# A SURVEY OF ADOPTION OF AGENCY BANKING BY

# COMMERCIAL BANKS IN NAKURU CBD

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**D61/75482/2009**

**A  Research Project submitted in partial fulfillment of the requirements for the award of the Degree of Master of Business Administration in Finance, of the University of Nairobi.**

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# DECLARATION

## DECLARATION BY CANDIDATE

This project is entirely my own original work, except where acknowledged, and that it has not been submitted before in any other university for the award of a degree.

Sign……………………………..                    Date: …………………………..

**AGNES NJUNJI**

**D61/75482/09**

## DECLARATION BY SUPERVISOR

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

Sign ………………………………….                    Date: ………………………………

**DR LISHENGA**

Sign ………………………………….                    Date: ………………………………

**MODERATOR**

Sign ………………………………….                    Date: ………………………………

**CHAIRMAN**

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# ABBREVIATIONS

**AML**      Anti-Money Laundering

**ATM**       Automatic Teller Machines

**CBK**      Central Bank of Kenya

**CCT**      Conditional Cash Transfers

**ICT**        Information and communication technology

**CBK**       Central Bank Kenya

**MFB**       Microfinance Bank

**MFI**        Microfinance institutions

**NBA**       Non-bank Agent

**NBC**       Non-bank Correspondent

**NBF**        Nonbanking Financial Companies

**POS**    Point of Sale

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**CHAPTER ONE**

**INTRODUCTION**

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## 1.1 Background of the study

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

### 1.1.1Agency banking

Banking agents help financial institutions to divert existing customers from crowded branches providing a "complementary", often more convenient channel of accessing bank services. Financial institutions, in developing markets, reach an "additional" client segment or geography. Reaching poor clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of a branch. (Kitaka,2001) In such environments banking agents that piggy back on existing retail infrastructure and lower set up and running cost can play a vital role in offering many low income people their first time access to a range of financial services. Also, low income clients often feel more comfortable banking at their local store than walking into a marble branch Adiera ,1995)

The client benefit from the Agents banks with Lower transaction cost, service closer to client's home; client would visit store anyway for groceries, Longer opening hours, Shorter lines than in branches, More accessible for illiterates and the very poor who might feel intimidated in branches. Increased sales from additional foot traffic, Differentiation from other businesses, Reputation from affiliation with well-known financial institution, Additional revenue from commissions and incentives, Increased customer base and market share, Increased coverage with low-cost solution in areas with potentially less number and volume of transactions, Increased revenue from

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additional investment, interest, and fee income, Improved indirect branch productivity by reducing congestion( Cohen, M. 2002

Jappeli & Pangano (2001) indicated that One of the primary impediments to providing financial services to the poor through branches and other bank-based delivery channels is the high costs inherent in these traditional banking methods. The amount of money expended by financial agent banks to serve a poor customer with a small balance and conducting small transactions is simply too great to make such accounts viable. In addition, when financial agent banks do not have branches that are close to the customer, the customer is less likely to use and transact with their service. However, with the emergence of new delivery models as a way to drastically change the economics of banking the poor, retail points such as agent banking can offer saving services in a commercially viable way by reducing fixed costs and encouraging entrepreneurs to use the service more often.

### 1.1.2 Effect of Agency bankingonbanking

The secret of gaining competitive advantage among the banking services providers is by building themselves as brands and target to retain brand loyal customers. Branding helps banks distinguish and differentiate themselves from competitors. A brand can only be strong if it has loyal customers. (Miller,2003).Brand loyalty gives the brand stability of future sales. On the other hand, it is less costly to retain customers than to obtain new ones. Banking has moved from customer acquisition (winning new customers) towards customer selection (dumping unprofitable agents while seeking selectively the more profitable ones).Besides signing a contract with the financial institution it is working for, the banking agent also has to open a bank account at the same. In addition, the store has to deposit a certain amount of cash into that account which will serve as the banking agent's "working capital." In many cases, rather than asking the agent to come up with the cash deposit, ( Pandrey , 2004) the financial institution will extend the store a credit line. The size of the credit line is normally not standardized, but adapted individually to each agent depending on its size, the expected volume of transactions and how long the agent has already been working with the bank. This is how the credit line was used during each transaction; Client withdraws money ("cash-out" transaction): agent account is credited in same amount. Client deposits money ("cash-in" transaction): agent account is debited in same

amount. In case the agent's credit line had reached its limits, and the agent's bank account does not have sufficient funds, to cover the received funds, the POS will block and can only be unblocked if the funds have been deposited in the next bank account. (Pandrey, N. 2004) The transaction process for banking services using a bank card is simple, an existing bank client presents his card at the agent and requests a specific transaction and the amount to be withdrawn, deposited, or transferred. The agent selects the type of transaction on the POS device or personal computer, enters the amount, swipes the client's card through the device, and lets the client enter his PIN, dial up, or satellite communication connects with the bank's server to authorize the transaction;

### 1.1.3 Commercial banks in Kenya

For the last one decade, the banking environment in Kenya has been very dynamic. There has been a shift from stable, non-volatile and predictable business environment to one which is quite volatile, unpredictable and competitive. Up to the very late 1990's, many banks in Kenya enjoyed unchallenged monopolies and government protection (Kaskende,A.L, 2008) Globalization has spearheaded the integration of the Kenyan economy with other world class economies such as Singapore, which is now part of the global village. The power of information and technology de-regulation, globalization of markets and stiff competition has made customers better educated, more inquisitive, sophisticated and deciding. The banking environment has changed tremendously thereby posing serious implications and challenges to the survival and profitability of banks.( CGAP,2003)

Due to the development of Information and communication technology (ICT) in less than 10 years ,agency banking has taken a pole position in the economic pecking order. It has been cited among the six key drivers to economic growth as Kenya prepares for take off under the vision 2030 (Mokogi, 2003) ). The number of dealers in Agency banking has reached the 10 million mark from under 3 million in 2004, defying growth projections. This is partly due to faltering of bank expansion; banking agents have thrived and are currently estimated to have 33% penetration. The number of banks opening new branches has decreased and was attributed to affordable agent banking and lowers service cost. (Mokogi,2003)

## 1.2 Statement of the problem

Kenya has in the last five years made great strides in improving access to financial services throughout the country (Government of Kenya, 2005). According to a study conducted by Fin Access in 2009, financial exclusion – that is people without access to any form of financial services – has fallen from 38.4 percent in 2006 to 32.7 per cent of the population. Financial inclusion has risen in recent years, with aggressive expansion by Kenyan banks. Kenya now has 1,072 retail bank branches, up from 534 in 2005 (Fin Access, 2009). However, despite this rosy picture, a lot still needs to be done to bring in more Kenyans under financial inclusion in line with Vision 2030, the Kenya government economic blueprint which hopes to propel Kenya into mid–level income country in the next 20 years. In Kenya, high proportion of population is excluded from access to financial sector with the situation being grave in rural areas (Government of Kenya, 2005). This is contrary to Millennium Development Goals and Vision 2030 whose objective is to enhance efficiency in the delivery of credit and other financial services and improve access to financial services for a much larger number of Kenyan households)

Agency banking was introduced to expand access to financial services, especially in the unbanked population where it has been expensive for banks to maintain a presence, owing to smaller volumes (Beck, Cull, Fuchs & Getenga, 2010).

