ADOPTION OF AGENCY BANKING BY EQUITY BANK KENYA LIMITED IN ITS INTERNATIONAL BUSINESS OPERATIONS

BY

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DECLARATION

This project is my original work and has not been presented in any other university or institution for a degree or any other award.

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This project has been submitted for examination with my approval as university supervisor.

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God bless you all

DEDICATION

I dedicate this project to my family for their love, prayers, encouragement and financial support.

ABSTRACT

Agency banking took effect in Kenya in May 2010 after the publication of prudential guidelines by the Central Bank of Kenya. Agency banking has been practiced in a number of countries such as Brazil, Columba, Pakistan, South Africa and Indonesia. In April 28th 2011 Equity Bank unveiled an integrated financial system aimed at widening financial access and financial inclusion. The agency banking retail approach is designed to help banks increase their outreach without incurring additional costs of setting up. The objective of the study was to determine the adoption of agency banking by equity bank in its international business operations. This study employed a case study research design. Data was collected using an interview guide. The data collected was qualitative and quantitative in nature since it describes the adoption of agency banking in international business operations by Equity Bank Ltd, Kenya. The data was checked for completeness and consistency. Responses were analyzed using content analysis. This is a qualitative technique for making inferences by systematically and objectively identifying specified characteristics. The study sought to establish the roles of agency banking and from the findings. The study indentified the functions of the agency department majorly play roles of reconciliation of agents accounts, pay agents' commissions, branding agents premises, check the systems robustness, opening agents accounts, linking accounts to easy 247 and dormant account activation among other functions. The findings of the study revealed that the main factors influencing the adoption of agent banking among commercial banks in Kenya are, (i) Cost reduction (ii) Enhancement of customer service (iii) Expanded presence by banks particularly in remote areas. It is therefore recommended that banks should adopt a risk – based approach to the supervision and regulation of agency banking. Enough security measures should be put in place. Agency banking as a branchless banking model has enabled banks to reach the unbanked population, its therefore critical that banks should allow agents to be more financially inclusive than just offering the cash transfer services, agents should be able to convert cheques into cash, deal with foreign currency exchange among other services. The selection criteria of agents should be restructured so as to favor heavy cash operations in order to meet the demand of cash availability as well as handling large cash transactions.

TABLE OF CONTENTS

Declaration .... **II**

Acknowledgements .... **III**

Dedication .... **IV**

Abstract .... **V**

CHAPTER ONE: INTRODUCTION **1**

1.1 Background of the study 1

1.1.1 International business operations 1

1.1.2 Agency banking as an approach to international business 3

1.1.3 Banking industry in Kenya 5

1.1.4 Equity Bank Limited 6

1.2 Research Problem 7

1.3 Research Objective 8

1.4 Value of the Study 8

CHAPTER TWO: LITERATURE REVIEW **10**

2.1 Introduction 10

2.2 Theoretical underpinnings 10

2.2.1 Agency Theory 10

2.2.2 Dynamic Capability Theory 11

2.3 Banking sector in Kenya 11

2.4 Agency banking 13

2.4.1 Benefits of adopting agency banking 15

2.4.2. Challenges facing agency banking 16

2.4.3 Extent of agency banking in equity bank international business operations 17

CHAPTER THREE: RESEARCH METHODOLOGY 18

3.1 Introduction 18

3.2 Research Design 18

3.3 Data Collection 19

3.4 Data Analysis 19

CHAPTER FOUR: DATA ANALYSIS,RESULTS AND DISCUSSION 21

4.1 Introduction 21

4.2 Response Rate 21

4.3 The Roles that Agency Department Carries Out 22

4.4 Factors that Led the Bank to Adopt Agency Banking 22

4.5 The Operational and Reputational Risks Involved in Using Agents 22

4.6 Importance of Agency Banking to Consumers 24

4.7 Agency Banking and Financial Inclusion 24

4.8 Effects of Agency on Banks Performance of Banks 25

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS 26

5.1 Introduction.. 26

5.2 Summary of the Findings... 26

5.3 Conclusions.. 27

5.4 Recommendations.. 28

5.6 Suggestions for Further... 29

APPENDICES.. 35

APPENDIX 1: LETTER OF INTRODUCTION.. 35

APPENDIXII: INTERVIEW GUIDE 36

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

An agency bank is a company/organization that acts in some capacity on behalf of another bank, thus cannot accept deposits or extend loans in its own name; it acts as agent for the parent bank (Getanga, 2010). It is a retail outlet contracted by a financial institution or a mobile network operator to process clients' transactions. Rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds, pay their bills, inquire about an account balance, or receive government benefits or a direct deposit from their employer (Central Bank of Kenya, 2010).

Agency banking took effect in Kenya in May 2010 after the publication of prudential guidelines by the Central Bank of Kenya. Agency banking has been practiced in a number of countries such as Brazil, Columba, Pakistan, South Africa and Indonesia. In April 28th 2011 Equity Bank unveiled an integrated financial system aimed at widening financial access and financial inclusion. The agency banking retail approach is designed to help banks increase their outreach without incurring additional costs of setting up. According to James Mwangi CEO Equity bank, through agency model financial inclusivity has rose from 8% to 35**%** equity bank believes that its big competitor is the mattress and that is why it has adopted a model that goes straight to the peoples' doorstep to persuade them to deposit money into banks.

