AGENCY BANKING AND FINANCIAL INCLUSION IN KISUMU, KENYA.

BY

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DECLARATION

This management research project is my original work and has not been presented for examination in any other university.

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

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DEDICATION

To the memory of my late mother- Agnes; who taught me so much.

To my loving wife - Winnie, and daughter - Chiri for their support and encouragement.

Without their love and support this project would not have been made possible.

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ABSTRACT

Agent banking has become one of the most promising strategies for offering financial services to the poor and underserved. In this model, financial institutions work with networks of existing nonbank retail outlets to deliver financial services. This approach is especially powerful when serving the unbanked poor because of its ability to reduce banks' cost-to-serve and reach low-income customers where they live. This alternative banking channel has increasingly gained importance in developing countries over the last decade. The extent to which agency banking can be used as a tool for broadening financial inclusion remains largely unknown. This study aimed at assessing the impact of agent banking services in reducing transactional costs, mitigating risks and enhancing financial inclusion. The study explored the role of agent banking in broadening financial inclusion to both banked and unbanked. It intended to probe how commercial banks were responding to risks like fraud and insecurity which result from this innovation. This study sought to assess the impact of agency banking in enhancing financial inclusion in Kenya. Descriptive survey design was used in conducting this study. This involved collection of information by administering a questionnaires and interviewing to a sample of individuals. The design was appropriate because it allowed the researcher to describe record, analyze and report conditions that exist. The study population involved all commercial banks in Kisumu that had been approved by Central Bank of Kenya (CBK) to roll out agent banking. The data collected was edited to minimize errors, coded and entered into an access database. Descriptive methods were used to analyze the qualitative data while Statistical Package for Social Scientists (SPSS) was used to analyze quantitative data. The results of the study were presented through tables, charts and graphs in a continuous prose form. The study found that agency banking cash withdrawal; deposit and accounts opening were the most commonly used services. Further, the study found that the business model was not self- sustaining and required that it be hinged to another business. It recommends that agents should be allowed to offer a wider array of services including balance enquiries, bills payment and loan appraisal. The principal bank should support the agents so as to generate adequate income by way of dedicating some services, such as payment for utilities, to be exclusively offered by agents. The regulating body should control the proliferation of many agencies in a locality to ensure profitability. The physical distance from one agent to the other should take into consideration the population of the area so as to enhance financial inclusion.

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CHAPTER ONE: INTRODUCTION

This chapter presents primarily the foundation of agent banking as a tool for financial inclusion. It lays down the background of the study, the statement of the problem, objectives and the scope of the study.

1.1.0 Background of the Study

Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion (Naveen et al 2012). Providing access to finance is a form of empowerment of the vulnerable groups. Mas (2009) assert that enhanced access to these services is a form of empowerment of the vulnerable groups and leads to improved income, poverty reduction and a stable financial system. It has been estimated that 2.5 billion adults lack access to basic formal financial services (Financial Access Initiative Focus Note, 2009). A large percentage of these underserved population are domiciled in developing countries where they live in remote areas where there are no bank branches making it difficult and costly to access financial services (Mas, 2009). A survey conducted in 2009 by Fin Access found that 32% of Kenya's bankable population is still excluded from access to formal financial services. The survey noted that long distances to banking channels and relatively high costs of accessing financial services were the main drivers of exclusion. Access related impediments are owed to the high cost inherent in the traditional brick and mortar approach that characterizes normal bank branches.

According to Prabha et al, 2012, financial exclusion plays a key part in creation and amplification of poverty. Poor households have needs for financial services; inaccessibility to credit from formal system leads them to borrow from money lenders or from friends and relatives at a much higher and unsustainable rate of interest. This heightens their financial position making them more vulnerable. In such a situation, local money lenders thrive and proliferate, creating an unacceptable and exploitative system. At the backdrop of the universal realization of the direct correlation between financial exclusion and poverty, the United Nations observed that most poor people in the world lack access to sustainable financial services and the greatest challenge was how to address the constraints that exclude people from full participation in the financial sector (Kofi Annan, 2003).

Cognizant of the critical role that finance play in wealth creation and poverty eradication, many countries have sought to address the impediments to financial inclusion. Approaches ranging from microfinance arrangements, moral suasion to urge financial institutions to embrace commitment to financial inclusion; regulatory frameworks that require commercial banks to open up a rural branch for every x branches opened; and utilization of Information Communication Technology (ICT)to reduce costs associated with financial service delivery have been adopted by different countries of the world (Ssonko, 2010).

Many countries especially in developing nations are increasingly embracing branchless banking as a viable means of extending basic financial services to reach out to under-served urban and rural population. Lozano and Mandrile (2009) contends that branchless banking through agencies significantly reduces set-up and delivery costs, offering cash-in/cash-out operations only or a broader range of financial services to customers who usually feel more comfortable banking at their local merchants than at traditional bank branches.

1.1.1 Agent banking

One of the primary challenges to providing financial services to the poor through branches and other bank-based delivery channels is the high costs of these traditional banking methods. Poor customers conduct small transactions that commercial banks find them too costly to be viable (Shunko, 2012). On the flipside though, when banks do not have branches that are closer to the customer, the customer will be more reluctant to use and transact with their service and therefore, the bank will lose out on potential revenue source. Arguably, no one gains in this scenario. Branchless banking (or banking beyond the branches) provides a bridge for customers who want to access financial services and financial institutions who hope to gain additional revenue from increased customer base. Agent banking is one of the most promising strategies for offering financial services beyond the bank branches.

Agent banking is the provision of banking services by a licensed Financial Institution to customers through a third-party agent, such as retail outlets and post offices. These outlets act as agents of financial services providers and enable customers to perform functions that require their physical presence, such as cash handling and customer due diligence for account opening (CGAP, 2008).This banking model is increasingly becoming recognized in many countries as a viable strategy for extending formal financial services into poor and rural areas. The strategy has been adopted and implemented with varying degrees of success by a number of developing countries, particularly in Latin America. Brazil is often recognized as a global pioneer in this area since it was an early adopter of the model and over the years has developed a mature network of agent banks covering more than 99% of the country's municipalities. Other countries in Latin America have followed suit, including

Mexico (2009), Peru (2005), Colombia (2006), Ecuador (2008), Venezuela (2009), Argentina (2010), and Bolivia (2006). Other countries around the world have also utilized the agent banking model to expand financial services, including Pakistan, Philippines, Kenya, South Africa, Uganda, and India (Alliance for Financial Inclusion, 2012).

1.1.2 Financial Inclusion

Financial Inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities (Rangarajan's Committee, 2006). It is the notion of providing financial services for the unbanked people to be included within the financial system (Kumar and Gupta, 2008). These services forms the basic function of financial institutions, that of transferring resources from surplus to deficit units. The essence of a financially included society does not imply that all households and firms should be able to borrow unlimited amounts or transmit funds across the world for some fee. Rather, the creditworthiness of the customer is critical in providing financial services (World Bank Report, 2008).

The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. The ultimate goal of these efforts is to lift the poor from one level to another so that they come out of poverty. Efforts to enhance the access to financial services have increased substantially with both government and the private sector having a convergence of interest. The interest is owed partly to the fact that financial inclusion has both social and private benefits. Camner and Sjöblom (2009) argue that integrating the larger population within the formal economy has numerous benefits for the governments as it creates financial security, decreases corruption and it creates better infrastructure for economic development. Accordingly, many governments and international monetary agencies have focused on ways to increase financial inclusion (Financial Assess survey, 2010).

Financial inclusion can be enhanced through either a state-driven intervention by way of statutory enactments or through voluntary efforts by the banking community itself by way of such strategies to bring within the ambit of the banking sector, the large population. The state plays its role of ensuring an enabling environment for the innovations to occur, by providing incentives to actors who are keen to deepen the reach of financial services and by availing regulatory framework to ensure the interest of both the demand and supply side (Leeladhar, 2005)

The focus of financial inclusion has been to responsibly provide low-income individuals with financial services beyond microcredit – services such as savings, payments and insurance. A primary obstacle to the provision of these services has historically been high transactional cost. It has been too expensive to develop the infrastructure required to profitably reach underserved population segment. Branchless banking, however, is changing the economics of providing financial services by leveraging existing and widespread retail outlets and technology particularly mobile telephones to provide more services to more people at lower cost (CGAP, 2008).

1.1.3 Relationship between Agent Banking and Financial Inclusion

The goal of financial inclusion is to expand the depth and breadth of financial reach especially to the poor and vulnerable section of the society. A large number of people and households in this section are domiciled in the rural areas where infrastructure is either non-existent or in a sorry state. It has been pretty difficult bringing them under conventional banking structure since most of the banks find it difficult to maintain presence in remote parts of the country owing to the problem of logistics and cost of operations (CBN Governor Sanusi). The argument advanced by banks is that reaching rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of branches. The costs include, the cost of constructing a bank premise or leasing cost and, the human resource expenses incurred in recruiting additional staff and cost of equipment and furniture.

Agent banking holds the promise of addressing two major hurdles of financial inclusion: lack of proximity and high cost. Through the use of existing delivery channels, the cost of providing banking services is substantially lowered, making it easier for individuals to access banking facilities in an environment they are familiar with. The model adopts the use of mobile communication services and hence solves the problem of proximity. By leveraging these existing channels; agent banking not only turn pharmacies, post offices, or supermarkets into agents of banks but agents of financial inclusion.

