motivator to agents operating the agency banking services. While as locating the agency banks at convenient and easily accessible areas was a key factor to the successful roll – out of agency banking this far.

Top on the list of the agents' challenges was fraud and money laundering (mean = 4.32, SD = 0.601). The study noted that the second major challenge was fear of break in by thieves into the agent banking premises (mean = 4.13, SD = 0.645). The least of the challenges was lack of trust with the bank agents (mean = 1.194, SD = 1.147). The researcher inferred that, the government regulations on fraud and money laundering ought to be more stringent to deter such vices and security within the agent banking premises need to be tightened. On the other hand, the regulations on vetting of bank agents have worked positively, thus making lack of trust with the bank agents the least of the challenges.

5.3 CONCLUSIONS AND RECOMMENDATIONS

From the results of the research, it can be concluded that, Commercial banks have pursued growth strategies based on their ability to acquire new customers by enhancing access to the unbanked population while maximizing revenue. With agency banking and increased accessibility to electronic delivery channels for products and services, banks are continuously innovating so as to provide a wide range of products and services. Agency banking has enabled the commercial banks to reach expanded geographical coverage while customer transact through their bank accounts without walking into a bank branch. Some of the products offered through agency banking includes; access to mini statement, cheque books request, deposit of funds, withdrawal of funds, transfer of funds, loan applications, utility payments services and balance enquiry. The study carried out has made four conclusions as high lightened below.

Firstly, it was found that majority of the commercial banks operating agency banking are locally owned, and that a successful past for commercial banks is no guarantee for early adoption of

agency banking model. Since currently out of the forty four (44) commercial banks, only four (4) have adopted the agency banking model.

Secondly, the factors to a very great extent that have facilitated the adoption of agency banking by commercial banks includes: Increasing customer coverage and enhancing revenue. While as the benefits that commercial banks accrue from the adoption of agency banking includes, reduction in operational costs and expansion of the bank geographical coverage

Thirdly, the serious challenges facing the success of agency banking are: fraud, money laundering, fear of break in by thieves into the agent banking premises and lack of proper government policy.

Fourthly, despite the lack of aggressive advertisement by commercial banks on agency banking, the commissions paid out to agents were a great motivator and therefore was the reason behind the rapid expansion of the service.

5.4 LIMITATIONS OF THE STUDY

There were numerous setbacks encountered in the course of carrying out this research and only the most significant ones are mentioned here:

One of the major limitations this study incurred was the population of the study; the target population of the study was the commercial banks licensed by CBK to carry out agency banking in Kenya. Currently there are only four (4) commercial banks licensed to operating agency banking out of forty four (44) commercial banks in the country. Thus, the researcher could not get information from other commercial banks who are awaiting approval of their licenses by CBK to operate agency banking.

The second limiting factor was that most of the respondents sought did not manage to put sufficient time on the questionnaire and thus the findings could be because of a hurried work. This is attributed to the fact that most of the respondents were top or middle level managers who are usually busy.

The third limitation faced by the researcher was that most of the respondents did not answer the open ended questions. Rigidity to information disclosure by the staff posed a great limitation. Thus the researcher could not be able to get the full information on the other factors influencing the adoption of agency banking by commercial banks in Kenya.

The fourth limitation faced by the researcher was the time frame. Agency banking having been launched in Kenya on May 3rd 2010 is a fairly new model within the banking sector. Hence this research only covered a period between the years 2010 to 2011. The period covered by this research is generally short since most of the agency banking department within the sampled commercial banks are in their formative stages, thus a more comprehensive view of the topic under study may not be attained.

In addition to the above, the fifth limitation faced was that the topic of the study suffers from scarcity of empirical literature and furthermore, most of the literature available is for studies conducted in different continents of the world other than Africa.

5.5 SUGGESTIONS FOR FURTHER RESEARCH

The study was concerned with commercial banks in Kenya that have already been licensed by CBK to operate agency banking. There is need to replicate these results to cover other banks that will adopt agency banking model in future hence increase the population and the sample frame.

As rigidity to information disclosure by the staff posed a great limitation. This challenge can be handled through public relation and the use of letters of identification from the university to support the research. Hence further studies will cover more factors from open ended questions.

Further study should look at the secondary data produced by the commercial banks and regulatory agencies to compare and analyze their findings. Such studies could cover topics like the influence of agency banking on financial performance of the commercial banks in Kenya.