In its Banking Sector Report (for the Quarter Ended March 31, 2012), Central Bank of Kenya (CBK) noted there are 10,066 active agents in Kenya. The agents contracted by four banks made transaction worth 762 million dollars in the period under review. Leading in the number of agents is Equity Bank with over 3,234 agents, then KCB with over 2,600 and Co-operative Bank with about 1,800 agents Other banks that have agents include Post Bank, (CBK, 2012). While the introduction of Agency banking is a welcome move by the Central Bank, its haphazard implementation could defeat the point of the entire exercise which is to provide a low cost platform for financial inclusion. The industry is already witnessing a free for all from the early adopters as they rush to secure agents. This has resulted in an auction where agents are now playing one bank against another and demanding higher commissions (Ratio Magazine, 2011) .FinAccess (2009) in collaboration with The Steadman Group Research Division and Financial Sector Deepening Kenya conducted a national survey on Dynamics of Kenya's changing financial landscape. Ndung'u (2011) came

close to the prevailing phenomenon by studying Mobile Money for the "Unbanked" Turning Cellphones into 24-Hour Tellers in Kenya. From the above studies, it is evident that no scientific study has been done to assess the challenges facing sustainability of agency banking in Kenya. The four banks out of the 46 banks in Kenya who have so far implemented the model reported that the growth has not been as exponential as expected and numbers in agency outlets are below projection. It is in this light that the study aimed at assessing the adoption of agency banking by commercial banks in Kenya.

## 1.3 Objective of the Study

The purpose of the study was tosurvey the adoption of agency banking by Kenya commercial banks in Nakuru CBD.

### 1.3.1   Specific Objectives of the study

i. To establish the services provided by agency banking.

ii. To assess if agency banking has improved customer satisfaction.

## 1.4 Research Questions

i. What are the services provided by agency banking?

ii.  Has agency banking improved customer satisfaction?

## 1.5 Value of the study

The study would be significant to the various stakeholders

The findings would be of great significance to the central bank of Kenya as they would identify the extent to which agency banking has been adopted by the Kenya commercial banks, and other information necessary for policy formulation and regulation enforcement. This study would also provide useful information to the management of Kenya commercial banks as they would be able to establish the effect of agency banking on customer satisfaction. The study would also provide measures to streamline challenges faced in agency banking.The study would also provide background information to other researchers and scholars who may want to carry out further research on the adoption of agency banking by the Kenya commercial banks in

Kenya. This study would facilitate individual researchers to identify gaps in the current research work and carry out further research in those areas.This study would result to vital information to clients especially on the services offered by the agents of their respective banks.

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**CHAPTER TWO**

**LITERATURE REVIEW**

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## 2.1. Introduction

This chapter reviewed different literature relating to growth of agency banking in general .It highlights theoretical review, the Empirical review, Agency banking services, Agent Banking and customer satisfaction

## 2.2 Theoretical review

The adoption of Agency banking was justified by a number of theories

### 2.2.1 Bank-Focused Theory

The bank-focused theory emerges when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers. Examples range from use of automatic teller machines (ATMs) to internet banking or mobile phone banking to provide certain limited banking services to banks' customers.

### 2.2.1 Bank-Led Theory

In the most basic version of the bank-led theory of branchless banking, a licensed financial institution (typically a bank) delivers financial services through a retail agent. That is, the bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction. Lyman, Ivatury and Staschen , (2006).

### 2.2.2. Nonbank-Led Theory

In this theory customers do not deal with a bank, nor do they maintain a bank account. Instead, customers deal with a Non-Bank firm-either a mobile network operator or prepaid card issuer and retail agents serve as the point of customer contact.

## 2.3 Empirical review

Podpiera, J (2008) argues that Agent banking does improve the economics for these institutions compared with branches, especially for high-transaction, low-balance accounts that are common among poor users. The analysis focuses on four types of agent banking delivery channels: POS-enabled bank agent; this is an agent managed by a bank that uses a payment card to identify entrepreneurs. Banking agent-enabled

agent.This is an agent managed by a bank that uses a cell phone to identify entrepreneurs. This is an agent that is often managed by a telecom, uses a cell phone to identify entrepreneurs, and provides store-of-value accounts called bank electronic monetary value. For this analysis, we consider them a store of value account that provides a useful comparison for a savings account directly provided by a financial institution. Bank-provided account linked to a bank wallet. This is a bank account that is linked to a bank wallet. The bank does not manage the agent and pays a fee to the telecom for deposits and withdrawals.

Kitaka, P. (2001) indicates that the cost and revenue estimation is done on a per account basis for transactional accounts, commitment savings accounts, reverse commitment accounts, and time deposits. It focuses on the costs and revenues incurred by the financial agent bank associated with account opening, financial margin, and transactions for low-cost accounts. The revenue assumptions are based on a view that financial agent banks can and should charge for withdrawals and transfers through agent channels. Although some institutions in the sample do not, we contend that this may be counterproductive when reaching new low-income markets where entrepreneurs have a higher willingness to pay for nearby transaction services and where the financial margin earned on lower-balance accounts was insufficient to cover the cost of maintaining that account. We envision that clients will transact more with greater proximity to agents.

According to Dondo (2003).Agency Banking is not new in the world. It has been used very well in Latin America and Asia. There are few African countries that have taken up agency banking. The agency banking in Kenya guidelines were enacted in 2010. Banks must first apply to central bank of Kenya to get approval to conduct agency banking business. The board of directors of each banking institution interested in agency banking must make policies guidelines and procedures to be followed One of the primary impediments to providing financial services to the poor through branches and other bank-based delivery channels is the high costs inherent in these traditional banking methods. The amount of money expended by financial agent banks to serve a poor customer with a small balance and conducting small transactions is simply too great to make such accounts viable.(Adera, A. 1995) In addition, when financial agent banks do not have branches that are close to the customer, the customer is less likely to use and transact with their service. However, the emergence of new delivery

models is a way to drastically change the economics of banking the poor. By using retail points as agent banking other providers can offer saving services in a commercially viable way by reducing fixed costs and encouraging entrepreneurs to use the service more often, thereby providing access to additional revenue sources.

## 2.4 Agency banking services

According to Atieno, (2001).A banking agent is a retail or postal outlet contracted by a financial institution or a bank network operator to process clients' transactions. Rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds, pay their bills, inquire about an account balance, or receive government benefits or a direct deposit from their employer. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices, and many more.Globally, these retailers and post offices are increasingly utilized as important distribution channels for financial institutions. The points of service range from post offices in the Outback of Australia where clients from all banks can conduct their transactions, to rural France where the bank Credit Agricole uses corner stores to provide financial services, to small lottery outlets in Brazil at which clients can receive their social payments and access their bank accounts . Humprey, B. D, 1998)

Mokogi, (2003) Banking agents are usually equipped with a combination of point of sale card reader, banking agent, barcode scanner to scan bills for bill payment transactions. Clients that transact at the agent use their banking agent to access their bank account or e-wallet respectively. Identification of entrepreneurs is normally done through a PIN, but could also involve biometrics. With regard to the transaction verification, authorization, and settlement platform, banking agents are similar to any other remote bank channel.Local regulation will determine if financial institutions are allowed to work through retail outlets. Regulators generally determine what kind of, if any, financial institutions are permitted to contract banking agents, what products can be offered at the retail outlets, how financial institutions have to handle cash transport.(Christopher, 2002) Banking agents help financial institutions to divert existing entrepreneurs from crowded branches providing a "complementary", often more convenient channel. Other financial institutions, especially in developing markets, use agents to reach an "additional" client segment or geography. Reaching

poor clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of a branch. In such environments banking agents that piggy back on existing retail infrastructure and lower set up and running cost can play a vital role in offering many low-income people their first-time access to a range of financial services. Also, low-income clients often feel more comfortable banking at their local store than walking into a marble branch (Christopher,2002)

Banking agents are the backbone of banking, performing transactions over a bank device, most often a banking agent. To enable clients to convert cash into electronic money and vice versa which can be sent over their banking agentEspecially in remote and rural locations, where cash is still the most important way to pay and transact, a bank services is dependent on banking agents to enable clients to effectively use these service.