Through this model; the poor gain convenient access to financial services in their own communities; financial institutions reach a vast new customer segment. Agents increase their sales volumes and have an opportunity to develop deeper relationships with customers (Chaia, 2010).

1.1.4 Agency Banking in Kenya

In 2009, the Central Bank of Kenya (CBK) commenced measures to open up banking channels to non-bank agents. An amendment to the Banking Act (passed as part of the Finance Act 2009) allowed banks to start using agents to deliver financial services. Using small shops, petrol stations, pharmacies and other retail outputs (essentially any profit-making entity that has been in business for at least 18 months and can afford to fund a float account to facilitate payment) as agents. This has had a dramatic impact on improving access to financial services, especially in rural areas (FinAcces, 2009). As at 31st March 2013, there were 11 commercial banks that had contracted 18,082 active agents facilitating over 48.4 million transactions valued at Kshs. 250.1 billion. This was an increase from 10 banks that had contracted 16,333 active agents facilitating over 38.7 million transactions valued at 3 billion dollars in December 2012 (CBK Quarterly Report, March 2013). This was a marked increase from the 10 commercial banks as at December 2012 who had contracted 16,333 active agents who facilitated over 38 million transactions valued at 2.3 billion dollars

Equity Bank, Co-operative Bank (Co-op Bank) and Kenya Commercial Bank (KCB), all financial institutions with a large retail footprint, rolled out agent banking networks. By the end of March 2013, Equity Bank had over 2.3 million customers registered for agency banking; around 80,000 transactions were made each day at 6,892 agent outlets. KCB had 5,035 agents as at the end of March 2013 (Business Daily).Effectively, the agent banking model provides an extension into a market already targeted: Co-op Bank and Equity have both succeeded with business models aimed at low income customers (Kinyanjui, 2011).

Despite this, there is still some uncertainty regarding how well banks can manage risks remotely, and owing to the nature of the relationship between the bank and the agents (principal-agent), the banks are keener to work with large well-known companies and established outlets. The choice of this group is informed by the fact that they are well established, are credible and have a solid cash flow and hence sound liquidity.

1.2.0 Research Problem

Agent banking has become one of the most promising strategies for offering financial services to the poor and underserved. In this model, financial institutions work with networks of existing nonbank retail outlets to deliver financial services. This approach can be especially powerful when serving the unbanked poor because of its ability to reduce banks' cost-to-serve and reach low-income customers where they live. The banking model has been very successful in propelling the performance of banks in many developing countries. Success stories have been reported in Colombia, Brazil, Peru and India (Kinyanjui2011).The roll out of the agent banking model in Kenya in April 2010 promised to replicate this rosy story. However, three years since its adoption, only four out of the forty three Commercial banks in Kenya have successfully embraced agency banking (CBK2010).

1.2.1 Research Gap

There is limited empirical work exploring the impact of agent banking services in Kenya by commercial banks in reducing transaction costs and its role in broadening financial inclusion for the majority of Kenyans. Studies have focused largely on the impact of non-bank-based agent banking models on financial development. Research done by EFInA (Enhancing Financial Innovation and Access) analyzed agent banking regulations in five selected countries, Kenya included. Information was analyzed from Central banks of the respective countries and this information came from the regulators point of view with little concern on the commercial banks who are implementing this regulations. Another research conducted by the Bill & Melinda Gates Foundation specifically focused on how agent banking has changed economics of banking for the poor.

Several research studies have been done on agent banking: Omumi (2010) did a study on agency banking and use of agents including postal corporation of Kenya. Mauricio and Maudrile (2008) did a study on a new agent model for agency banking in Colombia. Recent studies by Mwangi (2012) examined the concept of agent banking as a diversification strategy by commercial banks in Kenya. Mwenda (2012) undertook an investigation into the challenges facing agent banking implementation in Kenya. Most recently, Vutsenga & Ngugi (2013) examined the challenges that commercial banks face in sustaining agency banking in Kenya.

It is clear from the studies done on this concept that the focus has been on the possible challenges and benefits which will be realized from agent banking. Further, owing to the fact that the model was in introduced in Kenya barely three years, there is still minimal evidence on the impact of agent banking in broadening financial access, reducing transaction costs and mitigating risks.

The success of agent banking model has been widely discussed due to its success in extending formal financial services into poor and rural areas, particularly in Latin

America. Most of these countries have little or no experience with non-bank based models like MPESA, therefore leading to its quick adoption. Kenya has experience with both bank based and non-bank based models, researchers have widely discussed the success and challenges of this model both locally and internationally, however, there is need to establish the impact of agent banking model given the recent legal and technological development in the banking sector and overall provision of financial services in Kenya.

This study therefore aimed to assess the impact of agent banking services in reducing transactional costs, mitigating risks and enhancing financial inclusion. The study explored the role of agent banking in broadening financial inclusion to both banked and unbanked. It probed how commercial banks are responding to risks like fraud and insecurity which result from this innovation.

1.3.0 Research Objectives

The main objective of the study was to assess the impact of agency banking in enhancing financial inclusion in Kisumu.

1.4.0 Significance of the Study

The study sought to raise ideas and issues in the hope that the various stakeholders and persons directly addressing agent banking in Kenya will continue the discussion. The concept is at its early stages of adoption and its early adopters have strived to use it to gain competitive advantage over their rivals. The fact that model has been implemented by only 4 of the 43 commercial banks in Kenya calls for attention.

It is hoped that the study will contribute several practical tools for the agent banking sector in order to ensure financial inclusion. Specifically, the findings of this study, it is hoped, will be beneficial to various key stakeholders as discussed below:

1.4.1 Regulatory Authorities

Since agent banking is still a new concept in Kenya, this research will help highlight sensitive issues that might emerge in the implementation and even after implementation. This will help commercial institutions to come up with policies and procedures to handle such issues before they become big problems so as to gain full potential of this innovation, on the other hand, the regulatory authority will be able to adopt proper guidelines to regulate and offer advice on such issues.

1.4.2 Academic Researchers

Other researchers and academicians can use the result of the study for training and further research, as the study will lay platform on which research on the topic can be undertaken. The findings and analysis undertaken of this study can be replicated under other environmental settings.

1.4.3 Benefits to Financial Institutions

This study will inform Kenyan financial institutions on the actual contribution of agency banking to their performance and/or nonperformance with a view of sustaining the gains thus made and addressing any weaknesses that may be observed. The banks will also be able to lobby for appropriate policy formulation and strategies that will fully exploit agency banking opportunities that are feasible in Kenya.

1.4.4 Increased Financial Inclusion

The information gathered will encourage financial institutions to use agents in the provision of banking services so as to reduce the cost of financial services and to foster financial inclusion, reach and depth.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

In order to address the aim of the research, it is of importance to have established a sound literature base around which the study was built.

2.1 Financial Exclusion

To understand financial inclusion, it is important to know the nature, causes and extend of exclusion. Financial exclusion is often defined as broad concept describing a lack of access to, and use of, a range of financial services. Financially excluded people typically exhibit; a lack of a bank account and financial services that come with it, a reliance on alternative forms of credit and a lack of other key financial products such as insurance, savings products and pensions. Kempson and Whyley (1998) discusses the major forms of exclusion that impede certain segments of the population from being financially included: condition exclusion i.e. inappropriate conditions attached to the financial product or service; price exclusion i.e. high cost of financial products; access exclusion i.e. unavailability/ remote availability of banking services; marketing exclusion i.e. lack of marketing and sales; and self-exclusion i.e. cultural, religious, psychological barriers etc.

Building an inclusive financial system calls for addressing the above multidimensional forms of exclusion. Several factors (socio-economic circumstances) that lead to financial exclusion have been identified by researchers: Toporowski (1987) suggests distance from nearest banking services as an important determinant of access. Kempson and Whyley (1998) reveal that the residents of remote and hilly areas are more likely to be financially excluded. Kempson and Whyley (1999) and

Goodwin *et al.* (2000) document people in low-income groups, immigrants, the aged, the unemployed, the ethnic minorities, people in unorganized/informal sector as most susceptible to be excluded. Mehrotra *et al.* (2009) have identified supply and demand side barriers to financial inclusion. The supply constraints to financial inclusion arise from various factors such as poor banking infrastructure, low outreach by existing institutions, lengthy form-filling/account maintaining formalities, security-based lending procedures etc. The demand side constraints are related to factors such as poor physical infrastructure (roads, bridges, irrigation structures etc.), low financial literacy, high cost of services etc. While addressing supply constraints is part of the social responsibility of the banks and policy making bodies; tackling the demand side constraints calls for effective partnership of Government with banks, voluntary agencies, Non-Governmental Organizations (NGOs) etc.

2.2 Financial Inclusion

Collins et al, 2009 described the financial lives of the poor as that where the income is precariously small and often irregular, they occasionally face crises such as serious illness or death in the family that can easily overwhelm their means. In the absence of an organized financial system, the poor people resort to informal ways to save and invest. The role of finance is to help the poor maintain household and plan for shelter, education or enhanced productivity in the face of erratic income and occasional disruptive events (Dercon et al, 2007). According to a survey conducted in 2009 by Fin Access, it is estimated that 2.5 billion adults lack access to basic formal financial services. (A large percentage of these underserved population are domiciled in developing countries where they live in remote areas where there are no bank branches making it difficult and costly to access financial services.