1.1.1 International business operations

International Business (IB) deals with the nature, strategy and management of international business enterprises and their effects on business and national performance (e.g., efficiency, growth, profitability, employment). Once the firm has entered and established itself in international markets, new concerns rest primarily with operational issues in order to develop and maintain a competitive advantageous position. To operate within a company's external environment, managers must have knowledge of business operations and a working knowledge of social sciences, and how they affect all functional business fields. When going international the challenges the company must face are new and unfamiliar. Obstacles the firm never faced before are becoming crucial in the everyday work. Culture is one of these obstacles and can affect the entire company. There are a number of physical and social factors that affect international business operations. The physical and social factors include political and legal practices that vary across nations. Behavioral factors that are very different across continents economic forces and geographical influences also change the way international firms carry out their operations. Competitive factors also influence business operations. The competitive strategy influences how and where it can best operate.

Business engage in international business operations to expand their sales and acquiring new markets sometimes the domestic markets are saturated and firms look for ways to expand their sales this can only be done by looking for new markets in other countries. Acquiring new resources is also a reason why companies expand internationally this is because the emerging developing countries have large deposits of raw minerals, plenty of land and also availability of cheap labour. Developing countries do not have the expertise required and the machinery to exploit this minerals they welcome this multinational companies to employ their expertise into exploiting this resources (Beck, 2007).

The risk of doing business in a country varies from country to country therefore companies choose to expand to spread this risk. Most companies go international to look for market growth and to introduce their products into these new markets. Changing demographics and conditions over time some favorable conditions that made business flourish in a certain country might turn out hostile over time (Gupta, 2005). When this happens companies opt to look for markets in other countries that have favorable demographics. To achieve higher profits when domestic markets do not promise higher returns business firm search for foreign markets that promise higher profits.

1.1.2 Agency banking as an approach to international business

International business is defined as the performance of business activities across national boundaries (Rona, 2006). A banking agent is a retail outlet that is contracted by a financial institution to process clients' transactions. The dream of equity bank is to become a pan African bank the bank wants to expand its business to major countries in Africa. Agency banking was very successful in Kenya and equity bank decided to replicate the model to other countries in east Africa. According to central bank of Kenya as at 30th September 2012, there were 10 commercial banks that had contracted 14,168 active agents facilitating over 24.7 million transactions valued at Ksh. 144.2 billion. This was an increase from 9 banks that had contracted 12,054 active agents facilitating over 18.7 million transactions valued at Ksh. 93.1 billion in June 2012.

Agency banking model was embraced in Kenya in 2010 has led to further expansion of the distribution of banking services leading to the establishment of village banks. There were many strategies that were used by banks to expand in their quest for international expansion. Equity bank chose the agency model to expand in the east Africa region. "Their entry is also going to increase penetration and also increase access to finance for the people. This is according to

Gatete.(governor of central bank of Rwanda) Equity bank have a unique model which makes them closer to their client, which I think will work for them in this market," Gatete noted.

The Governor of Central Bank of Rwanda, Clever Gatete told Business Times in a phone interview that Equity Bank's entry will add more value to the market as it is a respected brand in the region, adding that the bank is known to attract every segment in the market, starting from ordinary people to big businesses. Equity bank Rwanda had 7 branches at the end of 2012. The bank was targeting to increase its deposits and customer base the bank adopted the agency model to reach its target. Equity initial target was to recruit 200 agents to serve the growing clientele. Currently Rwanda has 9 banks and the competition between these banks is growing. In order to beat competition the bank chose to use agency because it a powerful tool to reach financial deepening in Rwanda. "We hope to create a very competitive environment in the banking sector in terms of pricing, customer services and human capital development," Mwangi promised.

Tanzania's banking sector is set to get even more competitive after the passing of a new law that allows commercial banks to offer their services through third-party businesses. Banks can now subcontract agents to offer services like account opening, deposits, withdrawals and loan applications on their behalf. Though the agents in Tanzania have not been activated yet there are still on pilot testing though the bank has five branches in Tanzania. Equity is expecting by the end of September we will have all agents activated and operational.

1.1.3 Banking industry in Kenya

A bank is financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank is the connection between customers that have capital deficits and customers with capital surpluses. The Kenyan banking industry is one of the broadest and most developed in sub-Saharan Africa with 49 financial institutions, comprising 43 commercial banks, 1 mortgage finance company and five deposit-taking microfinance institutions (CBK 2011). These institutions, along with the Kenya Post Office Savings Bank, make up Kenya's formal banking sector and serve 22.6 percent of Kenya's adult population, according to Fin Access household survey (Beck et al., 2010).

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). According to central bank of Kenya the Kenyan Banking Sector continued to register improved performance with the size of assets standing at Ksh. 2.3 trillion, loans and advances worth Ksh. 1.32 trillion, while the deposit base was Ksh. 1.72 trillion and profit before tax of Ksh. 80.8 billion as at 30th September 2012. During the same period, the number of bank customer deposit and loan accounts stood at 15,072,922 and 2,055,574 respectively (Ndome, 2012).