## 2.5 Agency banking and customer satisfaction.

Agent banking systems are up to three times cheaper to operate than branches for two reasons. First, agent banking minimizes fixed costs by leveraging existing retail outlets and reducing the need for financial agent banks to invest in their own infrastructure. (Gardner, M.J, Mills D.L Cooperman E.S 2000) Although agent banking incurs higher variable costs from commissions to agents and communications, fixed costs per transaction for branches are significantly higher. According to setting up an agent costs 2 percent to 4 percent of the cost of a branch cashier. So even when functioning at maximum capacity, a branch cashier incurs more than 78 cents in fixed costs per transaction, compared to just 11 cents for a POS-enabled agent and 4 cents or less for a bank-enabled agent or bank wallet. Second, acquisition costs are lower for bank-enabled agents and bank wallets. ( Kitaka, P 2001) By using banking agents instead of payment cards, bank wallets and bank accounts linked to a bank wallet are able to acquire entrepreneurs at less than 70 percent of the cost of a branch or POS-enabled agent. In some countries, bank wallets may also benefit from lower-cost Know Your Customer requirements, such as the elimination of requirements to provide photographs and photocopies of documents

In some countries, banks have successfully expanded their outreach by engaging local "agents" or "correspondents" to offer their services. These local agents or

correspondents may be known and trusted retail outlets such as shops or post offices. Agents help reach more people in areas where bank branches do not exist or by easing traffic at existing branches. While initially focused on traditional payments products such as the payment of bills or taxes, agents in a number of countries are now authorized to offer a broader range of financial services, such as withdrawals, deposits, pre-approved credit lines, simplified current accounts, and international remittances( Kitaka,P. 2001)

Agent banking represents a significant opportunity to reduce transaction costs such as travel for clients by bringing financial services to hard-to-reach and geographically dispersed areas. Banks and other financial institutions often do not have sufficient incentive or capacity to establish formal branches in these areas. The set-up of agent banks is less costly and more flexible than for traditional bank branches: it reduces the need to invest in staff and physical infrastructure.

In countries where models have been successfully implemented, regulators and supervisors have addressed the potential risks of using a large number of agents to deliver financial services by adopting a risk-based approach to supervision where agents are supervised indirectly and banks must assume full responsibility for their agents( Kasekende,A.L, 2008) Regulation enabling agent banking allows for sufficient business incentives for both agents and financial institutions to increase outreach by delivering financial services through a network of agents.

To achieve loyalty, a product or service must be beyond achieving visibility and differentiation. It should instead develop deep relationships with the entrepreneurs to a point where the brand becomes a meaningful part of the customer's life and or self concept and when this occurs the customer was highly loyal (Atman, E. 1993). Thus, brand loyalty is at the core of relationship banking, which goes beyond traditional banking and focuses more on creating a pool of committed, profitable entrepreneurs. A successful brand aims to develop high quality relationship in which entrepreneurs feel a sense of commitment and belonging. Relationship banking aims at developing long-term entrepreneurs (Kitaka,P 2001).

## 2.6 Summary of literature review

The literature review was based on the Bank-focused theory, Bank-Led Theory, and Nonbank-led theory. On empirical literature Podpiera, J (2008) argued that Agent banking does improve the economics for these institutions compared with branches, especially for high-transaction, low-balance accounts that are common among poor users.Agency banking services includeddeposit, withdraw, and transfer funds, pay their bills, inquire about an account balance, or receive government benefits or a direct deposit from their employer. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices, and many more.Globally, these retailers and post offices are increasingly utilized as important distribution channels for financial institutions.On review on Agency banking and customer satisfaction showed thatAgent banking systems are up to three times cheaper to operate than branches.By using banking agents instead of payment cards, bank wallets and bank accounts linked to a bank wallet are able to acquire entrepreneurs at less than 70 percent of the cost of a branch or POS-enabled agentAgent banking represents a significant opportunity to reduce transaction costs such as travel for clients by bringing financial services to hard-to-reach and geographically dispersed areasAccording to Dondo (2003).Agency Banking is not new in the world. It has been used very well in Latin America and Asia.

CHAPTER THREE

METHODOLOGY

## 3.1 Introduction

This chapter presented the research design, geographical area where the study was carried out, population and target population, sample size and sampling technique, instruments, Data collection procedure and Data Processing and analyzing.

## 3.2 Research Design

Descriptive survey design was  adopted in conducting this study .Descriptive survey design was appropriate because it involves collecting data in order to test hypothesis or questions concerning attitudes and opinions on the current status of subjects of the study. It is used to test attitudes and opinions about events, individuals or procedure (Gay, 2002). The study described in detail, in context and holistically the role of Agent banking in Equity Bank, Kenya Commercial Bank and Co-operative Bank of Kenya. Studies on the three institutions allowed an in–depth assessment of the agency banking development at hand. It brought deeper insights and better understanding of the role of Agent banking on banks performance. The institutions under study were the pioneers of Agent banking in Kenya and as such have accumulated a wealth of data that which was relevant to the study.

## 3.3 Population of the study

The study was done in Nakuru town Nakuru County. Nakuru is a cosmopolitan town and the 4$^{th}$ largest town in Kenya. It holds over 27 banks and various Microfinance institutions. Nakuru is not only tourist destinations but also an agricultural and commercial hub.

## 3.4 Target population

The Study targeted Banking agencies  of commercial Banks that are licensed and regulated pursuant to the provisions of the banking Act and the Regulations and Prudential Guidelines issued by the Central Bank of Kenya. The target population comprised of 39 Agents in Co-operative Bank, 44 Agents in KCB, 94 Agents in Equity Bank and 14 Agents in Post bank. Also, the population consisted of Agents

who were in partnership with institutions to offer Agent banking services. Bank Clients would also form part of the population.

## 3.5 Sampling Procedure

Stratified random sampling was employed as the sampling technique. The technique was chosen because of the heterogeneous nature of the population. The criterion for stratification was based on the institution and the group of stakeholder, i.e. there were four different institutions (Equity Bank, KCB , Cooperative Bank and post bank) and three groups of stakeholders (Middle Level Managers, Agents and Customers). The goal of stratification was to ensure that the existing subgroups in the population are more or less reproduce in the sample. The advantage of using stratified random sampling is that it improves the accuracy and efficiency of estimation, furthermore, stratified sample provides greater precision than a simple random sample of the same size. Depending on the size of the sub-groups, a simple random sample would be employed for a large population and a census for a small population.

### 3.5.1 Sample Size

Sample size is a small part of the population to be studied and sampling procedure is the process by which samples are selected in a study (Kothari, 2007). According to Gay (2002), a sample size of 30% of the total population or less is adequate for a study in descriptive research. Therefore, the study used 30% of the total number of the total population to get 11 agents from Co-operative Bank, 13 from KCB, 28 from Equity Bank and 6 for post bank will be targeted. Two customers were targeted from each Agent outlet using simple random sampling. One Branch manager was  targeted from each bank of the four banks sampled in Nakuru town.

Table 3.1 Sampling matrix Table

| Banks | No. Agents(N) | Computation | Sample Size(n) |
|---|---|---|---|
| Equity | 94 | 94 x 30/100 | 28 |
| Co-operative Bank | 39 | 39 x 30/100 | 11 |
| KCB, | 44 | 44 x 30/100 | 13 |
| Post bank | 14 | 14 x 30/100 | 6 |
| Managers | 4 | 1 x 4 | 4 |
| Customers | 58 | 2 x 58 | 116 |
| Total | | | 178 |

Source: Researcher computation (2013)

### 3.5.2 Sample frame

The study was carried out in Nakuru, Kenya, where the four pioneer institutions that have implemented Agent banking are well represented. The study majorly focused on middle level managers concerned with Agent banking in Nakuru Town. In addition, data was collected from a sample of Agents and customers of the selected institutions working in Nakuru Town. The number of Equity Bank Agents in Nakuru town is 94, while Co-operative bank has 39 and KCB 44 Agents and post bank they are 16. Total 193 agentsStratified random sampling was employed as the sampling technique. The technique was chosen because of the heterogeneous nature of the population. The criterion for stratification was based on the institution and the group of stakeholder, i.e. there were four different institutions (Equity Bank, KCB , Cooperative Bank and post bank) and three groups of stakeholders (Bank Managers, Agents and Customers). The study will use 30% of the total number of the total population to get 11 agents from Co-operative Bank, 13 from KCB, 28 from Equity Bank and 6 for post bank

## 3.6 Instrumentation

The study used questionnaires as the main source of data collection. This is because the population was deemed to be well knowledgeable of the factors involved in the study. The questionnaires ensured confidentiality is upheld and it helped save on time and ensured no business. The data collected enhanced comparability of the different institutions.