Formal access to finance is hindered by a lack of relevant information and customer service infrastructure. It is also expensive for financial services providers to serve poor people who ordinarily engage in transaction of small value using the proprietary physical infrastructure that banks use—that is, branches—and these transactions do not give poor people the kind of recorded financial history that providers can use to evaluate their credit prospects. The absence of such physical and informational infrastructure often makes it unattractive for financial service providers to offer products designed specifically for the needs of the poor, including appropriate transaction sizes and charging models (Musau, 2013).

Over the last five years, there has been a growing interest among policymakers, development organizations, and practitioners in developing countries in solving the infrastructure gaps that hold back access to finance. Much of their attention has been focused on developing branchless banking and credit bureaus.

2.3 Branchless Banking

Branchless banking is about building a general payments infrastructure that allows people and businesses to deposit and withdraw funds and make electronic payments from everyday retail stores, thus eliminating the need for bank branches or other bank-specific infrastructure. While much of the motivation in policy circles for branchless banking increasingly revolves around savings, branchless banking supports credit products in two ways: clients can use it to collect and repay (Dermish et al, 2012)A branchless banking platform is made up of three key elements: the retail network, composed of the collection of retail outlets where transactions are originated; the payment network, which aggregates the transactions from the collection of retail outlets and routes them to the appropriate issuer; the account platform, which manages the service logic by authorizing individual transactions and maintaining the value of accounts.

According to Mas (2009) setting up a retail network has cost consideration with regards to the cost to the provider of originating and processing a transaction and the cost to the users of accessing the services (such as travelling and queuing up for services). These costs present a key trade-off. The providers would strive to achieve economies of scale through cost minimization through concentrating transactions at specific locations so they can invest in the necessary fixed costs to handle a larger volume of transactions (i.e. building branches). This strategy however works only where customers are densely populated and are affluent enough to justify the fixed cost. This strategy (building branches) results in shifting of costs from the provider to the user since the user must travel to distant branches and spend time queuing up to use bank services. This presents an extra cost that is prohibitive for the majority of poor people in developing countries to even contemplate using formal financial services. They rely instead on informal services, which, although often less safe and more expensive, have the advantage of being delivered locally.

Branchless banking and specifically agent banking leverages existing retail outlets and stores and hence avoid the cost to the bank of setting up physical infrastructure. It is premised on shifting the emphasis at the retail level from concentration to distributing retail outlets more evenly across the territory (Chaia, 2010). By bringing the retail interface closer to the customer, the cost relating to access by users to financial services.

2.4 Theoretical Framework

This study is premised on the bank contracting theory, the agency theory and the banking models that have been identified in agent banking. Banks performs various roles in the economy; key among them is that they ameliorate the information problem between investors and borrowers by monitoring the borrowers and ensuring a proper use of depositor’s funds. By so doing, the banks provide intermediation services that are key in economic growth. Several theories have been advanced to explain how bank operate, among them is the bank contracting theory

2.4.1 Bank Contracting Theory

The bank contracting theory postulates that banks and regulators (and by extension bank agents) are drawn to contracts that gives all counterparties an incentive to use scarce information and resources effectively (Jensen and Meckling 1975). An important application of the theory is to explain how over time and space the character of the contracting protocols used by banks and other financial institutions adapts to variation in informational transparency, managerial and financial technology and regulation. The penetration of contracting perspectives into banking theory helps to explain why and how risk-based regulatory restraints on capital structure have come to displace liquidity requirements as the central policy tool for controlling bank risk. Traditional banking theory saw a bank simply as a financial intermediary (Gurley and Shaw 1960). Contracting portrays bank activities far more generally. A bank becomes an ever-adapting exercise in financial engineering: an amorphous information and deal-making factory

2.4.2 Agency Theory

Agency theory is a supposition that explains the relationship between principals and agents in business. It is concerned with resolving problems that can exist in agency relationships. The agency theory addresses the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing either because it is difficult or expensive to do so. Agency costs are costs that arise whenever a contractual agent does not fully share the objectives of its principal. The theory seeks to explain the relationship in order to recommend the appropriate incentives for both parties to behave the same way, or more specifically, for the agent to have the incentive to follow the principal's direction. Agency theory also seeks to reduce costs in disagreements between the two *(*Green, 2012).The central proposition in agency theory is that counterparties have an incentive to minimize agency cost.

2.4.3 Banking Models

According to CGAP (2008) there are two models of branchless banking; bank led and non-bank led. The main difference between these two forms relates to the entity (bank or non-bank) to set the relationship with the customer and the nature of agency agreement between (bank and the non-bank) (Sultana, 2009). The similarity between the two branchless banking forms is that both models use retail agents to deliver financial services beyond traditional branches.

2.4.3.1 Bank-led Model

The bank-led model offers a distinct alternative to conventional branch-based banking in that customers conducts financial transactions at a whole range of retail agents (or through mobile phone) instead of at bank branches or through bank employees. 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). This model may be implemented by either using correspondent arrangements or by creating a joint venture between bank and non-bank.

2.4.3.2 Non-bank led Model

In this model 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.

2.4.4 Innovation Theory

The world is witnessing today profound transformations and acceleration as a result of the tremendous development of information technology and the steady growth of volume of information, which has led to the emergence of new types of transactions and activities in various fields (Joseph et al 2005).The banking sector has been one of the first sections that have adopted many electronic applications to improve performance and gain a competitive advantage strategy. In light of the extensive use of information and communication technologies, the financial services industry and banking has provided new systems and applications that maximizes the use of modern technology and are now available. Therefore it has become necessary for banks to change the concept of traditional banking service to remote banking services because of the rapid growth of electronic banking services by customers and increased competition among banks to reduce costs, raise efficiency and attract more customers. Hence the bank agents have thrived and are currently estimated to have

33% penetration. The number of banks opening branches has decreased and is attributed to affordable agent banking and lowers service charges (Makori, 2003).

Innovation in banking should be directed to at improving the infrastructure that fosters efficient financial services and international trade. Design, implementation and dissemination of payments systems and costs have come down according to bank case studies. (Michael and Bloodgood 2010).Currently agent banking is an integral part of modern banking in many countries and the market is still growing.

2.5 Empirical Review

This section comprises various empirical studies related to the aim of the study. These studies were thematically reviewed in accordance to the research objectives.

2.5.1 Financial Inclusion

Financial inclusion is defined as “the policy goal of reaching all financially excluded households with a full range of responsibly delivered, affordably priced and reasonably convenient formal financial services.” Evidence shows that financial inclusion is key to reducing the economic vulnerability of households, promoting economic growth, alleviating poverty and improving the quality of peoples’ lives (Christen, Lauer, Lyman & Rosenberg, 2011).

Financial inclusion may not be fully realized without financial education and consumer protection, which are at the heart of the global financial inclusion and financial sector development agendas. Increasing access to finance has been abridged with the use of innovation such as agent banking, which allows commercial banks and

5 DTMs to engage the services of third party outlets to deliver specified financial services on their behalf (CBK, 2011).

The Kenya's development blueprint – the Vision 2030- envisage a country that strives to become a regional hub with an efficient and globally competitive financial system to drive savings and investments (Kenya Vision 2030). Prof. Ndungu contends that a vibrant and efficient financial system will lead to a high and sustainable, but also broad based economic growth. In a span of about a decade, financial inclusion has made its way into the center stage of development policy. It is widely believed that expansion of the reach of financial services has the ability of reducing poverty through the causal relationship between financial development and economic growth; this has led to an unusual convergence of interest between government, businesses, aid agencies, civil society and other private players. As a result the country has adopted policies and encouraged initiatives from the private sector that are geared towards enhancing financial inclusion.

According to the Financial Sector Deepening Kenya (2010), the data available indicates that only 19% of adult Kenyans reported having access to a formal, regulated financial institution while 38% indicated no access to even the most elementary form of informal service. This data implies that more than 80% of Kenyans are outside the ambit of mainstream banking. The adoption of branchless banking model was intended on expanding the reach of these services.

Branchless banking has been given much international attention and enthusiasm from many development organizations and private businesses. Ivatury & Pickens (2006) contends that branchless banking does not provide a fit-for-all solution of financial inclusion. Admittedly, the development of any branchless banking scheme takes quite a lot of time and preparation because it implies analyzing and taking action regarding the business case of each actor involved, the customer value proposition, and the local legal and regulatory environment.

The role of agency banking in improving financial outreach around the world is well documented. Less known is its contribution to the redefinition of financial inclusion, from "banking the unbanked" to "the convergence of various bank and non-bank players to provide financial services to all end consumers of financial services, unbanked or otherwise." (Jayanty, 2012) On the other hand, are banks using agency banking to improve financial inclusion and reduce transaction costs in Kenya or to increase their profits?

2.5.2 Risk Reduction

Entrusting retail customer contact to the types of retail agents used in both the bank-led and nonbank-led models would seem riskier than these same functions in the hands of bank tellers in a conventional bank branch. These retail agents may operate in hard-to-reach or dangerous areas, and they lack physical security systems and specially trained personnel. The lack of expert training may seem a particular problem if retail agents' functions range beyond the cash-in/cash-out transactions of typical bank tellers to include a role in credit decisions. In general, the bank-led model adds few serious risks as compared with conventional branch-based banking (Timothy, Gautam, and Stefan 2006). The level and kind of risk to which a bank will be exposed as a result of its use of agents will depend on; extend of use, activities in which the agents are engaged in and the banks management of the agent business, including not only proper oversight and monitoring of agents' activities but also the process by which agents are selected and trained (Kate, Denise and Michael, 2011).