1.1.4 Equity Bank Limited

Equity Bank was founded as Equity Building Society (EBS) in October 1984 and was originally a provider of mortgage financing for the majority of customers who fell into the low income population. The purpose of equity bank is to exist to transform the lives and livelihoods of our people socially and economically by availing them modern, inclusive financial services that maximize their opportunities.

The vision of equity bank is to be the champion of social-economic prosperity of the people of Africa. It has evolved from a Building Society, a Microfinance Institution, to now the all inclusive Nairobi Stock Exchange and Uganda Securities Exchange public listed Commercial Bank. With 8.5 million accounts, accounting for over 57% of all bank accounts in Kenya, Equity Bank is the largest bank in the region in terms of customer base and operates in Uganda, Tanzania, South Sudan and Rwanda. By 2012, Equity Bank had more than 7.8 million customers. The company's vision is "to be the champion of the socio-economic prosperity of the people of Africa". While resounding for-profit, Equity retains a passionate commitment to empowering Africa's poor to improve their livelihoods and prospects for self sufficiency.

Undoubtedly the business model has been a huge success prompting the development of a regional diversification strategy. The model has already been replicated in Uganda, South Sudan, Rwanda and Tanzania by establishment of wholly owned subsidiaries. Agency model was very successful in Kenya and the bank decided to replicate in other countries like Rwanda and Tanzania. The bank has 152 branches in Kenya 8 in Rwanda and 5 in Tanzania the bank has over 7720 agents in Kenya and thousands of ATM around the regions.

1.2 Research Problem

Agency banking, the offering of selected banking services through third parties appointed by the banks is expected to be one of the solutions to reaching sections of the disadvantaged in society providing them with affordable financial services and access to credit (Beck et al, 2007). With a wider distribution of agents and their availability in nearly all towns and shopping centers as opposed to the limited traditional branch network, it is expected access to financial services should become more enhanced. Due to the huge savings made by reaching people without the expense of having to build branches, employ staff and incur the various other expenses of running a branch, it follows that financial services at these points should be offered at slightly lower prices and in addition benefits those who are geographically disadvantaged by availing the services closer to them. To the banking industry besides the cost savings, banks have penetrated and reached people they would never have reached particularly in the very remote areas (Kimenya, 2002).

According to Ignacio, (2009), Reaching the unbanked people and areas has been a major challenge. Occasioned by harsh climatic conditions, rough terrain, rural and poor regions are the worst hit (Kimenya, 2002). Very few financial institutions have the will to go into these areas especially bearing in mind that the places with such harsh conditions also attract fewer people thus the population densities there are very low, Financial institutions are not willing to spend large amounts of resources building branches especially in international business which will not serve adequate numbers for them to break even profit wise.

Many studies have been done on agency banking, but the studies are not exhaustive because agency banking is still at its formative stages and a lot of new developments and new changes are coming up on a daily basis. In most countries agency banking is in the definition stages where regulators – the central banks - are also learning more about it and sealing loop holes and addressing issues as they arise. There are lots of changes and most central banks are going through stages where there is the felt need to review their guidelines to flex a bit where they have been too tight and also tighten regulations particularly where issues of fraud may arise (Rhyne,2009). In Kenya for example, agents are not allowed by the CBK guidelines to appraise customers for loan applications but it is expected that this shall be reviewed, since most commercial banks are giving this feedback to the regulator as one of the additional services they would wish to offer through agents. This study therefore sought to answer the question; what is the level of adoption of agency banking by Equity bank in its international business operation?

1.3 Research Objective

The objective of the study was to determine the adoption of agency banking by equity bank in its international business operations.

1.4 Value of the Study

The study will show how agent banking has helped to enhance financial inclusion by reaching the frontiers that wouldn't have been reached had it not for agent banking in its international business operation. This will increase and build on the existing theory and knowledge and update this theory on the changes that agent banking is going through as it develops by the day. The study will also look at other services that can be best delivered to customers through agency banking for example insurance services.

The study will also be important in policy formulation. It will be of great interest and importance to the government since it will help in the formulation and (or) modification of the various policies to assist remove any outstanding hindrances to adopting of agency banking in international business operation.

In practice, this study will be of importance to the banks because they will know how much they are gaining through agency banking by reaching that extra person they would not have reached had they not engaged agents to help on agent banking in international business operations. The study will provide information to the public and all players; the agent, customers, banks, the regulator (CBK) on the impact of agent banking on reaching the previously unreached segments of the international society. This information on the current status of agent banking in international business operations will also form part of the academic contribution of this study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the past or previous studies that have been done on agency banking, equity bank limited and international business operations. The chapter is hence broken down into concept of international business operations, banking industry in Kenya, and agency banking concept.

2.2 Theoretical underpinnings

It is appropriate to lay out the theoretical underpinnings of this study. This is henceforth undertaken in the sections hereunder.

2.2.1 Agency Theory

The agency theory views the company as a link of contracts among self-interested individuals rather than a unified, profit-maximizing entity. Agents need constant supervision and management, which raises agency costs or coordination costs. Information technology, by reducing the costs of acquiring and analyzing information, permits organizations to reduce overall management costs, and allows them to grow in revenues while shrinking the numbers of middle management and clerical workers (Laudon & Laudon, 1996).