### 3.6.1 Validity

According to (Patton, 2000) validity is equality attributed to preposition or measures of the degree to which they conform to establish knowledge or truth. An attitude scale is considered valid, for example, to the degree to which its results conform to other measures of possession of the attitude. Validity of the instrument was determined, where the response of the respondents was checked against the research objectives. For a research instrument to be considered valid, the content selected and included in the questionnaire must be relevant to the variable being investigated. A pilot is the pre-testing of the research instruments using subjects randomly drawn from the population before the field collection of data to determine the validity and reliability of the questionnaires in collecting the anticipated but the subjects are excluding from the actual study.

The researcher consulted the opinion of other experts (University supervisors) in assessing or validating he contents of the research instruments. The research then reviewed the instruments accordingly based on their recommendations

### 3.6.2 Reliability

A reliable instrument consistently produces the expected results when used more than once to collect data from the same subjects randomly drawn from the population. Test –retest method was used to determine the reliability of the questionnaire. The instruments were administered randomly to the selected bank Agents, customers and bank manager of Equity Bank, KCB, co-operative bank in Nakuru CBD.

Finally, as mentioned above, piloting was done to identify items in the research instrument that might be ambiguous in eliciting the relevant information. They were then modified in tuning up the questionnaires in readiness for actual data collection. Mugenda and Mugenda (2007) declared that validity enhanced reliability of an instrument. Hence, a valid instrument is reliable but a reliable instrument may not be valid.

## 3.7 Data Collection Procedures.

The main source of information for the study was based on the data collection. Data collection was mainly primary data. These were collected from the institutions by questionnaires. Questionnaires were used to collect data from the respondents.

## 3.8 Data Analysis and Presentation

Data cleaning was done during the stage of data entry but no subjective decision was made at that stage. Once the questionnaires were administered, the mass of raw data collected was systematically organized in a manner that facilitates analysis. For all quantitative data collected, it was coded for easy of analysis. This was done for all the question items that are close –ended.

 Open-ended questions were used for qualitative analysis, while close ended questions will be used for quantitative analysis. The detailed information that was obtained during the study was established to determine patterns trends and relationships from the information gathered. The collected data was then summarized using descriptive statistics.

This enabled meaningful description of distribution of scores or measurements using a few indices or statistics. Descriptive statistics assisted in comparing and contrasting different situation under study and helped to answer the research questions or assisted in qualitative analysis. For easy analysis and interpretation of data, tables, frequency tables graphs and pie–chart wereused. This enabled visual analysis for easy data comparison and interpretation.

# CHAPTER FOUR

## RESEARCH FINDINGS AND DISCUSSION

## 4.0Introduction

The major findings of the study are presented in this chapter, in relation to the objectives of the study. The presentation follows the order by which the specific objectives of the study are stated. After the questionnaires were collected from the field, the data was analyzed, summarized and presented in form of tables to reflect statistics that accompany explanations for better understanding. The study examined the adoption of agency banking by Kenya commercial banks in Nakuru CBD. The objectives of the study were to establish the services provided by agency banking and to assess if agency banking has improved customer satisfaction.

The major respondents were bank Agents and customers.

**Table 4.1.1 Response Return Rate**

| Respondents | Administered | Returned | Percentage return rate |
|---|---|---|---|
| Bank Agents | 58 | 50 | 86% |
| Bank Mangers | 4 | 4 | 100% |
| Customers | 116 | 100 | 86% |
| | **178** | **154** | **87%** |

## 4.1Demographic Characteristics of Participants

**Table 4.1.2: Age of Agents**

| Age | Frequency | Percentage |
|---|---|---|
| 18- 35 | 23 | 46 |
| 35- 45 | 18 | 36 |
| 45- 55 | 7 | 15 |
| Above 55 | 2 | 3 |
| **Total** | **50** | **100** |

Majority of the respondents Agents were age between 18- 35 years. This group of respondents had a percentage of 46% Respondents age between 33- 45 years were 36% those aged 45- 55 years were 15% and the remaining aged 55 years and above were 3%. Generation gap hampers technology adoption, with the order generations showing apprehension towards adoption of Agent Banking technology.

**Table 4.1.3: Gender Agents**

| Gender | Frequency | percentage |
|--------|-----------|------------|
| Female | 27 | 54 |
| Male | 23 | 46 |
| **Total** | **50** | **100** |

54% of the respondents were female while 46% were male.

**Table 4.1.4: Agents Educational Qualifications**

| Educational Qualification Percentage | Frequency | |
|--------------------------------------|-----------|----|
| Post Graduate | 1 | 2 |
| Graduate/ Diploma | 12 | 44 |
| High School | 27 | 54 |
| **Total** | **50** | **100** |

Majority of the respondents with 54% had a high school certificate, while 44% had a degree or diploma and2% had a post graduate educational level. Unlike bank braches where staffs have to attain a certain minimum qualifications, agents need only to be able to deliver the bank services and products irrespective of the educational qualification. From the Kenya \Integrated Household Budget Survey (KIHBS) 2005/2006 research (Ministry of State for Planning, National Development and Vision 2030, 2006); it was found out that education and training are still important buffers against unemployment despite the unemployment challenges experienced by educated youths. From the same survey, it was identified that the buffer level of education against unemployment is at least university level of education. This implies

that those with secondary level of education or below may have problems securing employment especially in the urban areas, leading to high unemployment levels in those groups. Hence, those with secondary level of education and are unemployed, are attracted to be bank agents, followed by those with diplomas and degrees.

**Table 4.1.5: Agents Daily Working Hours**

| Daily Working Hour percentage | Frequency | |
|---|---|---|
| Less than 6 hours | 2 | 3 |
| 6- 8 hours | 21 | 42 |
| 8- 10 hours | 19 | 39 |
| Above 10 hours | 8 | 16 |
| **Total** | **50** | **100** |

3% of Agents who responded work for less than 6 hours a day, 42% respondents work for 6- 8 hours a day, 39% of respondents work for 8* 10 hours a day and 16% of respondents work for more than 10 hours a day. It is good to note that banks' opening hours is on average 7 working hours a day on the higher side. Agents daily working hours are at the convenience of the customer and some are available for the same hours during the weekends making it easy for a customer to access services. Hence, the institutions benefits since their clients can receive their products and services at the clients' convenience through Agent banking. The end results are customer loyalty and satisfaction.

**Table 4.1.6: Agent Banking Systems**

| Agent Banking System | Frequency | Percentage / |
|---|---|---|
| **Average** | | |
| Point of sales (POS) based Agent | 20 | 40 |
| Mobile Based Bank Agent | 30 | 60 |
| **Total** | **50** | **100** |

40% of Agents who responded use point of sale terminals while 60% use mobile based banking in mobile based, the customer receives a confirmatory a message from the bank after every transaction. Also, the customer need not have an ATM card so as

to transact. In POS based Agent banking, the customer need not have a mobile phone but an ATM/VISA card. A customer receives a receipt after every transaction.

**Table 4.1.7: Duration of Operation of the Business taking up Agent Banking**

| Duration of Operation | Frequency | percentage |
|---|---|---|
| Less than 1 year | 19 | 38 |
| 1-3 years | 30 | 59 |
| 3-5 years | 9 | 18 |
| Above 5 years | 2 | 5 |
| **Total** | **50** | **100** |

38% of the business taking up Agent have been in operation for less than one year, while 59% have in operation for a period of 1- 3 years, 18% have operated for 3- 5 years while the remaining 5% have operated for more than 5 years. This implies that a lot of start –up companies are being setup to undertake Agent banking. Star-up companies are risk takers unlike most well invested companies that are risk averse.