Banking regulation typically recognizes multiple categories of risk that bank regulators and supervisors seek to mitigate. Five of these risk categories; credit risk, operational risk, legal risk, liquidity risk, and reputational risk - take on special importance when customers use retail agents rather than bank branches to access banking services. The use of retail agents also potentially raises special concerns regarding consumer protection and compliance with rules for combating money laundering and financing of terrorism (Basel Committee on Banking Supervision 2006). Credit risk is the risk that one party to a financial transaction will not receive the money he or she is owed when it is due; Operational risk refers to potential losses resulting from "inadequate or failed internal processes, people and systems or from external events; Legal and compliance risk infers the likelihood that a lawsuit will be brought against the bank as a result of agents theft or agent's violation of privacy laws or bank secrecy laws or other misuse of confidential customer data; liquidity risks relates to the inability to avail funds as and when needed (Timothy, Gautam, and Stefan 2006).

2.5.3 Reducing cost

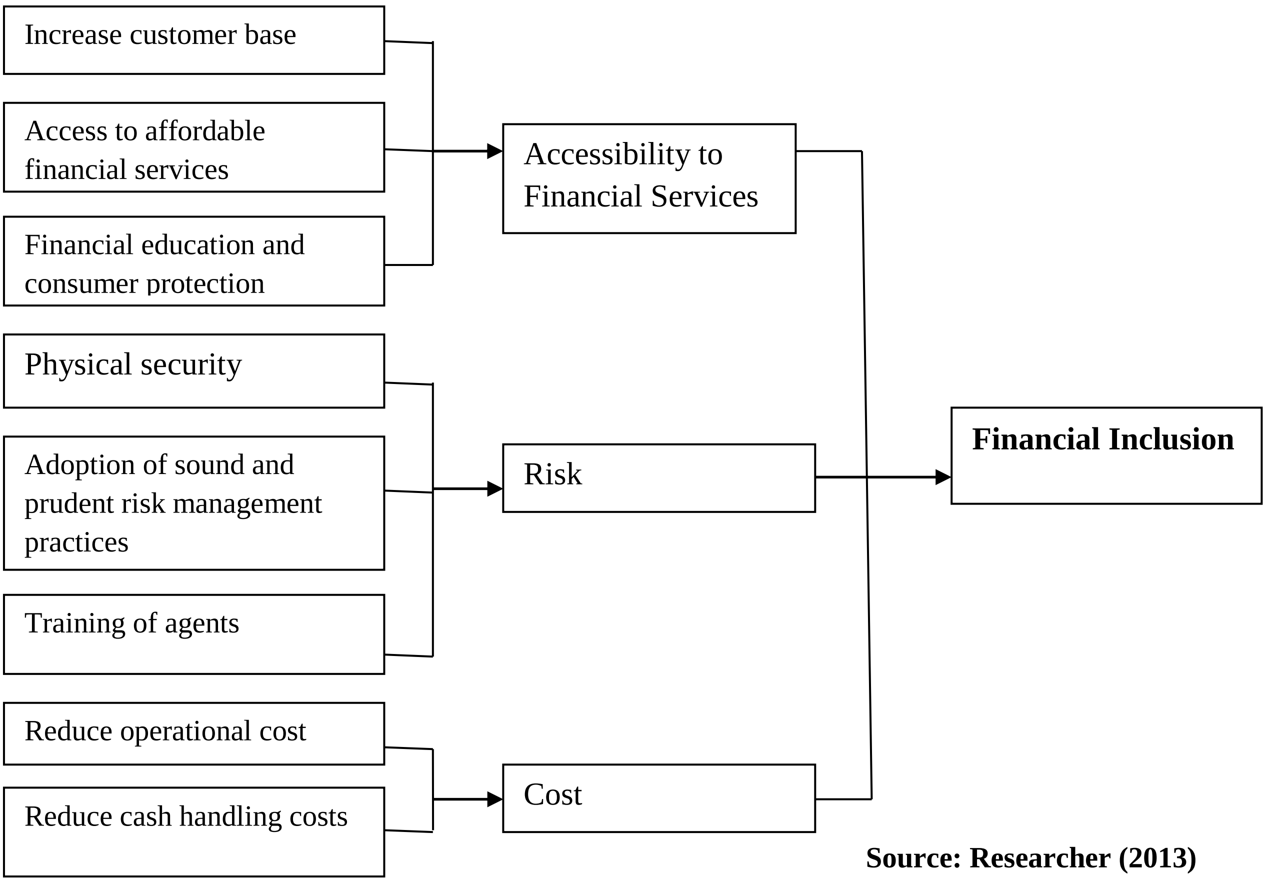
Gardeva & Rhynea, (2011) in a survey report on Opportunities and Obstacles to Financial Inclusion observes that, Product cost-structures and branching costs were ranked 7th and 12th respectively viewed as significant obstacles to financial inclusion, especially by providers, high branching costs in rural areas are associated with poor physical infrastructure – roads, electricity, etc. – that branchless banking is able to leapfrog. Such infrastructure barriers ranked surprisingly high, at 9th on the obstacles list. Agent banking drastically reduces the cost of setting up points of contact with customers, allowing MFIs, banks and other providers to reach out into areas where building branches would be too expensive.

Banks expansion is usually limited due to the high initial cost of opening a branch and in many areas due to the low economic status of the people living in these areas. The initial costs of setting up a branch and running cost takes many years to be translated into profits hence limiting branch expansion. Through partnerships with businesses across the country, banks will take their services closer to the people in areas with potentially less number and volume of transactions. This in turn will lead to increased customer base and thus the market share, increased coverage with low cost solution, increased revenue from improved indirect productivity by reducing congestion in existing branches. Customer's visiting the General store will benefit from lower transaction costs as it is closer home and hence no need to travel 150 km to a bank, longer banking hours as the Agents will operate for longer hours and shorter queues than in branches (Muriungi, 2012).

Barriers for poor people to access appropriate financial services include socio-economic factors (e.g., education, gender and age, low and irregular income and geography), regulatory factors (e.g. provision of identity documentation) and product design factors (e.g., minimum account balances). Some major barriers financial service providers experience when expanding appropriate services to poor people are the cost of providing those services and finding the regulatory space to innovate. As a general rule, transaction costs do not vary in direct proportion to a transaction's size. Thus serving the poor with small value services is simply not viable using conventional retail banking or insurance approaches (G20 Financial Inclusion Experts Group, 2010).

2.6 Conceptual Framework

The operational framework for the study is presented in figure 1.0 below.



Source: Researcher (2013)

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter explains how the study will be conducted. The researcher highlights the type of research design to be used, the study population, the sample size, sampling procedures, data collection instruments and procedure for data analysis.

3.1 Research Design

Research design is the general plan of how the researcher will go about answering research questions. It will specify the sources from which the researcher intends to collect data, measurement and analysis of data (Saunders, Lewis & Thornhill, 2009). Descriptive survey design will be used in conducting this study. This will involve collection of information by administering a questionnaires and interviewing to a sample of individuals. The design is appropriate because it will allow the researcher to describe record, analyze and report conditions that exist.

3.2 Population of the Study

The study population will involve all commercial banks that have been approved by Central Bank of Kenya (CBK) to roll out agent banking. According to information from CBK, 13 financial institutions (11 banks and 2 Deposit Taking Microfinance) have been approved to roll out agent banking. As of May 2012, only 9 banks out of 11 had rolled out the agency networks. Of these, only 8 have presence in Kisumu County. The study population will therefore be the 8 banks (Equity Bank, Kenya commercial bank, Cooperative Bank, First Community Bank, Diamond Trust Bank, Chase Bank, NIC Bank and Family Bank) and their agents whose number stood at 217 as at 31st May 2013 according to information from bank branches.

3.3 Sampling Procedures

Sampling method will be used to select the respondents from the banks, whereby 8 branch managers will participate in the study. Random sampling method will be used to select the number of bank agents and thereafter purposive sampling will be used to select respondents from urban and rural areas

The sample size will consist of all the 8 bank branch manager of the banks that have rolled out agent banking in Kisumu County. By virtue of their administration, they are considered to have a grip of the operations of agent banking. 70 bank agents will be randomly selected from the 8 banks. According to Isaac & Michael (1981) a sample size of 70 will be ideal for a population of 225 where the researcher wishes to achieve a 90% confidence level. The agents will then be clustered as urban agents and rural agents based on their area of operation. To enable the researcher achieve the objective of the study, 60% of the 70 agents that have been randomly selected will be drawn from the rural areas while 40 % will be drawn from the urban areas. This is based fact that there is a high likelihood that a bigger percentage of the agents in Kisumu County operate in urban areas. This is due to the fact that banks contract established outlets as agents and most of these outlets are likely to be located in urban areas.

3.4 Data Collection

The researcher will use both primary and secondary data. Questionnaires will be used to gather primary information from the field. The questionnaire will have both open and closed ended questions. Open-ended questions will be used to encourage the interviewee to provide an extensive and developmental answer, comments and suggestions will also be included. Close ended questions will be used to obtain specific information or objective response. Secondary data will be obtained through desk research from external sources that include publications, reports, newspapers, articles and journals.

