

**FACTORS INFLUENCING THE GROWTH OF FAMILY BANK *PESA PAP*  
AGENTS IN NAIROBI COUNTY, KENYA.**

**BY  
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**2014**

## DECLARATION

This research project is my original work and has never been submitted for an award of a degree in any other university.

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## **DEDICATION**

This work is dedicated to my parents Mr. Kerich and Mrs. Nancy Kerich. They offered me moral and financial support throughout the process of conducting this study. God bless you abundantly.

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## ABBREVIATIONS AND ACRONYMS

<b>AML</b>	Anti- Money Laundering
<b>ASCAs</b>	Accumulating Savings and Credit Associations
<b>ATM</b>	Automated Teller Machine
<b>CBK</b>	Central Bank of Kenya
<b>CTF</b>	Counter –Terrorism Financing
<b>CGAP</b>	Consultative Group to Assist the Poor
<b>CSR</b>	Corporate Social Responsibility
<b>E- Money</b>	Electronic Money
<b>FI</b>	Financial Institutions
<b>ICT</b>	Information Communication Technology
<b>ID</b>	Identity Card
<b>KYC</b>	Know Your Customer
<b>NOIE</b>	National Office for the Information Economy
<b>POS</b>	Point of Sale
<b>ROSCAs</b>	Rotating Savings and Credit Association
<b>SMS</b>	Short Message Service
<b>STR</b>	Suspicious Transaction Report
<b>SAR</b>	Suspicious Activity Report
<b>USA</b>	United State of America

## ABSTRACT

Agent banking has been adopted in many countries all over the world including Kenya. Banks in Kenya have had to deal with numerous legal, operational and technological hurdles in a bid to bring about agent banking. The purpose of the study was to establish factors influencing the growth of Family Bank *Pesa Pap* agents in Nairobi County. Descriptive survey research design was adopted for this study. The research study focused on investigating factors influencing the growth of Family Bank *Pesa Pap* agents in Nairobi County. The populations of the study consisted of 800 employees of Family Bank and 70 agents located within Nairobi County. Out of the total population of 870 employees of Family Bank and agents, a sample size of 274 was selected. Stratified random sampling technique was used to select the respondents. The study used semi structured questionnaires containing closed-ended and open-ended questions to collect primary data. The researcher carried out a pilot study to pretest and validates the questionnaire. The researcher applied and obtained a permit from National Council for Science Technology and Innovations before embarking on the study. Descriptive data was analyzed using frequency counts, percentages, means and standard deviations while inferential analysis was done using Multiple Regression. Data was also analyzed using SPSS. From the study the value of R squared was 0.653 an indication that there was variation of 65.3% on the growth of agent banking due changes in Central Bank Regulations and Policies, Start up cost Customer information security and Technological requirement. The study established that the factors under study negatively influenced the growth of Family Bank *Pesa Pap* agents in Nairobi County as signified by the coefficients: Central Bank Regulations and Policies (-0.237), Start up cost (-0.231), Customer information security(-0.239) and Technological requirement(-0.281) .The study concluded that Banks should not overly restrict their customers in terms of Policies and Regulations or else they risk losing customers hence poor growth of agents, the cost of start up for agents was very expensive and accessible by few customers and Technology had associated data and network risks which made them susceptible for conducting financial transactions. The study recommended that the management of Family Bank should consider providing free regular training to their agents on the various updates in the market. The study recommends that CBK should formulate new policies relating to money transfers, this should be done in view of increasing levels of scrutiny on money transfers, this will help curb money laundering and financing of criminal activities as this would enhance growth of Family Bank *Pesa Pap* agents, Family Bank should develop an IT based automated system to identify suspicious activity/transaction report (STR/SAR) before introducing the services as this will help to win customers confidence with the system thus encouraging trust by the customers. The findings of the study are of great importance to the managers of banks, policy makers, banking agents, customers as well as future scholars and academicians. It provides the basis for various recommendations in tackling the factors faced in setting up agent banking networks.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background to the Study**

Agent banking is the contracting of a retail or postal outlet by a financial institution or a mobile network operator to process bank clients' transactions. It is different from a branch teller, since it is the owner or an employee of the retail outlet who conducts the transactions, ranging from: deposits, withdrawals, funds transfers, bill payments, account balance inquiry, receiving government benefits or direct deposits from employers. Banking agents may include: pharmacies, supermarkets, convenience stores, lottery outlets and post offices (CGAP, 2006). The trend of agent banking is evident in many nations all over the globe, such as in Australia where post offices are used as bank agents, France utilizing corner stores, Brazil making use of lottery outlets to provide financial services, Kenya pioneering the mobile financial services, Nigeria, South Africa and the Phillipines (Siedek, 2008).