**Table 4.1.8: Motivation to become an Agent**

| Motivation to become an Agent | Frequency | percentage |
|---|---|---|
| Transaction fee income | 30 | 61 |
| Brings more people into my store | 10 | 20 |
| My Clients expected me to do it / asked for it | 1 | 2 |
| I want to be associated with a big brand | 9 | 17 |
| **Total** | **50** | **100** |

61% of the respondents are attracted to Agent banking due to the transaction fee income, while 20% want the Agent banking to attract more customers into business, 17% want to be associated with a big branch while the remaining 2% do so since their customers requested them to institutions with high transaction fee income / and with large volumes of transactions will attract more bank agents. Institutions that are highly reputable, will attract Agents who want to win customers due to their association with a bigger brand.

**Table 4.1.9:  Customers Age**

| Age (Years) | Frequency | Percentage |
|---|---|---|
| 18-35 | 45 | 45 |
| 35-45 | 33 | 33 |
| 45-55 | 12 | 12 |
| Above 55 years | 10 | 10 |
| **Total** | **100** | **100** |

Majority of the respondents were aged between 18-35 years. This group of respondents had a percentage of 45%. Respondents age between 33-45 years were 33%, those aged 45-55 years were 12% and the remaining aged 55 years and above were 10%. The young generation of 18-35 have adapted to the new banking model. As the age gap increases, the rate of adoption decreases. Various strategies can be adopted to increase the number of each age group. The customer awareness method must factor in the age groups in the society with their attitudes and characteristics. According to technology adoption model, factors that affect technology adoption include the perceived usefulness and the perceived ease of use (Venkatesh & Davis, 2000). The older generation can be persuaded to transact through Agent outlets by illustrating ease of use and the potential benefit.

**Table 4.1.10: Customers Gender**

| Gender | Frequency | Percentage |
|---|---|---|
| Male | 65 | 65 |
| Female | 45 | 45 |
| **Total** | **100** | **100** |

65% of the respondents were male while 45% were female. Although women's labor force participation has been rising in many countries, and in some cases, the gender wage gap has been narrowing women on average still have lower levels of wealth and earning than men (Maria & Stephanie, 2002). Women's lower levels of income have a double effect: they in fewer resources available for savings and investment (income level effect) and suggest a greater aversion for absolute risk (saving propensity

effect). Although, the number of men using Agent banking is higher as compared to women due to income level effect, women have a high saving tendency and thus are engaging in Agent banking. Institutions may develop products that target each gender at the same time be a plus to Agent banking transactions.

**Table 4.1.11: Customers Educational Qualification**

| Educational qualification | Frequency | Percentage |
|---|---|---|
| Post Graduate | 25 | 25 |
| Graduate / Diploma | 40 | 40 |
| High School | 26 | 26 |
| Primary School | 9 | 9 |
| **Total** | **100** | **100** |

25% of the respondents had post graduate educational level while majority of the respondents had either a degree or a diploma with 40%. Representation, High School respondents were 26% while primary school respondents were 9%. From the above table it can be observed that the innovators or early adopters tend to be better educated than the average population. These early adopter are usually able to risk trying and experimenting with a new service like Agent banking.

**Table 4.1.12: Bank Managers Educational Qualification**

| Educational qualification | Frequency | Percentage |
|---|---|---|
| Post Graduate | 4 | 100 |
| Graduate / Diploma | 0 | 0 |
| Certificate | 0 | 0 |
| **Total** | **100** | **100** |

All the four bank managers interviewed had post graduated qualifications

## 4.2 Services Provided By Agency Banking

This part of the research dealt with identifying the number of customer for Branch and Agent banking, the volumes of transactions, and the setup costs among other things. The aim was to identify the services and the extend of the services offered by the Agency banks is as compared to Branch banking.

**Table 4.2.1: Average Number of Branch Customers**

| Number of Customers | Percentage |
|---|---|
| 1-100,000 | 33 |
| 100,000-200,000 | 67 |
| 200,001-300,000 | 0 |
| 300,001-400,000 | 0 |
| Above 400,001 | 0 |
| **Total** | **100** |

33% of respondents' middle level managers, agree that a branch has 1-100,000 clients, 67% agree that a branch has 100,001-200,000 customers. Newly setup branches in Nakuru town have customers in the range of 1-100,000 customers, while older branches have more customers. From the 2009 census, the population of Nakuru Town was 473,288 (ministry of State for Planting, National Development and Vision 2030, 2009), this population is targeted by bank branches in Nakuru town to form their customer base. Furthermore, Nakuru town being an urban area, it attracts other residents from other areas who are also being targeted by the same institutions.

**Table 4.2.2: Average Number of Customers Actively Using Agent Banking**

| Number of Customers Using Agent Banking | Percentage |
|---|---|
| 1-25,000 | 83 |
| 25,001-50,000 | 17 |
| 50,001-75,000 | 0 |
| 75,001-100,000 | 0 |
| Above 100,001 | 0 |
| **Total** | **100** |

83% of the respondents (middle level managers) agree that 1-25,000 customers registered in a branch are actively using Agent Banking, 17% of the respondents agree that 25,001-50,000customers registered in a branch are actively using Agent Banking. According to Diffusion of Innovation Theory and the number of customers using Agent Banking, it portrays that the innovators and early adopters are using Agent banking, but the early majority adopters have not yet adopted to the new model or they are adopting at a slow pace (Kaminski, 2011). Various factors affect adoption of a new technology by customers and they include: benefits of adopting the new technology compared to the costs, similarity/familiarity to existing ways of doing things (for example, the mode of operation of a MNO Agent like MPESA is similar to that of a bank Agent), the difficulty of using a new product, the extent to which a product can be tried on a limited basis, ease and clarity of communicating benefits to prospective customers, and customer's ability to assess benefits. In-order to attract more customers to Agent banking, the institutions may need to understand the customers perceptions of benefits versus costs, educate customer on transacting through an Agent outlet, communicating to customers so that they can own the Agent banking model, and develop products that fit the Agent banking model.

**Table 4.2.3: Descriptive Statistics of Branch and Agent Banking Transactions**

| Variable | Branch Mean | Agent Mean | Branch Minimum | Agent Minimum |
|---|---|---|---|---|
| Withdrawals | 70.0 | 11.00 | 20.0 | 2.00 |
| Deposits | 157.5 | 25.18 | 120.0 | 4.00 |
| Account opining | 32.50 | 3.188 | 10.0 | 0.00 |
| Balance Inquiry | 35.0 | 5.31 | 5.0 | 0.00 |
| Accounts statement/Mini-Statement | 61.7 | 3.50 | 15.0 | 0.00 |
| Utilities payments | 88.3 | 1.286 | 35.0 | 0.00 |

Agents respondents facilitated in obtaining transactions per day per Agent based on various variables, while middle level managers facilitated to obtain Branch banking transactions per day per teller based on various variables. Fro m the above it can be observed that on average a teller carries out more transactions on all the variables as compared to an Agent. Deposits have the highest transactions per day for both Agent banking and Branch banking, followed by withdrawals. Account opening, balance

inquiry, mini-statement and utility payments are not fully exploited by clients in Agent banking.

**Table 4.2.4; Agents Average Transactions per Day**

| Transaction per day | Frequency | percentage |
|---|---|---|
| 1- 50 | 38 | 77 |
| 50- 200 | 12 | 23 |
| 200-500 | 0 | 0 |
| Above 500 | 0 | 0 |
| **Total** | **50** | **100** |

On average, 77% of Agents do 1- 50 transactions per day, and 23% of Agents do 50-200 transactions per day. Agents located in areas with a high customer foot fall, like near markets and bus stages, where there is a lot of small business whose owners are willing to deposit through an Agent rather than through a bank branch, have high transactions per day. Apart from location awareness and willingness to transact through an Agent outlet.