3.5 Data Analysis

Data analysis is examining what has been collected in a research and making deductions and references (Kombo, 2004). The data so analyzed seeks to fulfil research objectives and provide answers to research questions.

The data collected will be edited to minimize errors, coded and entered into an access database. Descriptive methods will be used to analyze the qualitative data while Statistical Package for Social Scientists (SPSS) will be used to analyze quantitative data. The resultant information will then be presented through frequency tables, graphs and pie charts for easy understanding. For these presentations it will be easy to do a descriptive analysis of the results and make inferences about the findings.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter outlines the research findings in the study. The objective of the study was to assess the impact of agency banking on financial inclusion in Kisumu. The analysis was focused on answering the research questions. The data was gathered exclusively from questionnaire as the research instrument. The response rate was fairly good because out of 78 questionnaires distributed, 67 were returned answered giving a response rate of 85.89% which was good. The sample size was reliable to meet the objective of the study being that only 14.10% of the respondents did not respond.

4.1 General Information

The following findings relates to the respondents general information as obtained from the questionnaire.

4.1.1 Nature of Business

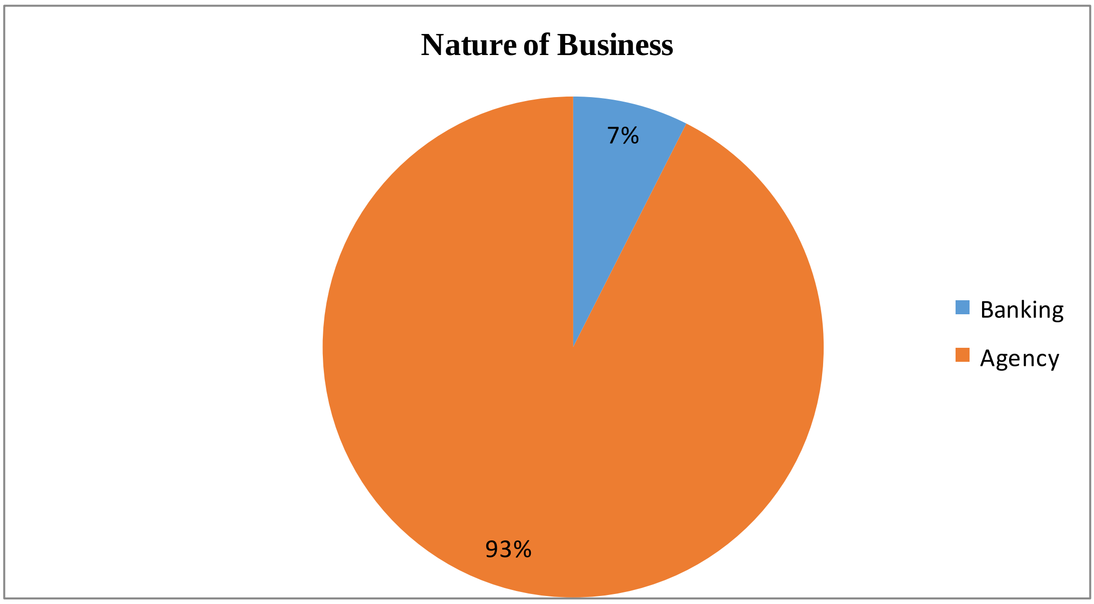
Majority of the respondents were in agency business who accounted for 92.54% only 7.46 % of respondents were in banking Business.

Table 4.1: Nature of business

	NATURE OF BUSINESS	FREQUENCY	RATE
1	Banking	5	7.46%
2	Agency	62	92.54%
		67	100%

Source: Research Data

Figure 2: Nature of Business



4.1.2 Duration in Business

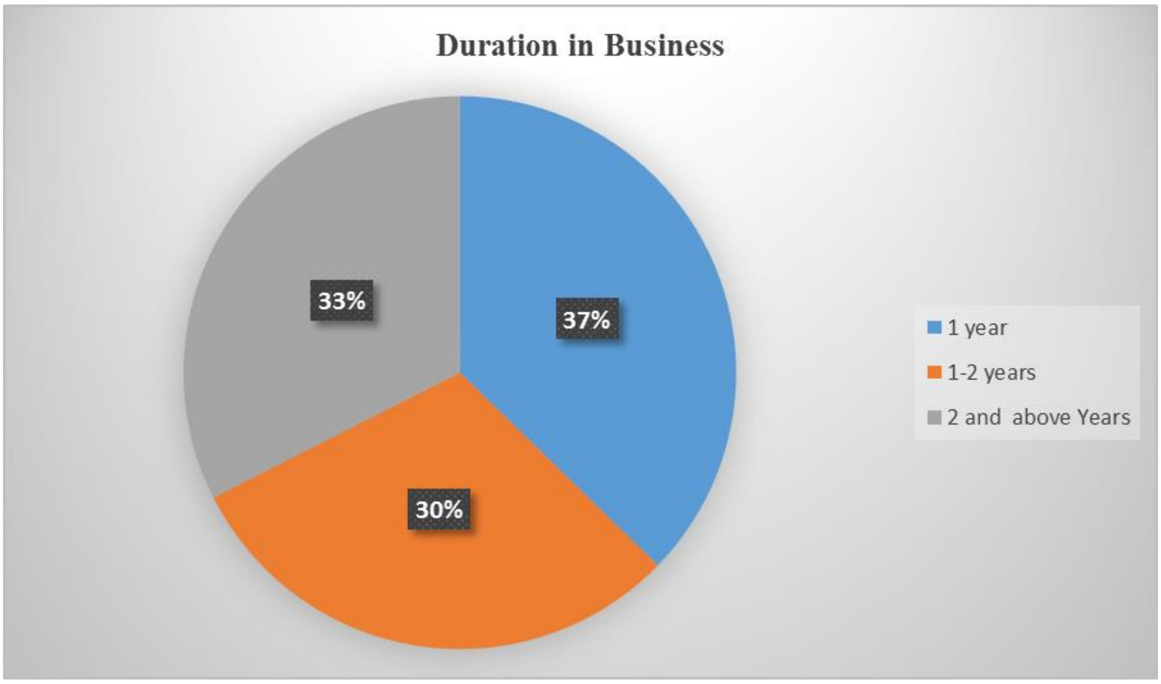
Majority of respondents had been business only for one year accounting for 37% of respondents

Table 4.2: Duration in business

DURATION IN BUSINESS	FREQUENCY	RATE
1 year	23	37%
1-2 years	19	31%
2 and above Years	20	32%
Total	62	100%

Source Research data

Figure 4.2: Duration in business



4.1.3 Number of Transactions in a Month

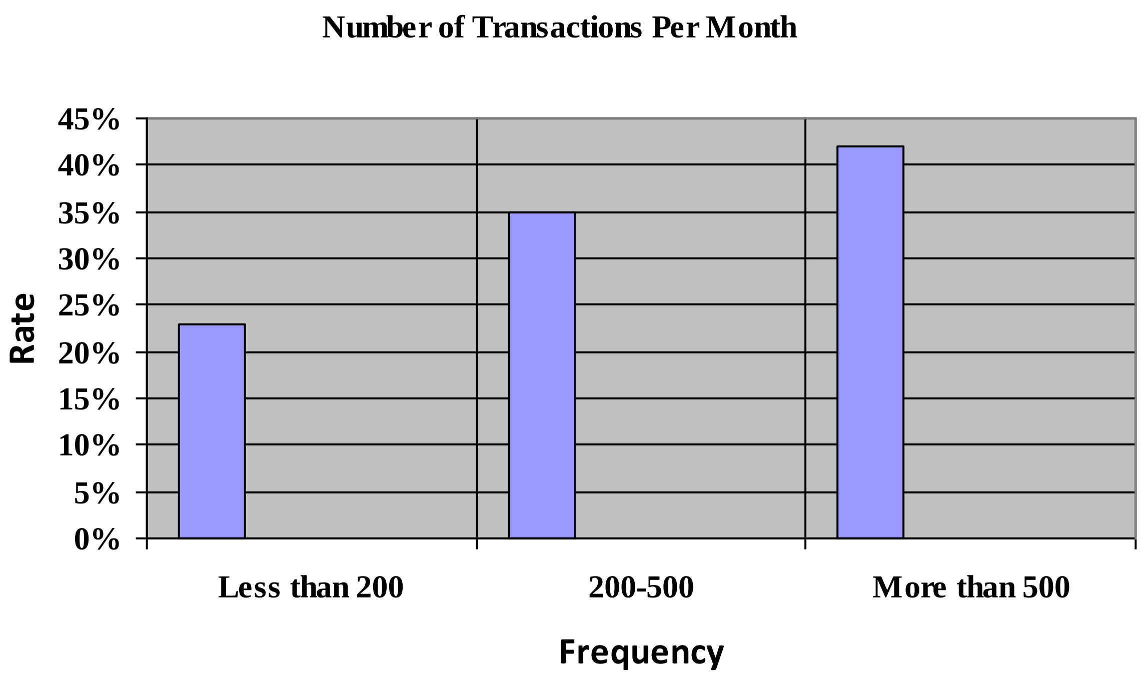
Majority of agents made more than 500 transactions in a month accounting for 42%, 35% of respondents made between 200 and 500 transactions in a month.