As more research is carried out on the topics relating to agency banking in Kenya and Africa at large which include this study, coupled with more commercial banks embracing agency banking. Such studies can include the impact of agency banking in Kenya. This will continue to add to the body of knowledge and form as basis for further research.

REFERENCES

Aaker David (1996) Should you take your brand to where the action is. Harvard Business Review Sept 1986.

Ackerberg, D.A. and Gowrisankaran, G (2006) Quantifying equilibrium network externalities in the ACH banking industry, RAND Journal of Economics, 37(3), 738 – 761.

Amulyoto A.L. (2004) Addressing the Agency Problem among NGOs Dealing with Refugees in Kenya. *Unpublished MBA Project*, Unviersity of Nairobi.

Ansoff H.I and McDonnell, E.J. (1990). Implementing Strategic Management, 2nd Edition, Prentice Hall.

Bendor, J. Glazer A. and Hammond T. (2001) Theories of Delegation. *Annual Review of Political Science* Vol.4: 235 – 269.

Brigham, E.F. and Gapenski,L.C. (1993). Intermediate Financial Management. 4th edition, Orlando: The Dryden Press.

Cole, G.A (1990) Management Theory and Practice. D.P. Publications Ltd, 3rd Edition.

Cooper Rg (1993), winning at new Products, Accelarating the process from idea to launch, MA: Addison – Wesley.

Curan, J.M and Meuter, M.L. (2005) Self-service technology adoption: comparing three technologies, Journal of Services Marketing, Vol . 19, No. 2, pp. 103 – 113.

Delgado, J., Hermando, I and Nieto, M.J. (2007)Do European primarily Internet banks show scale and experience efficiencies? European, Financial Management, (13(4), 643 – 671.

Eck P. and Wieringa R. (2001). An Investigation into Agency Requirements in e – business Information Systems. In P. Miranda, B.Sharp, A.Pakstas, and J. Filipe, editors, *Proceedings of the Third International Conference on Enterprise Information systems*, ICEIS Press. Pp 1081 – 1085.

Finnerty, J.D. (1992) An overview of Corporate securities innovation, Journal of applied corporate Finance 4 (4): 23 -39.

Howcroft, B., Hamilton, R., Hewer, P. (2002), “Consumer attitude and the usage and adoption of home-based banking in the United Kingdom”, International Journal of Bank Marketing, Vol.20 No.3,pp.111-21.

http://www.cbk.co.ke

http://www.cgap.org

http://www.financialtechnologyafrica.com

http://www.wazua.co.ke

http://www.wikipedia.com

Jensen, M.C. and Meckling, W.H. (1976). Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3, 305 -360.

Kapoor, J.R., Dlabay, L.D. and Hughes, R.J. (2004), Personal finance:McGraw-Hill, New York, NY.82 96.

Kotler, P (2000) Marketing Management. Prentice Hall.

Lambert, R.A. (2002). Variance Investigation in Agency Settings. *Journal of Accounting Research* (Autumn): 633 – 647.

Levison,M. (2005). The link between services and customer satisfaction, CIO Magazine.

Medhi, I., Ratan, A., and Toyama, K. (2009) Mobile –Banking Adoption and Usage by Low Literate, Low-Income Users in the Developing World, Internationalization, Design and Global Development, Volume5623, 485 – 494.

Merton R C (1992) Financial Innovation & Economic Performance, Journal of applied corporate finance 4: 12 – 22.

Njuguna G. (2010) A survey of the Agency Problem and the Resolutions Mechanisms Among PensionSchemes in Kenya. *Unpublished MBA project*, University of Nairobi.

Oloo (2004) Banking Survey: A comprehensive survey of kenya's banking sector: *The business and financial journal*, MI ISS No(1029-2195).

Perce, J and Robinson, R (1997) Strategic Management: Strategy Formulation Implementation and Control. Irwin, 6th Edition.

Plok, M. J. (2009). Resilience in a turbulent world. *Innovations* , Volume 4.

Rogers E.M and Shoemaker F.F (2001), Communication of Innovations, The Free Press, New

Brady, M.K, and Cronin, Jr, J.J (2001),Some new thought on conceptualizing perceived service quality; A Hierarchical Approach. Journal of marketing. Vol 65.

Saunders, A and Cornett, M.M, Financial Institutions Management, sixth edition. Toronto: Mc Gra Hill.

Saddiqi, M.N (1986). Model of Islamic banking. Kazi publication, Lahore, Pakistan.

Turfano, P. (1989), Financial Innovation and first mover advantages, Journal of Financial Economics 25: 213 – 240.