Despite the fact that agent banking is prevalent in so many countries, there are various factors that remain to hinder its effectiveness and expansion. These factors include policy or regulatory issues, operational issues and technological requirements. Policies and regulations regarding financial services are usually very stringent. The added complexity of financial institutions providing their services through retail outlets necessitates the need for even more policies to guard against fraud, protect the confidentiality of client information and ensure the security of client deposits. Hence, the process involved in acquiring licenses to operate as banking agents becomes quite complex and requires meeting very strict rules which locks out a number of interested parties (Lyman, Ivatury & Staschen, 2006).

Retail outlets are forced to extend their limited sources of financing in a bid to meet the regulations so as to fulfill the legal requirements necessary to operate as banking agents. Such requirements usually involve having a specific level of capital investment to assure the regulators of the sustainability of the venture. Unless the tight regulations are eased, few retail outlets would be able to meet the standards required by the policy makers (Lyman & Ivatury, 2006). Financial institutions can only be allowed to work through retail outlets if the laws permit it. Regulators 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 financial transactions and all aspects regarding the operation of

agent banking. Without the support of the regulatory authorities, agent banking would not be facilitated. For example, the Filipino government's commitment to extending financial services to unbanked low-income populations has immensely contributed to making the Philippines a world leader in branchless mobile banking services (Seltzer, 2010).

The most significant regulatory obstacle to the growth of branchless banking are the restrictions placed on financial institutions' use of agents. Banks are generally not allowed to outsource their inherent banking functions to third parties, nor their 'Know Your Customer' (KYC) responsibilities. In some instances, such as in the Philippines, non-banks are allowed to use remittance agents only for distribution of payments and for KYC (Lyman *et al.*, 2008).

In Kenya, policy makers have had a long-held prejudice that banking is a preserve of big banks with no place for small scale enterprises. Only recently has this notion changed with the inclusion of agent banking in the country. However, the Central Bank of Kenya (the top regulator of the financial institutions in Kenya) has been very cautious in passing regulations to facilitate taking banking to the low income earners through agent banking. New agent banking rules give preference to formally registered organisation's rather than small retail outlets, mostly due to the fear of risks inherent in financing low income earners who do not have reliable sources of income. Small retail outlets such as kiosks can only be allowed to offer banking services if they have formal operations that include ICT, maintenance of formal accounts, and proper business registration (Irungu, 2010).

The regulatory procedures for agent banking in Kenya also require an agent or a person operating an agent to be vetted for reputation and morals, get a certificate of good conduct and have a record of repaying loans. Such rules come with their attendant costs, which would be borne by either the agent or the financial institution. Eventually these costs get built into the structure of fees, commissions, interest rates and other charges that banks levy clients, therefore, making those retail outlets more costly to the public who access them (Banker, 2010). Agent banking is faced by many operational hurdles since the retail outlets are usually small enterprises with limited personnel. The personnel in retail outlets are usually not highly qualified and therefore not competent in handling logistics involved in large scale operations. The retail outlets are also limited in their ability to incur the costs of large scale operations in transacting financial services (Jacob, 2005).