Table 4.3 Number of Transactions in a Month

RESPONSE	FREQUENCY	RATE
Less than 200	14	23%
200-500	22	35%
More than 500	26	42%
	62	100%

Source Research data

Figure 4.3 Number of Transactions in a Month



4.1.4 Locality of clients

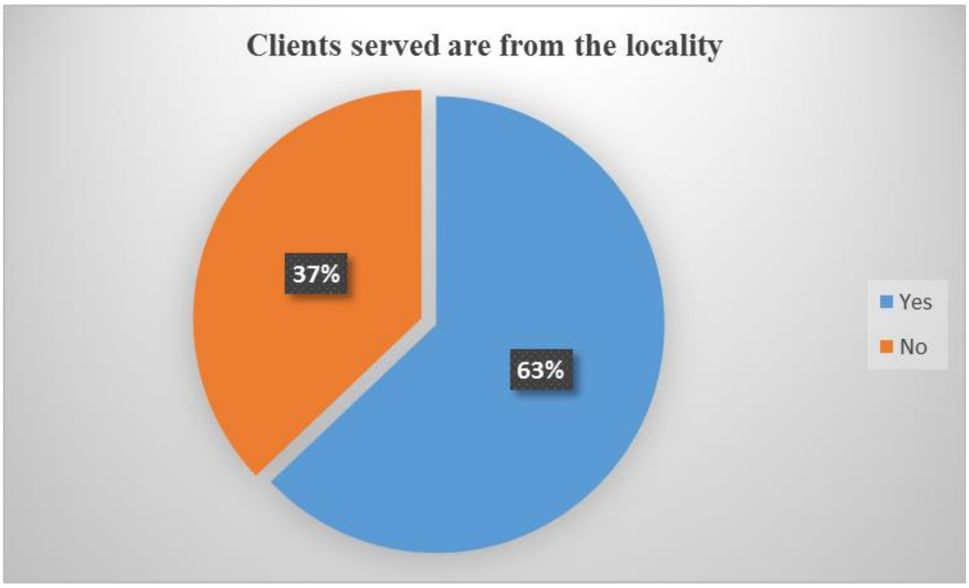
Majority of clients that agents served were from within the locality accounting for 64% of the respondents 36 % respondents revealed that that clients they served did not come from the locality.

Table 4.4: Locality of Clients

CLIENTS FROM WITHIN THE LOCALITY	FREQUENCY	RATE
Yes	39	63%
No	23	37%
	62	100%

Source: Research data

Figure 4.4: Locality of clients



4.1.5 Agents of network service provider before

Majority of respondents indicated that they had been agents of network service provider before accounting for 77% of the respondents. However 23% of the respondents indicated that they had not been Agents of network service provider before.

Table 4.5: Agent of Network Provider before Agency Banking

RESPONSE	FREQUENCY	PERCENTAGE
Yes	45	73%
No	17	27%
	62	100%

Source: Research data

4.1.6 Agents of Network Service Providers after Agency Banking

The number of agents who were agents of network service providers has reduced 51% of respondents. 49% respondents of indicated they had never been agents of network service provider.

Table 4.6 Agents of network service provider after Agency Banking

RESPONSE	FREQUENCY	PERCENTAGE
Yes	33	53%
No	29	47%
	62	100%

Source: Research data.

4.2 Financial Inclusion

4.2.1 Most Commonly Used Services

Most respondents indicated that the most used service to a great extent cash withdrawal, cash deposit, and processing of accounts applications. Loan repayment was used to a little extent and payment of utilities to moderate extent.

4.2.1.1 Bill Payment

Majority of the respondents indicated that this service was not used at all accounting for 34% of the respondents.32% to a little extent and only 3% to a great extent.

Table 4.7.1: Bill Payment

RESPONSE	FREQUENCY	PERCENTAGE
Not at All	21	34%
To a little Extent	20	32%
To a Moderate Extent	15	24%
To a Great Extent	4	6%
To a Very Great Extent	2	3%
Total	**62**	**100%**

Source: Research Data

4.2.1.2 Cash Withdrawal

94% respondents indicated that this service was used to a very great extent 6% to a great extent.

Table 4.7.2: Cash Withdrawal

RESPONSE	**FREQUENCY**	**RATE**
Not at All	0	0%
To a little Extent	0	0%
To a Moderate Extent	0	0%
To a Great Extent	4	6%
To a Very Great Extent	58	94%
Total	**62**	**100%**

Source: Research Data

4.2.1.3 Cash Deposits

Majority of respondents indicated that they used this service to a very extend accounting for 90% of the respondents. 3% indicated that they used the service to a moderate extent.

Table 4.7.3: Cash Deposits

RESPONSE	FREQUENCY	RATE
Not at All	0	0%
To a little Extent	0	0%
To a Moderate Extent	2	3%
To a Great Extent	4	6%
To a Very Great Extent	56	90%
Total	**62**	**100%**

Source: Research Data

4.2.1.4 Processing Accounts Applications

Majority of the respondents (81%) indicated that this service was used to a very great extent while 5% indicated that the service was used to a little extent.

Table 4.7.4: Processing Accounts Applications

RESPONSE	FREQUENCY	RATE
Not at All	0	0%
To a little Extent	3	5%
To a Moderate Extent	5	8%
To a Great Extent	4	6%
To a Very Great Extent	50	81%
Total	**62**	**100%**

Source: Research Data

4.2.1.5 Loan Repayment

Loan repayment was not commonly used with 82% of the respondents indicating that it was not used at all.3% of the respondent indicated that the service was use to a moderate extent

Table 4.7.5: Loan Repayment

RESPONSE	FREQUENCY	RATE
Not at All	49	82%
To a little Extent	9	15%
To a Moderate Extent	2	3%
To a Great Extent	0	0%
To a Very Great Extent	0	0%
Total	**62**	**100%**

Source: Research Data

4.2.1.6 Payment Utilities

92% of the respondents indicated that this service was not used at all. A minority of the respondents indicated that the services was used to a little extent.

Table 4.7.6: Payment Utilities

RESPONSE	FREQUENCY	RATE
Not at All	57	92%
To a little Extent	5	8%
To a Moderate Extent	0	0%
To a Great Extent	0	0%
To a Very Great Extent	0	0%
Total	**62**	**100%**

Source: Research Data

4.3 Risk

4.3.1 Risk Monitoring

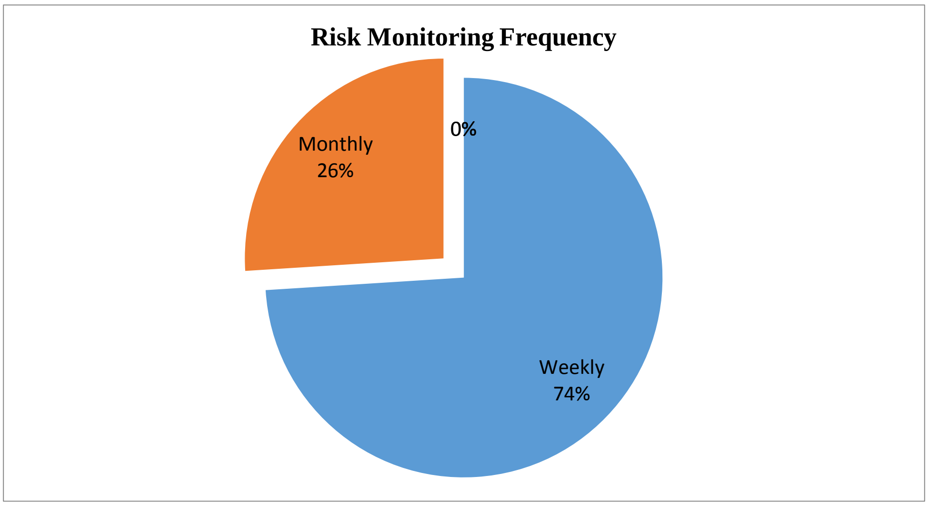
Majority of respondents indicated that they monitored risk randomly accounting for 74% of respondents. Only 26% of respondents monitored risk monthly.

Table 4.8: Risk Monitoring Frequency

RISK MONITORING	FREQUENCY	RATE
Weekly	46	74%
Monthly	16	26%
	62	100%

Source Research data

Figure 4.5 Risk Monitoring Frequency



4.3.2 Insurance Policy

A minority of the respondents (23%) indicated that they did not have any insurance arrangement for the business.

Table 4.9: Availability of Insurance Cover

INSURANCE COVER	FREQUENCY	RATE
Yes	14	23%
No	48	77%
	62	100%

Source Research data

4.4 Cost

4.4.1 Operational costs

The research sought to find out if the agents incurred and operational cost as a result of the agency banking. 60% of the respondents who were the majority responded in the affirmative.