Although this definition of agency theory views their associated costs as costs the company incurs, I believe the customer also incurs agency costs in dealing with a company. For example, the interaction with sales people, dealing with employees in problem situations, or just looking for an employee to ask for assistance, involve agency costs for the customer. Agency costs do not necessarily have to constitute monetary costs, as the definition might assume.

2.2.2 Dynamic Capability Theory

Teece et al. (1997) define dynamic capabilities as 'the ability to integrate, build, and reconfigure internal and external competencies to address rapidly-changing environments'. The concept of dynamic capabilities arose from a key shortcoming of the resource-based view of the firm. The resource-based view has been criticized for ignoring factors surrounding resources, instead assuming that they simply 'exist'. Considerations such as how resources are developed, how they are integrated within the firm and how they are released have been addressed by the dynamic capability theory. Dynamic capabilities attempt to bridge these gaps by adopting a process approach; by acting as a buffer between firm resources and the changing business environment, dynamic resources help a firm adjust its resource mix and thereby maintain the sustainability of the firm's competitive advantage which otherwise might be quickly eroded. While the resource-based view emphasizes resource choice or the selecting of appropriate resources, dynamic capability emphasizes resource development and renewal.

2.3 Banking sector in Kenya

In the dynamic and competitive world, players will always be very keen on locking up their niche markets. The Kenyan banking industry is not different and reacts similarly; currently, only four million Kenyans have bank accounts (CBK annual reports, 2010). Activity of one player is followed by a counter move. The recent past has seen the Kenyan banking industry move to agency banking. Most of the commercial banks offering retail banking services have taken it up.

The Kenyan banking industry is one of the broadest and most developed in sub-Saharan Africa with 49 financial institutions, comprising 43 commercial banks, 1 mortgage finance company and five deposit-taking microfinance institutions (CBK 2011). These institutions, along with the Kenya Post Office Savings Bank, make up Kenya's formal banking sector and serve 22.6 percent of Kenya's adult population, according to Fin Access household survey (Beck et al., 2010).

Evolution of banking in Kenya dates back to the colonial era. In 1888 the British introduced currency in the country the establishment of the currency system in Kenya had a direct bearing on how banking would evolve. The first bank was national bank of South Africa, then Barclays bank of Kenya. In Kenya the banking business is regulated by the banking act, cap 488. This act was enacted in 1989 there are other banking legislations in Kenya for example: Banking Act Cap488, Central bank of Kenya Act cap 491, The Law of contracts act Cap 23 and the Bills of Exchange Act (Bold, 2011).

Banks in Kenya perform the following functions accepting deposits the bank collects deposits from the public. The second role the bank plays is granting advances, it grants loans to business as well as individuals. The third role the bank plays is agency function the bank acts on behalf of its clients through activities like collecting cheques, periodic payments like standing orders and transfer of funds. Banks also help the economy in the following ways promoting capital formation when banks accept deposits from the surplus units they later lend this money to the deficit units. Banks not only store wealth for their clients but also lend this money out to carry out other economic activities. Influencing economic activity banks influence economic activities through availability of credit and interest rates. High interest rates discourage investments as many people shy away from borrowing when the rates are high but when the rates are low most people borrow and invest in different areas. Monetization of the economy banks are monetizing the economy their extensive branch network even in rural areas the banks are monetizing the economy (Allen, 2012).

2.4 Agency banking

Agency banking was first developed in Brazil in 1999. Although by 2000, only 1,600 municipalities in Brazil had bank branches, by 2010, some 170,000 agents cover all of the 5,500 municipalities, and nearly 12 million accounts have been opened at agents over three years. Brazil's experience has offered valuable lessons for countries where banks can contract an agent (McKay, 2011). The Banks Act allows a bank to contract agents to receive on (the bank's) behalf from its clients any deposits, money due to it or applications for loans or advances, or to make payments to such clients on its behalf.

In United States, agency banking is a form of organization commonly used by foreign banks to enter the US market. Using an agency bank allows a foreign bank to engage in financial activity on US soil. People in the United States who want to do business with the parent bank can do so through the agent, with representatives at the agency bank taking care of issues like currency exchange, transfers of funds, deposits among others. In addition to providing access to the financial industry in the United States, the agency bank also creates a method for investors in the US to access securities and other opportunities overseas with limited risk (Bold, 2011).

Agency banking was introduced in India in 2006 when banks were allowed to appoint MFIs and post offices as business correspondents for inter alia small deposit-taking. Elsewhere, agency banking refers to the points of service ranging from post offices in the outback of Australia where clients from all banks can conduct their transactions, to rural France where the bank Credit Agricole uses corner stores to provide financial services, to small lottery outlets and clients can receive their social payments and access their bank accounts (Porteous, 2006).