**Table 4.2.5: Factors Affecting Daily Sales**

| Factors Affecting Daily Sales Average | Frequency | Percentage |
|---|---|---|
| Stiff competition | 25 | 49 |
| Speed of service | 14 | 28 |
| Peak period of the month | 7 | 13 |
| Power blackout | 2 | 5 |
| Others | 2 | 5 |
| **Total** | **50** | **100** |

Stiff completion from other Agents within the industry account for 49% of factors affecting daily sales, 28% of respondents believe that speed of service affects daily sales, 13% believe that daily sales is affected by the peak period of the month, 5% believe that power blackout affects daily sales while another 5% believe other factors affect daily sales such as high charges imposed on customer by the bank, network problems and low foot traffic. Solutions suggested by respondents include: improving the efficiency of speed of services by upgrading the machines; increasing the service offered; increase customer awareness of Agent banking; improving on network

connection; and locating few Agents in one area so as to increase customer catchment area.

## 4.3 Customer Satisfaction.

This section of the research dwelt on how customers perceive Agent banking, what attracts them to an Agent outlet, likeliness of returning for those who have been served through an Agent outlet, and their satisfaction of Agent banking based on various variables. The respondents were customers.

**Table 4.3.1: Likeliness of Customer to use Agent banking in the near Future**

| Likeliness to use an Agent Outlet | Frequency | Percentage |
|---|---|---|
| Very Unlikely (1) | 2 | 2 |
| Unlikely (2) | 4 | 5 |
| Neutral (3) | 12 | 14 |
| Likely (4) | 38 | 43 |
| Very Likely (5) | 32 | 36 |
| **Total** | **88** | **100** |

From the above, using descriptive statistics, it can be observed that customers are likely (mean of 4.06) to use an Agent banking outlet. Some of the suggestions that customers put across to improve Agent banking services included: expanding the premises of the outlets of the outlets; additional facilities such as customer care services; upgrading of systems against system failures; extensive training of employees to improve service delivery to customers; outlets to be located in a more secure place; increased promotions and advertisements; high regulation measures to enhance its safety; increased publicity; add more services such as western union, money transfer and currency exchange; introduction of more banking services; increased sensitization about the availability of the service; organizing seminars and workshops to improve its services; establish more agent outlets; upgrading of the system for increase in speed of service; Agents to have adequate cash float for better service; allow school fees payments through Agent outlets; and improve on time of message confirmation after service.

**Table 4.3.2: Customer Satisfaction Levels**

| Description | Frequency | Percentage |
|---|---|---|
| Very Unsatisfied (1) | 6 | 6 |
| Unsatisfied (2) | 2 | 2 |
| Neutral (3) | 17 | 18 |
| Satisfied (4) | 46 | 48 |
| Very Satisfied (5) | 25 | 26 |
| **Total** | **96** | **100** |

6% of the respondents were very unsatisfied with Agent banking 2% were unsatisfied, 18% were neutral, 48% were satisfied and the remaining 26% were very satisfied with Agent banking. The median and mode of the above lies at 4, thus showing that majority of the respondents were satisfied with Agent banking. Various factors influence customer satisfaction, but they can be categorized into two. This first is the bank Agents behavior and performance of services and the second is the bank products and service offered at an agent outlet.

**Table 4.3.3:Customer Perception of fear of losing Funds if they carried out a Transaction through an Agent outlet.**

| Fear of losing Funds | Frequency | Percentage |
|---|---|---|
| No | 80 | 80 |
| Yes | 20 | 20 |
| **Total** | **100** | **100** |

80% of the respondents had no fear of losing funds if they carried out a transaction at an agent outlet. The remaining 20% had a fear of losing funds through an Agent outlet and the reasons they cited includes: lack security at Agent outlets; lack of privacy; Agent outlets are located within busy corridors or premises; and most agent are located are located in premises with other business activities. Name of the respondent acknowledges any instant of being robbed or losing funds due to carrying out a transaction at an Agent outlet. Institutions should encourage bank Agents to invest in security measures so as to reduce customers' worries as regards to the safety of their funds.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1    Summary

### 5.1.1    Agent Banking Services
**Agent Banking Services Offered**

The Central Bank of Kenya allows an Agent to engage in various services like cash withdrawal and deposits, repayments of loans, bills payment. Salary payments, funds transfer, balance enquiry, document collection for debit and credit cards, loan applications and account opening forms, Cheque book requests and collection, collection of bank correspondence and mail, mobile banking services. Banks have the mandate of allowing an agent to engage in various allowable services it so pleases as long as they are allowed by the CBK. From Agent banking customers' respondents, Table 4.3.9, 2% of the respondent customers use Agent outlets for withdrawals, 70% use Agent outlets for deposits, 44% for balance inquiry, 20% for utility payments and 10% for account opening. This shows that from all the services that CBK allows, Agents undertake, very few are being optimized and mainly withdrawals and deposits are the key activities undertaken.

**Agent Banking Systems**

The main Agent banking system used by majority of the Agent is mobile based bank agent which had a percentage of 60%, Table 4.1.5 Mobile based bank Agent is easier to use. It is faster and does not require a lot of money to purchase compared to point of sale system. A certain percentage of the Agents (40%) also used point of sale system. These were well established Agents and the use of point of sale systems increases the trust of the customers as they are served with receipts after making their transactions.

**Daily Working Hours**

16% of the respondent Agents work for over 10 hours a day, Table 4.1.4, 39% work for 8-10 hours while 42% work for 6-8 hours. Agents that work for over 10 hours have adequate security and are located in a relatively busy location. Those that work

for 8-10 hours are mostly in the CBD. Most Agents that work for 6-8 hours are located on the outskirts of Nakuru town or in areas where security is an issue or with low customer foot fall. It is also good to not that 87% of the respondent Agents businesses had less than 3 years in operation according to Table 4.1.6. This implies that majority of the Agent businesses are start-up companies.

### 5.1.3   Clienteles Perceptions of Agent banking
**Customer Attraction to Agent Outlets**

From Table 4.3.4, 62% of the respondent customers were attracted to an Agent outlet mainly due to the institutions banners and logos on the face of the business premises and also the near nearness of the outlet as compared to a branch, 10% were attracted due to information from a friend who supported Agent banking transactions, while another 10% were attracted due to information from radios and TVs. According to the low volumes of customers doing Agent banking as compared to Branch banking a lot needs to be done by the institutions so as to attract more customers to an Agent outlet.

**Customer Satisfaction**

Customers' willingness to return to Agent outlet once served is a mean of 4/5 according to the respondent customers, Table 4.3.6. Customers are generally satisfied by an agent outlet, according to Table 4.3.7 that showed a median satisfaction level of 4/5. This can be explained by Table 4.3.8, where the respondent clients gauged the accuracy of Agent banking transactions at a median of 4.5/5; mainly because of the use of mobile technology where the customer initiates a transaction and gets a confirmatory message from the bank. Also point of sale terminals where the clients get a receipt confirming the service done. No long line ups at the point of service got a median of 3.5/7; and it's mainly because Agent outlets have few bank clients foot fall as compared to a branch. The friendliness and courteousness of the Agent outlet also had a median of 3.5/5; this is mainly because a client creates a relationship with his local Agent outlet. From the same analysis, availability of information brochures, recognition of customer value, and professional appearance received a median of 2.5/5; this is mainly because Agent outlets engage in their normal activities and not bounded by any professional standard as regards to Agent banking.

## 5.2    Conclusions

The research study has shown that independent variables that are agent banking services, agent banking efficiency and clienteles' perception play a very important role in enhancing bank performance. Each independent variable not only influences dependent variable but complement each other as well.

Agent banking products and services provides the basis of agent banking. The major products and services offered include withdrawals, deposits, account opening, utility payments, balance inquiry and transfer of funds. Withdrawals and deposit services are widely used by agent banking clients. These services are offered at the convenience of the customer with no restrictions to the agents as regards to their working hours. The locations of agents help to increase the geographical coverage of reaching to bank clients.