Table 5.0: Operational Cost

RESPONSE	FREQUENCY	RATE
Yes	37	60%
No	25	40%
	62	

Source: Research Data

4.4.2 Employees

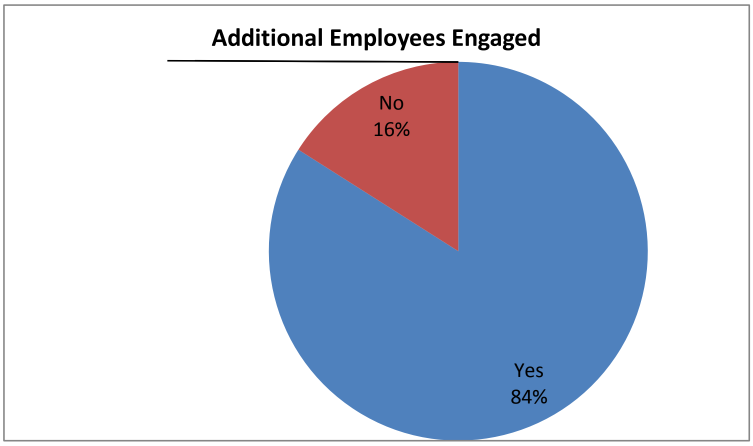
Majority of the respondents had engaged additional employees to operate the agency banking accounting for 84% of the respondents.

Table 5.1: Additional Employees Engaged

RESPONSE	FREQUENCY	RATE
Yes	52	84%
No	10	16%
	62	

Source: Research Data

Figure 4.6: Additional Employees Engaged



4.4.3 Profitability

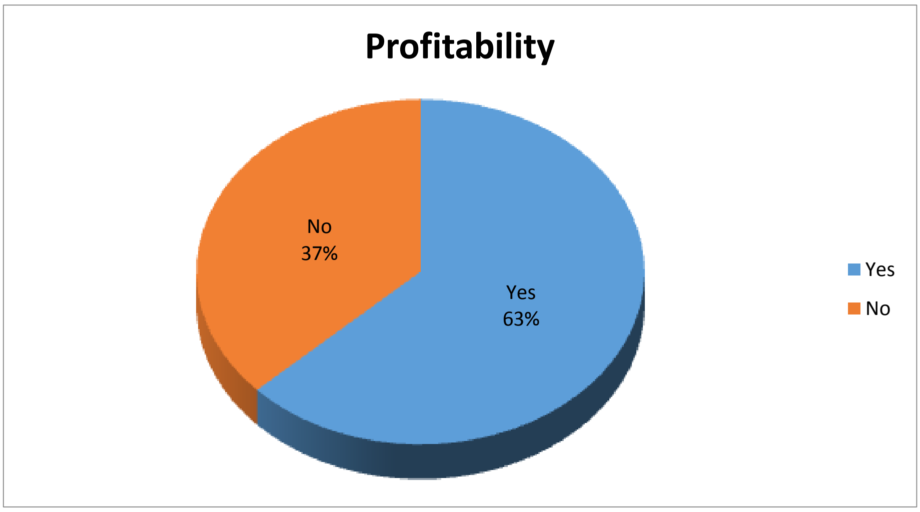
63% of the respondents indicated that agency was profitale.37% indicated that agency was not profitable

Table 5.2: Profitability of the Agency Banking Business

RESPONSE	FREQUENCY	RATE
Yes	39	63%
No	23	37%
	62	100%

Source: Research Data

Figure 4.7: Profitability of the Agency Banking.



4.5 Discussion of the Findings

4.5.1 Nature of Business

Majority of the respondents were in agency banking business accounting for 92% of the respondents, this was because a huge percentage of the target population was those in the agency banking business.

4.5.2 Duration of Business

32% of the respondents had been in the business for more than 2 years while a majority of the respondents (37%) had been in business only for one year. The agency banking has been in operation for slightly more than 3 years having been rolled in Kenya 2010. There was a slow uptake of the idea as evident in the slightly smaller number of business. The majority of the business were started a year or so ago, this indicates that there is a growing interest in this business model.

4.5.3 Number of Transaction

Majority of agents made more than 500 transactions in a month accounting for 42%. 35% of respondents made between 200 and500 transactions in a month. The respondents who indicated that they made more than 500 transactions were those that were domicile in the urban areas especially near market places and bus stage. A minority of respondents who made less than 200 transactions in a month were mostly in rural areas where the level of economic activity was low. In these cases, the respondents indicated that most of the transactions were those of cash withdrawals.

4.5.3 Locality of Clients

Majority of clients that agents serve were from within the locality accounting for 63% of respondents, 37 % respondents revealed that the clients they served did not come from the locality. Most of the respondents who indicated that they served clients who were not from the locality were in urban areas especially in bus parks and market places.

4.5.4 Agents of Other Network Service Providers

Majority of respondents indicated that they had been agents of Network Service Providers before accounting for 73% of the respondents. However 27% of the respondents indicated that they had not been Agents of Network Service Provider before. The number of agents who were agents of network service providers reduced to 53% of respondents.47% respondents of indicated they had never been agents of network service provider. The reduction on the number of respondents who were Agents of other Network Service Providers declined by 20% to 53%, this, some respondents indicated was a result of these providers putting up requirements that estopped them from engaging in agency banking which is seen as a form of competition.

4.5.5 Commonly used Services

Most respondents indicated that cash withdrawal, cash deposit, and processing of accounts applications were the most used services. Loan repayment was used to a little extent and payment of utilities to moderate extent. This finding indicates that the populace have not fully utilized the full range of services that agency banking offer.

4.5.6 Risk

Majority of respondents indicated that they monitored risk weekly accounting for 74%.of respondents. Only 26% of respondents monitored risk monthly. A majority of the respondents indicated that they did not have any insurance cover for their business accounting for 74% of those who took part in the study. This was however confined to the agencies since the banks have insurance covers for their businesses. The respondents also noted that the bank conducted regular trainings on fraud detection, customer care service and related issues. The banks managers who participated in the study indicated that it was a requirement that the agency banking business be conducted in a secured premise preferably in a permanent structure. The respondents who did not have an insurance cover had their businesses housed in semi-permanent structures; they indicated that the cost was high and that insurance firms only cover a premise that is permanent.

4.5.7 Cost

A majority of the respondents (60%) indicated that they incurred operational costs relating to additional employees to man the agency business. However, 40% of the respondents did not incur any additional cost. 64% of the respondents indicated that agency was profitable while 36% indicated that agency was not profitable. The minority of the respondents who indicated that the business was not profitable were those that had tried to engage in the business as a stand-alone business as opposed to integrating it into another existing business.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the discussion of the key findings presented in chapter four, conclusion drawn based on the findings and recommendations as well as limitations and areas of further research.

This chapter specifically looked into conclusions and recommendations of the study conclusions of the study, limitations of the study and arrears of further research.

5.1 Summary of Findings

The objective of the study was to assess the impact of agency banking in enhancing financial inclusion in Kisumu. The target population was all banks in Kisumu that have rolled out agency banking and their agents. A descriptive design was used to collect both qualitative and quantitative data. The study participants were intervened using pre-tested questionnaire with closed and open-ended questions. Data was coded, cleared and entered using statistical package for social sciences (SPSS).Data was then analyzed and results presented using tables and graphs.

5.2 Background Information

The study was conducted in Kisumu County with both bank managers and bank agents being sampled as respondents. Majority of the respondents had been in business for more than 2 years and facilitated more than 500 transactions in a month. Most of the respondents had been agents of other Network Service Providers like Safaricom, Airtel and Orange.

5.3 Financial Inclusion

Cash withdrawal and deposits were the most commonly used services at the agency while loan repayment was the least used service. This is attributable to the low understanding by those served on the array of services that the agencies offer.

5.4 Risk

Most of the respondents indicated that they were monitored regularly with training being conducted when a new employee is employed, when a need arises and regularly as the principal bank may deem fit. Most of them had no insurance cover for the business exposing them to potential loss in the event of theft or other hazards. However, most of the premises that the agents operate from were secured with grills and lock in place. As an additional measure, most of the respondents had a lockable safe to store the money.

5.5 Cost

According to the findings, most respondents incurred additional cost of hiring employees to man the business, this cost was however minimal and only prominent in cases where the retail business has a high number of customers transacting at a time and hence the need for extra hand.

5.6 Conclusions of the Study

The research was aimed at assessing the impact of agency banking in broadening financial inclusion in Kisumu County. To achieve this, the paper looked at the issues surrounding Kenya's financial sector, the adoption of agency banking and its role in financial deepening. The study concludes that agency banking has played a significant role in enhancing financial inclusion in Kenya and specifically in Kisumu. A number of challenges were noted as impediments to the realization of its bigger objective, these include confidentiality, security and customer services to the bank customer. The banks need to address these challenges so as to realize the full benefit of agent banking.

The findings that the business was unprofitable on its own underscore the salient feature of agent banking; that of leveraging on existing retail outlets and stores. The business on its own is impractical since the operating funds (float) are that of the agent. This banking channel has been useful to banks as it expands its client base and revenue at low cost. Where the mother bank controls the quality of services offered by the agent, the bank will benefit from exposure and positive brand exposure to more clients.

5.7 Recommendations

Branchless banking and especially agent banking has enabled banks to reach the underserved population and as a result gained from increased client base and revenue. Poor people can now access financial services within their locality from retail outlets that they are familiar with. Retail outlets that are engaged in agency banking have a new way of earning extra income and better cash handling mechanism. This paints a picture of a symbiosis where everyone benefits.

The banks need to improve on their network systems to reduce the cases of agents failing to facilitate a transaction as a result of poor network. They should allow the agents to access the cash deposited in their accounts remotely and hence maintain a float. The bank should undertake to increase the array of services that agents can offer so as to attract more clients to the agencies. Where possible, the bank can identify some services like utility payment that are exclusively offered by the agents. The number agents in a locality should be such that the supply does not exceed the demand for the services.