In Africa, the finance sector has a pivotal role to play in economic development. Across the continent a number of banks are championing sustainability and reengineering their operations to integrate agency banking models. However, in Africa, agency banking is a new concept, with the model/concept being highly implemented in Kenya and South Africa. In South Africa, the first agency banking was implemented in 2005 (Bold, 2011). The South African regulatory framework gives wide discretion to banks to use nonbank third parties to offer banking services beyond their traditional branch network, either as agents or through outsourcing arrangements. The Banks Act allows a bank to contract agents to receive on (the bank's) behalf from its clients any deposits, money due to it or applications for loans or advances, or to make payments to such clients on its behalf." The only restriction is that a bank may not enter into an agency agreement until it has provisioned for the bank's organizational extensions, purchase of a business, losses (including any loss suffered from a sale of assets), and bad debts.

Agency banking model was embraced in Kenya in 2010 has led to further expansion of the distribution of banking services leading to the establishment of village banks. Financial services were then provided from the supermarkets to canteens with much ease. With all that shaping of the banking industry in the country it was hard to know what the next move could be but what was clear was that Kenyan banks were taking financial empowerment to another level. This was not only happening in Kenya but also within the wider region as a whole. There were many strategies that were used by banks to expand in their quest for international expansion. The common ones were acquisitions, start-ups and joint ventures. Most banks chose the same or varying options when they were expanding across the borders. Equity bank chose the agency model to expand in the east Africa region.

Equity bank Rwanda had 7 branches at the end of 2012. The bank was targeting to increase its deposits and customer base the bank adopted the agency model to reach its target. Equity initial target was to recruit 200 agents to serve the growing clientele. Currently Rwanda has 9 banks and the competition between these banks is growing. In order to beat competition the bank chose to use agency because it a powerful tool to reach financial deepening in Rwanda. Setting up branch networks takes time and a lot of money plus regulations and legal requirements are tiring. By partnering with local shops supermarkets local and local hardware shops will increase the number customers as these agents are authorized to open accounts and deposits will grow as statistics show that most transactions at agent outlets are deposits.

2.4.1 Benefits of adopting agency banking

Financial inclusion has increased now more Kenyans are able to access financial services with the help of agency banking. Adoption of agency banking model helped banks to upscale their deposit levels. Customer deposits grew by 14.8 per cent from $18 billion in 2011 to $20.3 billion in 2012. The growth was attributed to increased deposit mobilization by banks as they expanded their outreach," said CBK.A survey in Nairobi noted that many Kenyans are turning to agency banking services. Branchless banking is cheaper to put up Human Resource expenses have reduced (Mohan, 2006).

The bank does not incur cost of recruiting new employees because the agent that is approved by bank is the one who hires or carries out the transactions himself. Savings on equipment like furniture and computers the agents purchase the pos machines and mobile phones. Systems are installed in the mobile phones to allow the agents to transact and send the data to the central processing center where the information is captured and data reconciled (McKay, 2011). Therefore the only cost the bank incurs is branding as the agents outlets have to be branded and look like small branches. The bank saves costs in terms of advertising and hiring sales personnel. This is the work of the agent as he is paid according to the number of transactions and accounts opened therefore the agent makes sure there is traffic in his outlet in order to earn more (Hamblen, 2008).

2.4.2. Challenges facing agency banking

Some agents disclose customer information to third parties without their knowledge that the bank owes its customers the duty of confidentiality and a breach of this duty can lead to customer taking legal actions against the bank. Most of these agencies are in areas that are what would be considered ‘high Risk’. Some agents are located along streets that are high risk areas and the agents do not take necessary measures to protect the customers. Customer Service is a huge challenge for the banks as they need to train and retrain the Agents so as to maintain high levels of customer service. The agency staff will be a target by fraudsters as they are aware that they will not be able to easily identify fraudulent transactions for example identification of documents for originality or if they are fake (Ignacio, 2009).

Most agents are not properly trained on know your customer (KYC) they do not know how to distinguish a fake identification document and a real one. Accounts opened at agent locations are also prone to money laundering transactions this is because of a few irregularities that happen during account opening (Sirken, 2009). Equity banks agents across east Africa use the bank servers to serve customers. The challenge comes in when the bank servers are down even agents cannot serve customers.

The bank should build agents their own systems and serves so that when there is an issue with the systems the agents can continue serving customers. Mobile phone network failures posted a major challenge to agency banking in the region. From the findings 50% of clients are affected by this problem (100%) of agents asked admitted that it was a major problem. Liquidity related problems was also seen as a major problem affecting agency banking with each agent losing at least 4 clients per week due to the problem. Lack of startup capital has also locked up many potential agents from being recruited (McKay, 2011).

2.4.3 Extent of agency banking in equity bank international business operations

Equity bank has subsidiaries in Kenya Rwanda southern Sudan Tanzania and Uganda. Agency banking was very successful in Kenya and equity bank decided to replicate the model in other countries in east Africa. Equity bank Rwanda had 7 branches at the end of 2012. The bank was targeting to increase its deposits and customer base the bank adopted the agency model to reach its target. Equity initial target was to recruit 200 agents to serve the growing clientele. Currently Rwanda has 9 banks and the competition between these banks is growing. In order to beat competition the bank chose to use agency because it a powerful tool to reach financial deepening in Rwanda (Wafula, 2011). Equity bank Tanzania has five branches we have less than fifty active agents that are opening accounts and taking deposits. Equity bank is also planning to roll out agency banking in southern Sudan, Uganda and Burundi in the near future.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The methodology section gives details regarding the procedures used in conducting the study. Pertinent issues discussed in this section include the research design, data collection, and data analysis.