Vyuptakesh, S. (2007). *International Financial Management, fourth edition*. New Delhi: Asoke K Ghosh.

World Bank research paper titled *Measuring Financial Access around the World, September 2010.*

W. Scott Frame & Lawrence J White Technological Change, Financial Innovation & Diffusion in banking working paper 2009 – 10.

Appendix 1: Commercial Banks Operating Agency Banking in Kenya as at 31st August 2011:

Source: Central Bank of Kenya Website http://www.cbk.co.ke.

Name of the Bank	Name of Agency Banks
1. Equity Bank. –	Equicash agents
2. Cooperative Bank -	Co-op kwa jirani
3. Kenya Commercial Bank –	KCB Mtaani
4. Family Bank	

Appendix II: Letter of Introduction to Respondents

Johnson Kamoni Wambugu
P.O Box 13089 – 00200
Nairobi

Dear Sir/Madam

RE: RESEARCH PROJECT QUESTIONAIRE

Am a post – graduate student at the university of Nairobi undertaking Masters in Business Administration. In fulfillment of the award of the degree, am currently undertaking a research project on Factors influencing the adoption of agency banking by commercial banks in Kenya. I have selected your bank to be one of the respondents.

I kindly request your assistance in my data collection by answering the questions to the best of your knowledge and ability. The information will be used exclusively for academic purposes and will be held in strict confidence. At no instance will the name of the bank be named in the report.

Your participation and assistance will be highly appreciated.

Yours Faithfully,

Johnson Kamoni Wambugu

Appendix III: Sample Questionnaire

Factors Influencing the Adoption of Agency Banking by Commercial Banks in Kenya.

This questionnaire is designed to analyze the factors influencing the adoption of agency banking by commercial banks in Kenya. The information collected from each questionnaire will be used for academic purposes only and the responses will be treated with utmost confidentiality.

PART I

Section 1. Back ground Information (Please tick)

1. Details of your bank?
   a. Name of the Institution (Bank) ……………………………………………………………………………………
   b. Name of Agent Banks…………………………………………………………………………………………………

2. Please indicate the position you hold within the Bank……………………………………………………………….

3. Within the Kenyan banking Sector, which of the following description suits your bank?
   a) Foreign owned, private bank (51% or more) ( )
   b) Foreign Public Owned (51% or more) ( )
   c) Privately owned domestic bank(51% or more) ( )
   d) Public owned domestic bank (51% or more) ( )
   e) With government participation (51% or more) ( )

4. How long has your bank operated as a commercial bank in Kenya?
   a) 0 – 5 Years ( )
   b) 6 – 10 Years ( )
   c) 11 – 30 Years ( )
   d) 31 – 50 Years ( )
   e) Over 50 Years ( )

5. How long has your commercial bank operated agency banking in Kenya?
   a) 0 – 3 months ( )
   b) 4 – 8 months ( )
   c) 9 - 12 months ( )
   d) Above 1 year ( )

6. The number of agents currently operational in the country……………………………………

PART II

1. Has your commercial bank invested time and effort in order to adopt agency banking model.

   YES ( )

   No ( )

2. How would you rate the level of agency banking being undertaken by your bank when compared to it's competitors within the banking sector? **(Please tick)**

   a) Market leader ( )

   b) Sufficient ( )

   c) Inadequate ( )

3. Please indicate the extent to which the following factors have influenced your bank to operate agency banking?

Factors	**Not at all Influences (1)**	**Small Extent (2)**	**Not Sure (3)**	**Large Extent (4)**	**Very Large Extent (5)**
Increase customer coverage					
increase convenience of existing customers					
Improves indirect branch productivity and efficiency by offering additional points of sale					
Expanding customer base outside the existing branch network					
Reducing upfront cost by leveraging existing infrastructure					
High Penetration to the unbanked					
Enhancing revenue					
Aid people to have a better appreciation of and consumption of financial services					
increased savings					
Reduce operation cost of opening bank branches					
Divert customers from the crowded banking halls					
Accesses to financial					

services in rural areas where banks do not have branches					

4. **State any other factors that have influenced introduction of agency banking in your bank?**

1……

2……

3……

PART III

1. **Please indicate the extent to which you agree or disagree with the following factors that influence you to continue operating agency banking?**

Factors	**Strongly Disagree (1)**	**Disagree (2)**	**Not Sure (3)**	**Agree (4)**	**Strongly Agree (5)**
Improves Financial literacy to customers					
It is cost effective					
Reaches more of the unbanked population					
To keep up with the trend in the banking sector					
To enhance customer satisfaction and convenience					
To increase the number of customers					
Reduce operation cost of opening new branches					
Divert customers from the crowded banking halls					

2. Indicate to the extent which you agree with the following statements

Factors	**Strongly Disagree (1)**	**Disagree (2)**	**Not Sure (3)**	**Agree (4)**	**Strongly Agree (5)**
The bank has increased the number of new bank accounts opened?					
The bank has added new branches within the period Agency banking have been operational?					
The bank has increased its number of transactions per day?					