The delicate nature of operation of financial services involves very many logistics so as to ensure security of client finances. The agent, for instance would have to implement various security measures that include installation of security cameras, employing security personnel and installing safety measures to guard against break-ins. The personnel employed by the banking agent would also need to have the expertise, or be trained so as to be able to detect and avert security threats. Such measures involve investment of valuable sums of money which the agent may be limited in sourcing (Banker, 2010). There is a lot of planning and preparation that goes into choosing the size and growth of the agent network. The banks have to conduct surveys to ensure that there would be enough agents to serve the customers and that there are enough customers to keep the agents interested in providing the service. For instance, Safaricom, the single most successful mobile money deployment, invested heavily in developing the M-PESA agent network. Each one of its over 20,000 agents in Kenya, have been trained to provide uniformly, high standards in their service to customers. Other mobile financial services providers who chose to assign different roles to different agents, ended up with serious logistical problems. For example, MTN, Uganda separated the account opening function from the cash-in/cash-out function, but this led to customers signing up even though they did not need the service or could not find an agent to start transacting (Siedek, 2008). In the year 2009, Central Bank of Kenya allowed banks to start Agent banking which was part of the Government vision 2030 on Financial inclusion. As a result of that, Family bank *Pesa Pap* agent was initiated. The agents offer services on behalf of Family Bank .

Banks need to constantly monitor the management of the agents to ensure that there is constant provision of quality service to customers. This means the presence of ongoing on-site supervision continuous retraining of the agents to ensure the agents are liquid, consistently branded, and following the prescribed business processes. The financial institutions need to decide how to run the oversight management functions and whether to keep those functions in house or outsource to an independent service provider (Davidson & Leishman, 2010). The banks need to recruit and deploy personnel to carry out physical agent site visits to ensure that banking agents are in compliance with the business processes and maintain proper branding and merchandising. For instance, in Brazil, network managers also assume part of the risk stemming from agents' actions and are paid a commission per transaction plus a bonus for

increasing the transaction volume of the agents. This study seeks to establish factors influencing the growth of Family Bank *Pesa Pap* agents in Nairobi County, Kenya.

## **1.2 Statement of the Problem**

Central Bank of Kenya (CBK) recognizes the financial inclusion challenges which the country faces. These include the cost of financial services and the distance to bank branches in remote areas. Part of their approach to addressing these challenges was to promote innovation through mobile financial services and to address the delivery channel costs through increased use of agent banking (Central Bank of Kenya, 2010). Kenya has experience with both bank-based and nonbank-based agent banking models. In order to speed up the development of the agent banking in Kenya, the CBK made use of a knowledge exchange Programme supported by the Alliance for Financial Inclusion (AFI). In terms of branchless banking, Kenya is probably best known for its M-PESA mobile phone-based payment service. The 2010 agent banking guidelines allowed banks to start working in partnership with non-bank based models.

Agent banking has been adopted in many countries all over the world including Kenya. Banks in Kenya have had to deal with numerous legal, operational and technological hurdles in a bid to bring about agent banking, despite the central banks support for Agent Banking. Currently, the laws are still not conducive enough to facilitate reach of agent banking to such small entities as the kiosks and other informal setups. Moreover the operational costs are quite inhibitive and also the technological expertise needed for the banking agent network poses a constraint (Central Bank of Kenya, 2010).

Empirical studies done in Kenya have been on financial innovations and not specifically on agent banking, they include; Gitau (2011) studied relationship between financial innovations and financial performance of banks in Kenya. Githikwa (2011) studied relationships between financial innovations and profitability of banks. Kinuthia (2010) analyzed financial innovations in the banking sector in Kenya. Ndome (2011), did a study on the adoption of agent banking services among the residents of Kawangware area in Nairobi. Ngigi (2012) conducted a study on the relationship between agent banking and financial performance of commercial banks in Kenya, Shalakhya (2012) studied relationship between financial innovation and growth of Banks in Kenya. There have been very limited studies



done on the factors influencing the growth agent banking in Kenya. Therefore, there was a need to study on factors influencing the growth of Family Bank *Pesa Pap* agents in Nairobi County. To the researcher best knowledge no known local study has been sought to establish the factors influencing the growth of agent banking in Kenya, this study seeks to fill the existing research gap by examining factors influencing the growth of Family Bank *Pesa Pap* agents in Nairobi County and come up with recommendations of how to grow agent banking.

### **1.3 Purpose of the Study**

This study sought to establish factors influencing the growth of Family Bank *Pesa Pap* agents in Nairobi County Kenya.