3.2 Research Design

A research design is the plan, structure of investigation conceived to obtain answers to research questions that includes an outline of the research work from hypothesis, methods and procedures for collecting and analyzing data and presenting the results in a form that can be understood by all (Mugenda & Mugenda, 1999). This study employed a case study research design. A case study is an in-depth investigation of an individual, institution or phenomenon (Mugenda and Mugenda, 2003). It was the most appropriate design since only one organization was studied and it provided an in depth analysis of Equity bank Ltd and its adoption of agency banking in international business operations. Hence the target population will consisted of 36 top and middle level managers who deal with recruitment and agent training, the agency acquiring team, the reconciliation team and the research team of Equity Bank Ltd.

3.3 Data Collection

Data in the social sciences are either formal or informal settings and involve (oral and written) or non verbal acts or response. Data was collected using an interview guide. According to Mugenda (1999), interviews provide in-depth data which is not possible to obtain if questionnaires are used. The method involves presentation of oral-verbal stimuli and reply in terms of oral-verbal responses. To facilitate this process, an interview guide was drawn in a structured way and involved the use of a set of predetermined questions and highly standardized technique of recording. Questions were asked by the interviewer who also collected information according to a rigid procedure laid down and in a form and order prescribed before handing in. The interviewees were staff who deals with recruitment and agent training, the agency acquiring team, the reconciliation team and the research team of Equity Bank Ltd.

According to Yin (2003) the strengths of interviews include being targeted and insightful: focusing directly on the case study topic and provision of perceived casual inferences respectively. And its weaknesses are bias, response bias, inaccuracies due to poor recall and reflexivity: as a result of poorly constructed questions and interviewees giving interviewers what they want to hear.

3.4 Data Analysis

The data collected was qualitative and quantitative in nature since it describes the adoption of agency banking in international business operations by Equity Bank Ltd, Kenya. The data was checked for completeness and consistency. Responses were analyzed using content analysis. This is a qualitative technique for making inferences by systematically and objectively identifying specified characteristics. This means that the responses were analyzed to determine who says what and why in order to make inferences about the interviewees' message, its effect on recipients and to describe the attributes of the message. Responses were categorized using key words and referential units such as words or terms, themes, characters, paragraphs and items. For this reason, the recording units were identified, and criteria determined so as to specify which recording unit falls into what category. The recording units were then classified and coded into categories.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION.

4.1 Introduction

This chapter presents data findings, analysis and discussion. The data was gathered by use of an interview guide disseminated to 26 respondents. Analysis of the findings was through content analysis. The study sought to determine the adoption of agency banking by equity bank in its international business operations

4.2 Response Rate

The study targeted 36 respondents comprising of agency department general managers, agency recruitment and training team, agency acquiring team, reconciliation team and equity bank research team. The researcher interviewed the respondents using an interview guide. Some of the respondents could not be accessed due to work commitment while others were on leave. Out of the sample of 36 employees of the bank, the researcher managed to interview 26 giving a response rate of 72.22%.

According to Mugenda and Mugenda (2003) a 50% response rate is adequate, 60% good and above 70% rated very good. This also concurs with Kothari (2004) assertion that a response rate of 50% is adequate, while a response rate greater than 72.22% is very good. This implies that based on this assertions; the response rate in this case of 72.22% is very good.

4.3 The Roles that Agency Department Carries Out

The study sought to establish the roles agency banking department carries out. Out of the target 36 respondents only 26 were available. The study revealed that 35% of the respondents in agency department carry out reconciliation, calculating tax and processing agent payments. Branding of agents premises is carried out by 17% of the respondents and 26% of the respondents check the robustness of the system and also the state of the point of sale machines at agent locations. There is also a small department in agency, which opens accounts and links the accounts originating from agent locations to mobile platforms and also dormant account activation. This implies that the functions of the agency department majorly play roles of reconciliation of agent's accounts, pay agents' commissions, branding agents premises, check the systems robustness, opening agent's accounts, linking accounts to easy 247 and dormant account activation among other functions. Equity Bank takes advantage of the various technology solutions available in order to enable customers to transact at their convenience. The objective of the Agency Model is to offer the full range of banking services to our customers without their having to visit a branch.

4.4 Factors that Led the Bank to Adopt Agency Banking

The findings of the study revealed that the main factors influencing the adoption of agent banking among commercial banks in Kenya are: cost reduction, customer service enhancement, stiff competition hence need to look for new markets and the need to bank the unbanked in remote areas. The most important factor was cost reduction in the provision of banking services.

4.5 The Operational and Reputational Risks Involved in Using Agents

According to the respondents, the use of agents can trigger operational, technological, legal/compliance, reputational, and other risks. The use of agents for a limited number of basic activities may present fewer and narrower risks than those of agents engaged in a large variety of activities including, in particular, cash-in and cash-out services. However, the range and complexity of services provided by agents do not necessarily translate into significantly increased attention required by the supervisor. Rather, it more typically requires increased attention on the part of the bank due to the bank's ultimate liability for actions of its agent.