3. Please indicate in what ways your bank has changed from it's manner of operating and serving customers due to the introduction of agency banking?

   1………

   2………

   3………

4. Please indicate the extent to which each of the following factors best explains the benefits derived from agency banking.

Factors	**Strongly Disagree (1)**	**Disagree (2)**	**Not Sure (3)**	**Agree (4)**	**Strongly Agree (5)**
Improved customer Services					
Reduction in no. of customers in the banking halls					
Reduction in operational costs					
Expansion of the bank geographical coverage					
Increase in the market share					
Increase in the bank revenue					

Section II: Challenges of Agency Banking.

1. **Please tick to what extent the following challenges affects agency banking in your bank.**

Factors	Strongly Disagree (1)	Disagree (2)	Not Sure (3)	Agree (4)	Strongly Agree (5)
Lack of proper Government Policies					
Introduction of similar product by the competitors					
Customers' poor response					
Lack of Trust with bank agents					
Fraud and Money Laundering					
Fear of break into the premises of the agent					

2. **Please State any other challenges that your bank encountered as a result of introduction of agency banking.**
   1……
   2……
   3……

Section III: Recommendations.

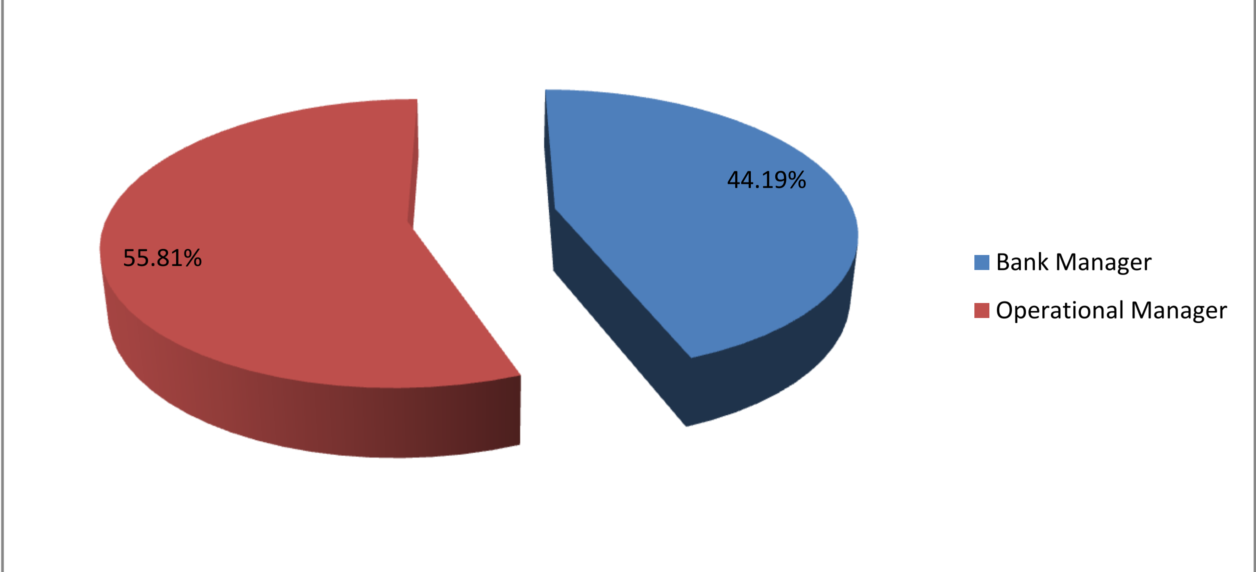
1. **In your opinion, what more needs to be done to improve the level of penetration of agency banking in Kenya? Tick in level of preference.**
   a) More Marketing (1) (2) (3) (4)
   b) Improving on the variety of products and services being offered by agents (1) (2) (3) (4)
   c) Structuring the products and services being offered in a more user – friendly (1) (2) (3) (4)
   d) Relaxing CBK / Government regulation (1) (2) (3) (4)

2. **Please add any other comment on agency banking by your bank.**
   1……
   2……
   3……

………………………………………………………………….THE END……………………………………………………………….