### **1.4 Objectives of the Study**

The objectives of the study were to:

- i. Establish the influence of Central Bank Regulations and policies on the growth of *Pesa Pap* agent banking at Family Bank.
- ii. Examine the influence of Start-up cost on the growth of *Pesa Pap* agent banking at Family Bank.
- iii. Assess the extent to which Customer information security influence the growth of *Pesa Pap* agent banking at Family Bank.
- iv. Find out how Technology requirement influence the growth of *Pesa Pap* agent banking at Family Bank.

### **1.5 Research Questions of the study**

The study sought to answer the following research questions:

- i. What is the influence of Central Bank Regulations and policies on the growth of *Pesa Pap* agent banking at Family Bank?
- ii. How does Start-up cost influence the growth of *pesa pap* agent banking at Family Bank?
- iii. To what extent does Customer information security influence the growth of *pesa pap* agent banking at Family Bank?

- iv. What is the influence of Technology requirement on the growth of *Pesa Pap* agent banking at Family Bank?

### **1.6 Significance of the Study**

This study is of great significance to various stakeholders in the banking sector. The findings of the study are of great importance to the manager of banks as it is hoped to provide the basis for various recommendations in tackling the factors faced in setting up agent banking networks. The study findings will benefit policy makers, as the regulators would be able to identify the various hindrances and obstacles faced by banks due to certain policy and regulatory frameworks that are not conducive to agent banking. The recommendations proposed by the study will give the policy makers various options that they can use to implement positive changes to existent policies and regulations. Banking agents will find the findings useful, by providing them with a useful resource of the various factors influencing growth of agent banking. This will enable the banking agents to come up with strategies to counter them. The recommendations of the study will give proposals on how to overcome the various factors influencing growth of agent banking. The findings are also of great assistance to customers as they got enlightened on agent banking and how agent banks works. The study will provide academic information on the growth of agent banking in Kenya. It also contributed to the body on knowledge by providing material and basis for future research.

### **1.7 Assumption of the Study**

The researcher assumed that the respondents would be honest, cooperative, factual (objective) and trustworthy in their responses to the research instruments and were available to respond to the research instruments in time. It was also assumed that the questionnaires would also give precise data and that the element of biasness will not set in during the data collection and analysis. It was also the assumption of the researcher that the authorities in the bank would grant the required permission to collect data from their employees and that Central Bank Regulations and Policies, Start up cost, Customer information security and Technological requirement had influence on the growth of Family Bank *Pesa Pap* agent.

## 1.8 Delimitations of the Study

This study focused in examining the factors influencing the growth of Family Bank *Pesa Pap* agents in Nairobi County. The study sought to examine the following factors: policies and regulations of agent banking, technological requirement of agent banking, customer information security and startup cost influencing the growth of agent banking in Nairobi County, Kenya. In terms of geographical coverage, the study covered Nairobi area because it has a large concentration of agents.

## 1.9 Limitation of the Study

The study specifically looked at how factors like policies and regulations of agent banking, technological requirement of agent banking, customer information security and startup cost influences the growth of agent banking in Kenya. In this study the response rate was less than 100% that is 93.8%. This implied that some information may have been left out. However since the percentage of the respondents who did not return the questionnaires was small; it was assumed that it didn't have high impact on the quality of data collected.

## 1.10 Definitions of Key terms in the Study

**Agent:** An entity that has been contracted by an institution and approved by the Central Bank to provide the services of the institution on behalf of the institution in the manner specified.

**Agent banking:** The provision of banking services by a third-party agent to customers on behalf of a licensed, prudentially-regulated financial institution, such as a bank or other deposit-taking institution.

**Customer information security:** It is the practice of defending information from unauthorized access, use, disclosure, disruption, modification, perusal, inspection, recording or destruction. It is a general term that can be used regardless of the form the data may take.

**Growth:** It is the positive expansion of business in terms of size, profitability and performance.

**Mobile banking:** Provision of banking services via a mobile phone to bank customers. As the customer has a direct contractual relationship with a bank, mobile banking is a bank-based model.

**Outlet:** An agent's place of business directly responsible to the Head Office, used for carrying out a commercial activity of the agent but does not include a mobile unit.