There are operational risks involved in agency banking. The use of a nonemployee that is an agent to service bank customers introduces new operational risks that may stem from lack of capacity, poor training, and lack of necessary tools and systems. These risks include the following: Agent fraud or theft, Unauthorized fees, abusive service by agent of customers or misrepresentations regarding the agent's role as acting on behalf of a bank, Loss of customer assets and records, Data entry errors, Poor cash management resulting in an agent not having sufficient cash on hand to enable the customer to make a withdrawal, Agent failure to resolve or forward consume, complaints to the bank

Agents themselves may also be subjected to theft and third-party fraud (including the use of cash-in transactions to pass counterfeit bills to agents ill equipped to identify them).

There are also technological risks involved in agency banking according to the respondents. Utility disruptions or software or hardware failures can cause a lack of service availability and information loss.

Based on the findings, there are Legal and compliance risks. Customers may sue a bank as a result of agent theft or an agent's violation of privacy laws/bank secrecy laws or other misuse of confidential customer data. Agents may sue the bank for breach of contract or for broader claims. Uncertainty in the applicability of agent-related laws or regulations and the interpretation of contracts give rise to the risk of lawsuit.

Reputational risks are derivative of the risks noted above: underperformance by agents or agent fraud, robbery, agent liquidity shortfalls, loss of customer records, leakage of confidential customer data, and violation of consumer protection rules regarding price disclosure. There may also be negative media due to systems failures.

4.6 Importance of Agency Banking to Consumers

According to the respondents, agency banking by equity bank had impacted positively on the lives of the consumers both at local and international levels. According to the Fin Access National Survey (June, 2009), banks have billions at their disposal yet most of this goes to big corporate organizations and high net worth clients while the majority of Kenyans remain excluded, with only 23 per cent of the country's population aged above 18 years holding bank accounts. Agency banking has increased financial inclusion in Kenya and Rwanda the bank has seen the number of its customers increase from six million to eight million. Agency banking has also made financial services cheaper for customers it is cheaper to withdraw at an agent location than withdrawing from an automatic teller machine.

4.7 Agency Banking and Financial Inclusion

The findings of the study were that agent banking is continuously improving and growing and as it grows, the level of financial inclusion is also growing proportionately. The study findings show that increasing the area covered by agents within the country has had the effects of increasing the reach of the financial services to the people thus raising the levels of financial inclusion because a certain cliché of the population would not visit the bank branches for various reasons included in the study. The findings in summary show that agent banking has the effect of increasing the level of financial inclusion in this countries.

4.8 Effects of Agency on Banks Performance of Banks

The study found out that majority of the respondents indicated that agency costs affect the performance of banks to a very great extent. In order to minimize the costs, majority of the respondents were in agreement to strengthening their financial infrastructure for electronic transactions. The study also found out that infrastructure cost was a major influence to performance. Other costs revealed by the study included: Marketing cost, security cost and insurance cost. The study also found out that banks have reduced the need for new investment in infrastructure and new branches. This has lead to lower costs for mobile transactions as the agents were cheaper than branches.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of research findings, conclusions and recommendations based on the objective of the study. The objective of the study was to determine the adoption of agency banking by equity bank in its international business operations.

5.2 Summary of the Findings

The study found out that agency banking is continuously improving and growing and as it grows, the level of financial inclusion is also growing. The study findings show that increasing the area covered by agents outside the country has had the effects of increasing the reach. Equity bank customers rose from 8 percent to 35 percent since the equity bank rolled out agency banking. The findings in summary show that agent banking has the effect of increasing the level of financial inclusion in the country. Equity bank adopted agency in its international business operations in order to reach a wider clientele who live in the neighboring countries. Equity bank Rwanda agency banking has grown as at October 2013 the bank had almost one million customers.

The study also found out that the lives and livelihoods of people had been transformed through agency banking. The reconciliation team revealed that on weekly basis they pay millions of Kenyan shillings in terms of commissions to equity banks agents country wide. The lives of customers has also been transformed they can adopt a saving culture because they can now deposit as little as a 100 Kenyan shillings. Withdrawing at agent locations is cheaper as one is charged 25 Kenyan shillings.

The study also sought to find out whether other services like insurance can be brought closer to the people through agency banking. The study found out it is possible though policies and procedures will have to be changed to accommodate insurance.

The study also revealed that around 30 percent of equity bank revenue come from international business operations and with the adoption of agency banking the revenue is expected to increase.

The respondents also highlighted the risks that the agency model has exposed equity bank to and the measures taken to mitigate these risks. The respondents indicated that the alignment of policy goals, regulators have developed detailed rules on operations of agency banking in Kenya to a very great extent. If accessible as a distribution channel for banks, the large network of other agents could deliver banking services to a large numbers of unbanked individuals.