Appendix IV: Position Held By The Respondent Within The Bank – Pie Chart

Figure 4.1. Pie Chart of Respondents by position held within the bank



Source: Research Data

Appendix V: Ownership Structure of Commercial Banks Operating Agency Banking

Table 4.2: Ownership Structure of Commercial Banks operating agency banking

OWNERSHIP		DISTRIBUTION	
		Response	**Percentage**
Foreign owned, private bank	(51% or more)	0	0
Foreign public owned bank	(51% or more)	0	0
Privately owned domestic bank	(51% or more)	0	0
Public owned domestic bank	(51% or more)	33	76.74
With government participation	(51% or more)	10	23.26
TOTAL		**43**	**100**

Source: Research data

Appendix VI: Period That the Bank Has Operated As a Commercial Bank in Kenya

Table 4.3: Period that the bank has operated as a commercial bank in Kenya

YEARS OF OPERATION	DISTRIBUTION	
	RESPONSE	PERCENTAGE
0 - 5	0	0
6 – 10	0	0
11 – 30	25	58.14
31 – 50	18	41.86
OVER 50	0	0
TOTAL	**43**	**100**

Source: Research Data

Appendix VII: Period That the Commercial Bank Has Operated Agent Banks in Kenya

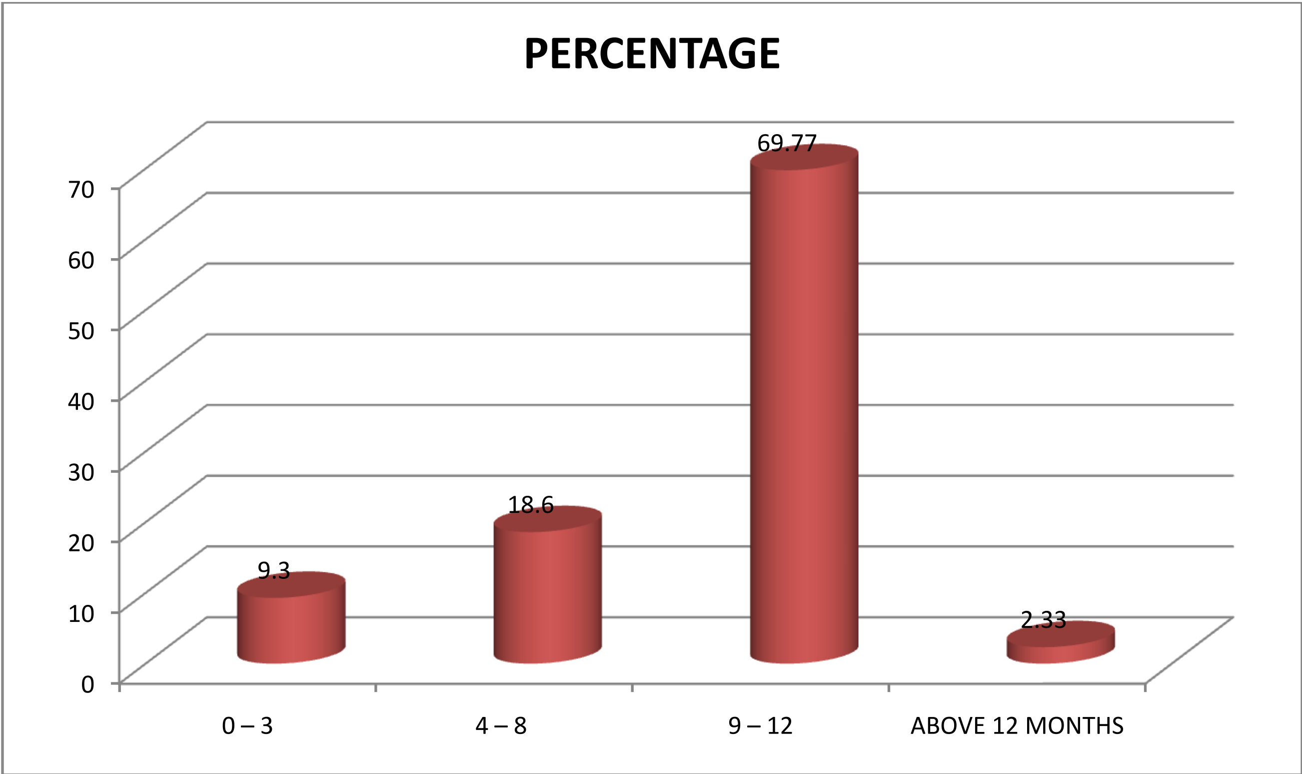
Table 4.4 Period that the commercial bank has operated agent banks in Kenya