5.8 Limitations of the study

This study like all other studies was bound to be constrained in one way or another. Firstly, the study was in the banking sector and some respondents were reluctant to divulge information about their business operations. Secondly, the scope and depth of the study was limited by the time factor and financial resource constraints.

5.9 Areas proposed for further research

Agent banking holds the promise of addressing two major hurdles of financial inclusion: lack of proximity and high cost. The study recommends another study to be done in other areas of Kenya to establish whether the findings can be generalized. The success of this banking channel is pegged a sound mobile telecommunication channel, in Kenya most telecommunication companies engage in activities that are akin to those of agent banking. Therefore, a further study on the role of telecommunication companies in advancing financial inclusion would provide more insight into this model.

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APPENDIX I: QUESTIONNAIRE

QUESTIONNAIRE FOR BANK BRANCH MANAGERS

This research is meant for academic purpose. Kindly you are requested to provide answers to these questions as honestly and precisely as possible. Responses to these questions will be treated as confidential. Please tick [x] where appropriate or fill in the required information on the space provided.

Section A

Background information

1. Name:…………………………………………………………………………
2. Bank……………………………………………………………………………
3. Position…………………………………………………………………………

Agency banking Information

Section A

1. Has the bank appointed a manager (agent network managers) to foresee operations of agents? Yes [ ] No [ ]
2. If yes, what are their roles?...
   …………………………………………………………………………………
   …………………………………………………………………………………
3. What are some of the requirements for one to become an agent?.....................
   …………………………………………………………………………………
   …………………………………………………………………………………
   …………………………………………………………………………………
   ………………………………………………………………………………
4. Is there a limit of how much a client can withdraw or deposit with the agents?
   Yes [ ] No [ ]

4. If yes above, which is the minimum and maximum amount a client can withdraw or deposit?

   Maximum..

   Minimum……………………………………………………………………

5. Who bears the following costs;

	Bank	Agent
a) Agent Network Approval by the CBK	[ ]	[ ]
b) Specific Agent Approval by the CBK	[ ]	[ ]
c) Agent Annual renewal of agent approval CBK	[ ]	[ ]
d) Devices required in agent business e.g. POS card	[ ]	[ ]

Section B

Agency Banking Risks

6. How often do you monitor the operations of agents?

   Weekly [ ] Monthly [ ] Quarterly [ ]

7. Which are some of the challenges you are facing while regulating the behavior of agents?...

   ....

8. Do you compensate agents for costs and risks they may be subjected to by agent business?

   Yes [ ] No [ ]

9. How often do you train agents to ensure that they are alert and in the first line against fraud attacks? ……………………………………………………

10. How do you intend to handle cases where agents abuse consumer data (violation of data privacy) for maximizing personal gains? ....

....

11. What procedures do you take once you terminate a contract with an agent in order to protect your clients? ....

....

………………………………………………………………………………

12. Which security standards must every agent meet before operating fully as an agent?..

....

....

13. How do you ensure agents compliance with Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) requirements?

....

....

Cost

14. Do agency costs and risks management costs affect pricing of credit in the remote areas?

Yes [ ] No [ ]

15. If Yes above, which measures are you putting in place to reduce agency costs and risks management costs? ……………………………………………………..

………………………………………………………………………

16. Does it cost more to transact through an agent?

Yes [ ]   No [ ]

17. If Yes above, which measures have you put in place to reduce operational costs of agent banking so as to reduce transaction costs? ……………………………

…..

……………………………………………………………………………………..

Financial inclusion

18. Can one agent transact for more than one bank?

Yes [   ]   No [ ]

19. If yes above, which mechanisms have you put in place to ensure that your bank's documents or instructions do not end up with another bank? ………………………………………………………………………………

………………………………………………………………………………

………………………………………………………………………………

20. If yes above, which mechanisms have you put in place to ensure that customer information remains confidential in any agency arrangement? ……………

………………………………………………………………………………

………………………………………………………………………………

………………………………………………………………………………

21. Under the CBK regulations, agents are not allowed to open bank accounts, how do you ensure that prospective clients access those services? ………………………………………………………………………………

………………………………………………………………………………

22. Does product offering and transaction volume tend to vary by geographic region?

Yes [ ] No [ ]

23. If Yes above, what factors determines the nature of products to be provided by a specific agent?..

....……………………………

..………………………………………………………………………………

24. Despite the spread of agency banking models there are still queues of people in the banking hall seeking services like cash deposit and withdrawal. On a scale of 1 to 5. Where:

1– Not at all, 2- To a little extent, 3- To a moderate extent, 4- To a great extent and 5- To a very great extent

Which factors among the ones listed below could be contributing to the banking hall queues for similar services offered by agents.

	1	2	3	4	5
a. Security concerns	[ ]	[ ]	[ ]	[ ]	[ ]
b. Confidentiality	[ ]	[ ]	[ ]	[ ]	[ ]
c. Lack of trust	[ ]	[ ]	[ ]	[ ]	[ ]
d. Misinformation	[ ]	[ ]	[ ]	[ ]	[ ]
e. High charges	[ ]	[ ]	[ ]	[ ]	[ ]

25. Do you grant loans based on analysis given by agents?

Yes [ ] No [ ]

QUESTIONNAIRE FOR BANK AGENTS

This research is meant for academic purpose. Kindly you are requested to provide answers to these questions as honestly and precisely as possible. Responses to these questions will be treated as confidential. Please tick [x] where appropriate or fill in the required information on the space provided.

Section A

Background information

1. Kindly indicate the nature of your business …………………………………
2. How long has your business been in operation? ....
3. Which bank/ banks are you an agent? ....

   ……………………………………………………………………………………

   ……………………………………………………………………………………
4. How long have you been an agent? ……………………………………………
5. What prompted you to be an agent of the specific bank? (In case you are an agent of many banks, note each bank and the reasons)………………

   ……………...……………...……………...……………...

   ....
6. On average how many transactions do you conduct monthly?...........................

   ....
7. Are the clients you serve from within the locality?

   Yes [ ]   No [ ]
8. Have you been an agent of any network services providers like Safaricom, Airtel etc?

   Yes [ ]   No [ ]

9. Are u still their agent?

Yes [ ]   No [ ]

10. If No, what prompted you to withdraw? ....

………………………………………………………………………………….....

Section B

Financial inclusion

26. On a scale of 1 to 5. Where:

1– Not at all, 2- To a little extent, 3- To a moderate extent, 4- To a great extent and 5- To a very great extent.

Which is the most commonly used service among the ones listed below?

	1	2	3	4	5
a) Bill payment	[ ]	[ ]	[ ]	[ ]	[ ]
b) Cash Withdrawal	[ ]	[ ]	[ ]	[ ]	[ ]
c) Cash deposits	[ ]	[ ]	[ ]	[ ]	[ ]
d) Processing account applications	[ ]	[ ]	[ ]	[ ]	[
e) Loan repayment	[ ]	[ ]	[ ]	[ ]	[ ]
f) Payment of utilities.	[ ]	[ ]	[ ]	[ ]	[ ]

Risk

11. How often are you monitored by your Principal bank? (In case you are an agent of many banks, note each bank and the frequency)………………………

………………………………………………………………………………………

12. Do you have an insurance policy for your business?

Yes [ ]   No [ ]

13. If answer to question 12 is No, how do you intend to cover any losses due to theft, fire or other hazards? ....

....

....

14. Which are some of the challenges you have faced since implementing agency services………….……………………………………………………………

…………………………………………………………………..……………

15. Which security measures have you put in place to curb theft? ………………

…………………………………………………………………………..……

16. How many incidences of fraud, robbery or theft have you experienced in the past one year?

....

....

17. Which action has been taken to prevent future occurrences of such incidences?

....

....

18. How do you communicate with the bank in case of an emergency?

…………………………………………………………………………………

…………………………………………………………………………………

Cost

19. Do you incur operational costs related with agent banking?

Yes [ ] No [ ]

20. If answer to question 19 is Yes, how do you reduce such costs?

....

....

21. Have you employed more employees to help in the running of the business?

    Yes [ ]   No [ ]

22. If yes in Question 21, did you train them on how to handle customers and maintain customer confidentiality? ....

    ……………………………………………………………………………………

23. Which other benefits apart from commission earned have accrued to you as a result of agency banking?

    ……………………………………………………………………………………

    ……………………………………………………………………………………

24. Is this agency business generating enough income as per your expectations?

    ....

    ....

25. Which measures would you recommend to be instituted by banks in order to increase number and volume of transactions to pull down agent costs?

    ……………………………………………………………………………………

    ……………………………………………………………………………………

    ………………………………………………

26. Suggest ways that could be adopted to improve the agent banking process?

    ……………………………………………………………………………………

    ……………………………………………………………………………………

APPENDIX II : BUDGET FOR PROJECT WRITING AND PREPARATION

NO	ITEM	EST. COST (KSH)
1.	Developing Proposal	10,000
2.	Transport	8,000
3.	Information Gathering	2,000
4.	Data Analysis	20,000
5.	Editing	2,000
6.	Printing and Binding	10,000
7.	Labor	20,000
8.	Miscellaneous	5,000
	Total	**77,000**