Setting up operating Agent banks is less costly than traditional bank branches since it requires smaller investments in staff and infrastructure.  In addition, agents are more flexible mainly because they have lower security requirements than brick-and-mortar branches. The number of customers actively using Agent banking as compared to Branch banking in Nakuru town is very small. The volumes of transaction of Agent banking as compared to Branch banking are also small.

Clienteles' perception is important since a positive word of mouth and help in making good reputation of agent banking. A positive clients' perception would be able to make long term profitable relationship with agent banking. Customers, generally, prefer a Branch outlet to an Agent outlet since they will get more services and products, availability of information, and are assured of the efficiency of the service. In contrast, customers prefer an outlet to a branch, due to the nearness of the outlet and an outlet is perceived to be less congested as compared to a branch. So as to increase Agent transaction it is necessary to increase agent banking awareness.

It can be concluded that the roles that Agent banking plays include offering bank products and services, decongesting branches, being conceived as branch substitutes especially where transaction numbers and volume might be too low to support a full-fledged branch thus expanding the geographical coverage of a branch, agent banking helps to increase client convenience and reduce transaction costs.

## 5.3    Recommendations

**To banks**

  In-order to increase Agent banking transaction a lot of awareness and customer sensitization needs to be done. Customer information campaign should be aimed to attract new users through banners, radios TV etc. also, existing customers should be informed through posters in Agent shops, advertising and text messages. Some of the key messages should revolve around how to complete an agent banking transaction, how and why users should keep their PIN safe and complete an Agent or the product itself, charges and commission among others.

To ensure that agents certain minimum standards and comply with the agent agreement it is important that staff receive training both becoming an Agent and take part in at least one annual re-training. Agents may be further incentivized by setting up an annual prize for the best customer service. Elements of the Agent training should include information on rights and responsibilities of being an agent, providing appropriate customer service, explaining to customers how they can make a complaint and performance monitoring and the consequences of poor performance.

Furthermore, the system used to connect Agents to the bank be sound and robust with minimal failures. The platform that Agent banking relies on should be reliable and able to handle multiple transactions at once. In addition, the network that the institution relies on should also be robust, with adequate network connection.

Also, with time the agent banking services should be increased especially utility payments like house rent, relies on should be reliable and able to handle multiple transactions at once, school fees among others. This will enable an Agent outlet to be a one stop shop where a client gets more bank products and services. But before a product or service is introduced, adequate analysis ought to be done to establish its potential impact.

Agents' performance must be monitored independent of any complaints from users. This exercise should include a review    of compliance with: agent agreement and procedures, level of customer service and liquidity – correlating complaints of lack of cash to particular Agents.

**To bank agents**

In-order to improve their services, bank Agents ought to ensure the privacy and security of the client is assured. Customers tend to shy away from an outlet if the privacy of his/her transaction is not catered for. Agents are also recommended to have better understanding of the bank products and services that they do offer and to consult with the supporting staff when in doubt. Most institutions have painted the institution logos or banners at the face of the outlets, but the professionalism or attractiveness and décor of the outlet is the responsibility of the Agents and it helps to give customers satisfaction of service. To reduce risks of losses due to theft, it is advisable that Agents insure their business and hire security firms if need be. Availability of float will ensure availability of services to offer, therefore, Agents ought to manage their cash liquidity well.

**To policy makers and regulators**

Regulators should reconsider whether to permit nonbank retail outlets to serve as agents and carefully consider any restrictions imposed on the range of permissible agents and types of relationships permitted.

**To future researchers**

Rural areas, where bank branches are not within reach, is a field of research so as to establish the financial inclusive of Agent banking. Furthermore, a comparison of Agent banking and mobile based banking like MPESA is a field of research since Agent banking works on the same platform as mobile based banking that has been in operation for a long duration. Also the impact of regulation on Agent banking especially Agent exclusivity is still a grey area.

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# APPENDIX II: INTRODUCTION LETTER

Dear Sir/Madam,

I am a graduate student at The University of Nairobi undertaking a Maters degree in Business Administration (Finance Option).As part of my course work I am conducting a research study on "Agency banking adoption by Kenya commercial banks in Nakuru town Nakuru County". You have been selected to participate in this study.

I am therefore seeking for assistance in collect the necessary information by filling in the questionnaire attached herein. This will only take about 10-15 minutes. Kindly not that the information being sought is purely for academic proposes and will be treated with outmost confidentially.

Your participation in the study will be highly appreciated.

Thank you very much.

**AGNES NJUNJI**
**D61/75482/2009**

## APPENDIX III: AGENTS QUESTIONNAIRE

This research is meant for academic purpose. It will try to investigate "Agency banking adoption by Kenya commercial banks in Nakuru town, Nakuru County".You are kindly requested to provide answers to these questions as honestly and precisely as possible. Responses to these questions will be treated with outmost confidentiality. Please tick [√] where appropriate or fill in the required information on the spaces provided.

### SECTION A: BIO DATA

a. Age

18 – 35 yrs35 – 45 ☐           ☐

45 – 55yrsAbove ☐ rs        ☐

b. GenderMaleFemale        ☐              ☐

c. Highest Education Qualification

Post GraduateGraduate☐ ploma        ☐

High SchoolPrimary Sc☐ l        ☐

Any other (Specify)_____

b. How long has your business been in operation?

Less than 1 yr  ☐

1 - 3 yrs  ☐

3 – 5 yrs  ☐

Above 5 yrs  ☐

### SECTION B: AGENT BANKING SERVICES

i.      On average, how many transactions do you make in a day?

1 – 50  ☐

50 – 200  ☐

200 – 500  ☐

Above 500  ☐

ii.     Kindly enter the following information on agent banking. It would be better if you could refer to your closing report from yesterday or the most recent one available.

*Fill for the services offered /allowed only:*

| **Transaction Type** | **Number of Transactions per day** |
|---|---|
| Withdrawals | _____ |
| Deposits | _____ |
| Loan Repayments | _____ |
| Pre –Paid phone | _____ |
| Account opening | _____ |
| | |
| Balance inquiry | _____ |
| Account statement | _____ |
| Utilities Payments | _____ |
| Transfer of funds | _____ |

iii.    What motivated you to be a bank agent?

**KEY**:SA=Strongly agree     A=Agree     U=Uncertain     D=Disagree
SD=Strongly Disagree     NA=Not applicable

| STATEMENT | SA | A | U | D | SD | NA |
|---|---|---|---|---|---|---|
| Transaction Fee income | | | | | | |
| Brings more people into my store | | | | | | |
| My clients expect me to do it /asked for it | | | | | | |
| I want to be associated with a big brand | | | | | | |

Any other reason(s) (specify)

……………………………………………………………………………………………

……………………………………………………………………………………………

**SECTION C: CUSTOMER SATISFACTION**

iv.    What factors are likely to affect your daily sales?

(Use codes below to tick (\/) the table)

4= Very Much       3= Much    2= A little   1=Not at all

| Rating | 4 | 3 | 2 | 1 |
|---|---|---|---|---|
| Stiff Competition | | | | |
| Speed of service | | | | |
| Peak period of the month | | | | |
| Power blackout | | | | |

Any other reason

(Specify)…………………………………………………………………

v.    What are the possible solutions for factors mentioned in (vi) above?

_____

_____

vi.    What are your normal business working hours?

Less than 6 hours   ☐  – 8 hours 8 – 1☐ rs Above 10 hours   ☐                    ☐

vii.    What risks do you encounter as you carry out your business?

(Use codes below to tick ( ) the table)

4 = Very Often       3= Often       2= Rarely       1= None

| Rating | 4 | 3 | 2 | 1 |
|---|---|---|---|---|
| Theft | | | | |
| Poor network connection | | | | |
| System failure | | | | |
| Poor training on agent banking | | | | |

Any other(s) (specify)_____

iv.    What measure have you put in place to counteract the risks in (xiii) above

_____

_____

**Thank you for your participation**

# APPENDIX IV: QUESTIONNAIREFOR BANK MANAGERS

This research is meant for academic purpose. It will try to investigate "Agency banking adoption by Kenya commercial banks in Nakuru town, Nakuru County".You are kindly requested to provide answers to these questions as honestly and precisely as possible. Responses to these questions will be treated with outmost confidentiality. Please tick [√] where appropriate or fill in the required information on the spaces provided.