MONTHS OF OPERATION	DISTRIBUTION	
	RESPONSE	PERCENTAGE
0 – 3	4	9.30
4 – 8	9	18.60
9 – 12	30	69.77
ABOVE 12 MONTHS	1	2.33
TOTAL	**43**	**100**

Source: Research Data

Appendix VIII: Period That the Commercial Bank Has Operated Agent Banks in Kenya - Histogram

Figure 4.2. Histogram Showing Length of Time the Bank has Been Involved in Offering Agency Banking



Source: Research Data

Appendix IX: Factors Influencing the Adoption of Agency Banking by Commercial Banks in Kenya.

Table 4.6 Factors influencing the adoption of agency banking by Commercial Banks in Kenya.

FACTORS	DESCRIPTIVE	
	MEAN	Std. DEVIATION
Increase customer coverage	4.58	0.751
increase convenience of existing customers	3.79	1.166
Improves indirect branch productivity and efficiency by offering additional points of sale	3.33	1.384
Expanding customer base outside the existing branch network	4.48	0.821
Reducing upfront cost by leveraging existing infrastructure	3.82	0. 983
High Penetration to the unbanked	4.42	0.936
Enhancing Revenue	4.58	0. 752
Aid people to have a better appreciation of and consumption of financial services	3.15	1.286
Increased customer savings	2.7	1.237
Reduce operation cost of opening bank branches	3.33	1.384
Divert customers from the crowded banking halls	4.42	0.936
Accesses to financial services in rural areas where banks do not have branches	4.09	1.084

Source: Research Data

Appendix X: Factors That Influences Banks to Continue Operating Agency Banking

Table 4.7 Factors that Influences banks to continue operating agency banking

FACTORS	DESCRIPTIVE	
	MEAN	Std. DEVIATION
Improves Financial literacy to customers	3.52	1.251
It is cost effective	4.75	0.707
Reaches more of the unbanked population	4.12	0.992
To keep up with the trend in the banking sector	3.36	1.23
To enhance customer satisfaction and convenience	3.7	1.133
To increase the number of customers	4.12	0.990
Reduce operation cost of opening new branches	3.73	1.097
Divert customers from the crowded banking halls	3.52	1.251

Source: Research Data

Appendix XI: Factors That Best Explains the Benefits Derived From Agency Banking

Table 4.8 Factors that best explains the benefits derived from agency banking.

FACTORS	DESCRIPTIVE	
	MEAN	Std. DEVIATION
Improved customer services	2.09	1.136
Reduction in no. of customers in the baking halls	4. 55	0.522
Reduction in operational cost	4.64	0.505
Expansion of the bank geographical coverage	4.73	0.905
Increase in the market share	3.41	1.044
Increase in the bank revenue	4.55	0.522

Source: Research Data

Appendix XII: Factor Analysis

Table 4.9 Communalities

FACTORS	INITIAL	EXTRACTION
High customer coverage	1	0.953
convenience to existing customers	1	0.664
Improves branch productivity and efficiency by offering additional points of sale	1	0.892
Expanding customer base outside the existing branch network	1	0.933
Reducing upfront cost by leveraging existing infrastructure	1	0.880
High Penetration to the unbanked	1	0.950
Increasing revenue	1	0.971
Aid people to have a better appreciation of and consumption of financial services	1	0.526
increased savings	1	0.413
Reduce operation cost of opening bank branches	1	0.827
Divert customers from the crowded banking halls	1	0.934
Accesses to financial services in rural areas	1	0.925

Source: Research Data

Appendix XIII: Challenges Affecting Agency Banking

Table 5.0 Challenges affecting agency banking.

FACTORS	DESCRIPTIVE	
	MEAN	Std. DEVIATION
Lack of proper government policies	2.01	1.009
Introduction of similar product by the competitors	3.30	1.104
Customers poor response	2.36	0.924
Lack of trust with bank agents	1.19	1.147
Fraud and money laundering	4.32	0.601
Fear of break into the premises of the agents	4.13	0.645

Source: Research Data