5.3 Conclusions

The study findings show that banks strive to diversify geographically. Most banks in Kenya have adopted the agency model to expand regionally. We have banks like Kenya commercial bank using agency banking in Rwanda. Liquidity is the major problem that is affecting agents this is mainly because they have to visit the branch to buy float and sometimes the branches are very far. Cohen at al (2008) had similar findings and indicated that liquidity problems leads to customers frustrations which is one of the reasons why agency banking roll out is slow to take up especially in international levels. The study findings show that financial inclusion has increased through the use of agent banking. The study has also revealed that agent banking has improved the banks performance and also transformed the lives of customers and agents. The study revealed that agency security is a major contributor to performance. The banks do understand application level security in agency banking in its business operations. This corresponds with Collins (2010) since the study found that agency banking regulation and supervision was to a very great extent influencing banks international business operations. Board of directors and executive management, accountability and quality control were also attributes to regulations of agency banking in relation to international business operations.

The study also revealed that equity bank international operations have increased through agency banking, the number of customers and deposits have grown.

5.4 Recommendations

Agency banking has enabled cost saving and accessibility of financial services by banks and customers as well and facilitated banks international business operations. Banks have made huge savings on operational costs and infrastructure costs by using banking agents. Customers are able to access the basic banking services as opposed to the traditional banking. However, despite these achievements, cash availability and security are most critical factors in agency banking and they influence banks international business operations. It is therefore recommended that banks should adopt a risk – based approach to the supervision and regulation of agency banking. Enough security measures should be put in place. Agency banking as a branchless banking model has enabled banks to reach the unbanked population, its therefore critical that banks should allow agents to be more financially inclusive than just offering the cash transfer services, agents should be able to convert cheques into cash, deal with foreign currency exchange among other services. The selection criteria of agents should be restructured so as to favor heavy cash operations in order to meet the demand of cash availability as well as handling large cash transactions.

This study found that the introduction of third party retail agents presents several risk factors with regard to effective regulation and supervision of banks in relations to its international business operation, and therefore recommends that the regulator closely monitors the banking sector and agent vetting.

The study also recommends that all agents should undergo serious training and financial literacy classes to gain customers confidence. The study revealed that customers shy away because they feel that this agents lack the necessary skills and knowledge and they are not comfortable with them handling their finances.

The study therefore recommends that agency banking as a means of enhancing financial inclusion be highly supported and encouraged by all players: the banks, government, and licensing bodies especially local authorities; so as to reduce the high compliance costs in bureaucracy in registration. The study further recommends adoption of agency banking by all banks operating in the retail market. The study further recommends that agency banking be marketed more as it’s an area with great growth potential as it uses the already established private enterprises and saves the bank huge capital outlays of opening a branch.

5.5 Limitations of the Study

Agency banking roll- out is less than three years old in Kenya and therefore there is little information available. The study borrowed largely from foreign countries such as Brazil and Latin America.

5.6 Suggestions for Further

The objective of the study was to determine the adoption of agency banking by equity bank in its international business operations. The study recommends another study to be done in other banks to establish whether the findings can be generalized. The agency sector in Kenya is also very wide and comprises of other agencies including mobile telecommunication agencies which differ in their way of management and have different settings and regulations all together, hence a further study should be carried out to investigate the factors which influence other agencies performance in other sectors apart from the banking sector.

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APPENDICES

APPENDIX 1: LETTER OF INTRODUCTION

Saropa Jennipher Watiri

University of Nairobi

School of business

P.O Box 30197

Nairobi.

Dear sir /madam,

<u>Re: RESEARCH ON ADOPTION OF AGENCY BANKING IN INTERNATIONAL BUSINESS OPERATIONS BY EQUITY BANK LTD.</u>

I am a postgraduate student at the University of Nairobi, Pursuing a Master Degree in Business Administration (MBA).I am undertaking the above mentioned research project .I would be very grateful if you could answer the questions in the interview guide as honestly as possible.

The findings of the study will be availed to you upon request on completion of this research.

Thank you for your co-operation.

Yours faithfully,

Saropa Jennipher Watiri

APPENDIXII: INTERVIEW GUIDE

1. The roles that agency department carries out

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2. Which Country influenced Equity bank to adopt agency banking instead of another model?

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3. What factors led the bank to adopt agency banking instead of another model?

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4. Can the agency model be used to sell other products for example insurance and loans?

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   …………………………………………………………………………………………

5. The number of agents we have in Kenya.   Rwanda and Tanzania?

   Kenya………………………………………………………………………………………
   Rwanda……………………………………………………………………………………

   Tanzania…………………………………………………………………………………

6. What other country is equity bank targeting next and will the bank use agency banking model?

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7. How did the agency banking model perform in Rwanda? Was it successful?

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8. The operational and reputational risks involved in using agents.

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9. The extent the bank uses agency banking in its international business operations?

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10. What are the risks the bank incurs in these international markets and also the challenges?
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11. How the lives and livelihoods of customers has improved because of the agency model
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12. How agents lives have improved how much they get in terms of commissions
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13. Has financial inclusion improved in these three countries through agency banking?
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14. How has agency banking changed the banking sector in these three countries?

15 The growth in deposits in Kenya and Rwanda since 2011 and the percentage from agency banking

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16 The amounts of revenue that comes from foreign markets……………………………………...

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17 The growth in customer base since the inception of agency banking

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18 Has the model improved efficiency and effectiveness since its inception in these countries?

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19 How the laws and policies of a country affect business.

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20 How the bank selects the target market in this foreign countries

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