## SECTION A: BIO DATA

a. Age

18 – 35 yrs35 – 45 yrs [ ]                    [ ]

45 – 55yrsAbove yrs [ ]                    [ ]

b. GenderMale [ ]              Female [ ]              [ ]

c. Highest Education Qualification

Post GraduateGraduate Diploma [ ]              [ ]

High SchoolPrimary School [ ]              [ ]

Any other (Specify)_____

d. How long has your business been working in the banking industry?

1 - 4 yrs [ ]          5 – 10 yrs [ ]          11-15year [ ]

12- 20 yrs [ ]          20-25yrs [ ]          Above 25 yrs [ ]

e. How long have you worked in your current position

Below 1 yr [ ]          1 – 3 yrs [ ] 4- 8year

9- 15yrs [ ]          15-20yrs [ ]          Above 20 yrs [ ]

## SECTION B. AGENT BANKING SERVICES

i.      Has your bank adopted agency banking

Yes [ ]          No [ ]

ii.     If Yes, which year did your institution start agent

banking?................................

iii.    On average how many outlets have you enrolled over the past three year?

1 – 200              [ ]

200 - 500              [ ]

500– 2,000              [ ]

501Above 2,000              [ ]

**iv.**     What motivated your bank to adopt agency banking?

**KEY**:SA=Strongly agree        A=Agree          U=Uncertain       D=Disagree

SD=Strongly Disagree          NA=Not applicable

| STATEMENT | SA | A | U | D | SD | NA |
|---|---|---|---|---|---|---|
| To reduce the transaction fee | | | | | | |
| To serve the your clients more efficiently | | | | | | |
| To expand your customer base | | | | | | |
| My clients expect me to do it /asked for it | | | | | | |
| To be competitive in the market | | | | | | |
| Create more jobs to people(agents) | | | | | | |

Any other reason(s) (specify)

……………………………………………………………………………………………

……………………………………………………………………………………………

**v.**     How many transactions do you record weakly through agency banking?

1 – 25,000    25,001 – 50,000    ☐                    ☐

50,001 – 75, 000    75, 001 – 100,000 ☐            ☐

Above 100, 001            ☐

**SECTION C: CUSTOMER SATISFACTION**

**vi.**     What complaints do you receive from your customers on agency banking?

_____

_____

**vii.**     What solutions do you take to improve on the customers complaints identified in (viii) above?

_____

**viii.**     What challenges would you propose to the central Bank of Kenya guideline on Agent banking? And why?

**Thank you for your participation**

**APPENDIX V : CUSTOMER QUESTIONNAIRE.**

This research is meant for academic purpose. It will try to investigate "Agency banking adoption by Kenya commercial banks in Nakuru town, Nakuru County".You are kindly requested to provide answers to these questions as honestly and precisely as possible. Responses to these questions will be treated with outmost confidentiality. Please tick [√] where appropriate or fill in the required information on the spaces provided.

## SECTION A. BIO DATA

a      Age

         18 – 35 yrs    ☐

         35 – 45 yrs    ☐

45 – 55 yrs    ☐

         Above 55 yrs  ☐

    b   Gender

                 Male        ☐

                 Female     ☐

    c   Highest Education Qualification

                 Post Graduate   ☐

                 Graduate/Diploma  ☐

                 High School    ☐

                 Primary School   ☐

        Any other (Specify)_____

## SECTION B: AGENT BANKING SERVICES

i.      Have you heard of Agent banking?

    Yes ☐                 ☐

vi.    If yes,have you carried out any transactions through an agent outlet?

    Yes ☐                 ☐

v.How often have you served for the following services through the agency banks?

(Use codes below to tick ( ) the table)

4 = Very Often        3= Often        2= Rarely        1= None

| Rating | 4 | 3 | 2 | 1 |
|---|---|---|---|---|
| Withdrawals | | | | |
| Deposits | | | | |
| Loan Repayments | | | | |
| Pre –Paid phone | | | | |
| Account opening | | | | |
| Balance inquiry | | | | |
| Account statement | | | | |
| Utilities Payments | | | | |
| Transfer of funds | | | | |

Any other specify…………………………………………………………………….

## SECTION B: CUSTOMER SATISFACTION

vi.     On a scale of 1 to 5 (5 being very satisfied), how would you rate the
        services offered by agents in agent banking? (In a row, tick only one)

**Key**    5        Very Satisfied4        Satisfied

3        Neutral2    Unsatisfied1    Very unsatisfied

| **Description** | **5** | **4** | **3** | **2** | **1** |
|---|---|---|---|---|---|
| Friendly and courteous manner | ☐ | ☐ | ☐ | ☐ | ☐ |
| Knowledge of bank's products & Services | ☐ | ☐ | ☐ | ☐ | ☐ |
| Fast & efficient services | ☐ | ☐ | ☐ | ☐ | ☐ |
| Recognition of you as valued customer | ☐ | ☐ | ☐ | ☐ | ☐ |
| Professional & attractive appearance | ☐ | ☐ | ☐ | ☐ | ☐ |
| No long line ups at counter | ☐ | ☐ | ☐ | ☐ | ☐ |
| Availability of information brochures | ☐ | ☐ | ☐ | ☐ | ☐ |
| Pleasure & attractive décor | ☐ | ☐ | ☐ | ☐ | ☐ |

Satisfied with the accuracy of transactions

vii.     On a scale of 1 to 5 (5 being very satisfied), how would you rate the
        services offered by bank tellers on branch banking? (In a row, tick one)

**Key**    5     Very Satisfied   ☐

      4     Satisfied   ☐

      3     Neutral   ☐

      2     Unsatisfied   ☐

      1     Very unsatisfied   ☐

| Description | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| Friendly and courteous manner | ☐ | ☐ | ☐ | ☐ | ☐ |
| Knowledge of bank's products & Services | ☐ | ☐ | ☐ | ☐ | ☐ |
| Fast & efficient services | ☐ | ☐ | ☐ | ☐ | ☐ |
| Recognition of you as valued customer | ☐ | ☐ | ☐ | ☐ | ☐ |
| Professional & attractive appearance | ☐ | ☐ | ☐ | ☐ | ☐ |
| No long line ups at counter | ☐ | ☐ | ☐ | ☐ | ☐ |
| Availability of information brochures | ☐ | ☐ | ☐ | ☐ | ☐ |
| Pleasure & attractive décor | ☐ | ☐ | ☐ | ☐ | ☐ |
| Satisfied with the accuracy of transactions | ☐ | ☐ | ☐ | ☐ | ☐ |

viii.    Generally, how satisfied are you with your most recent experience with agent banking?

Very Satisfied ☐   Satisfied ☐   Neutral ☐

Unsatisfied ☐   Very Unsatisfied ☐

ix.    How likely is it that you will use Agent Banking again in the near future?

Very Likely ☐   Likely ☐   Neutral ☐

Unlikely ☐   Very Unlikely ☐

x.    When did you last visit an agent banking outlet (mm/dd/yyyy)?

_____

xi.  Do you feel that transacting through an agent increases the risks of losing your funds?

YesNo

If yes, give

reasons_____

xii.  Have you ever lost funds during an agent banking transaction?

YesNo

xiii.  If yes how did you loose the money? Briefly explain.

……………………………………………………………………………………………

……………………………………………………………………………………………

xiv.  How was issue resolved

……………………………………………………………………………………………

……………………………………………………………………………………………

xv.  What suggestions can you make to improve on the services?

………………………………………………………………………………

………………………………………………………………………………

………………………………………………………………………………

**Thank your for your participation**