**Point of Sale (POS) devices:** Enable cashless payments via electronic storage cards. POS devices connect to a payment platform operated by providers like VISA who facilitate transactions among clients of many banks.

**Retail agents:** Networks of third-party outlets that handle financial transactions on behalf of a provider. They have a tradition in developed markets for example post offices, but emerged more recently in developing countries. Retail agents use existing distribution channels, and connect the provider with the client through the internet, POS devices, mobile phones, and electronic cards.

**Startup cost:** Start-up costs are one-off costs associated with setting up a business. The required amount of money the investor will request that a new business have to invest in the new business unit in its earliest stages of development.

### **1.11 Organization of the Study**

This study is organized in five chapters. Chapter one deals with the background of the study, the statement of the problem, purpose of the study, objectives of the study, research questions, significance of the study, assumption of the study, limitation of the study, delimitations of the study, definition of terms and the organization of the study. Chapter two reviews literature along the study objectives. It also presents the theoretical framework of the study. Chapter three outlines the research methodology that was used in this study. It also discusses the research design, the target population of the study, the sample size and sampling techniques, research instruments, data collection methods and data analysis methods. Chapter four dealt with data analysis, interpretation, presentation and discussion. This was done along the research objectives. Chapter five dealt with summary of findings, discussion of the findings, conclusion and recommendations.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents literature review comprising of the empirical literature, theoretical review, conceptual and chapter ends with a gap to be filled.

#### **2.2 Central Banks Regulation and Policies on Agent Banking**

A report by CGAP (2010) revealed that policymakers around the world seek to encourage the provision of financial services to the unbanked and under-banked poor, they implement regulatory frameworks that enable the spread of low-cost branchless banking while at the same time protect consumers against fraud. This is a difficult balance to strike, particularly when it comes to regulating agents, which typically play a crucial role in receiving and dispensing cash on behalf of the financial service provider (CGAP, 2010). World Bank report (2010) indicates that branchless banking is only allowed to be undertaken by licensed deposit-taking financial institutions (bank and non-bank) or their agents. Furthermore, all customers of Financial Institutions (FIs) undertaking branchless banking activities must be uniquely identified. In each case customer account relationship must reside with some FI and each transaction must hit the actual customer account. All FIs and their agents must comply with the Anti-Money Laundering Act (2008) as well as the international standards set by the Financial Action Task Force (World Bank, 2010).

According to report by World Bank (2010) suggests that it should be regulatory requirement that adequate customer due diligence, on the spirit of (KYC) be undertaken on all new accounts and on one-off cash transactions over designated thresholds. This requires identifying the customer and verifying the customer's identity: - Financial service providers to keep detailed transaction records for at least five years; Financial institutions to report suspicious transactions promptly to the AML/CFT authority (World Bank, 2010)

Bold (2011) in Brazil found that some countries restrict the location of agents, though such restrictions can be revised when regulators recognize that the regulations create obstacles to financial inclusion. For example, due to concerns that agents could threaten bank branches, Brazilian regulation originally allowed agents only in municipalities that did not have bank branches (Bold, 2011). Bold (2011) also found that Indian regulators initially required agents

to be located within 15 kilometers of a “base branch” of the appointing bank in rural areas, and within 5 kilometers in urban areas. This policy, intended to ensure adequate bank supervision of its agents, limit the use of agents by banks with only a few branches (Bold, 2011). Experience has shown that overly restrictive location requirements can complicate the business case for viable agent-based banking and ultimately work against financial inclusion goals. In addition, the real-time nature of most agent services has enabled remote supervision, thereby obviating one of the central arguments for location restrictions (Tarazi and Breloff, 2011).

It was revealed by Tarazi and Breloff (2011), that regulations often impose some form of “fit and proper” requirements, mandating a form of agent due diligence that requires financial institutions to verify that would-be agents have good reputations, no criminal records, and no history of financial trouble or insolvency. While fit-and-proper criteria listed in regulation often are not problematic, providers and agents have occasionally argued that compliance with particular details can impose significant cost, particularly with respect to gathering documentation (Tarazi and Breloff, 2011).

### **2.3 Start up cost for Agent Banking**

Access to Finance is critical for sustainable economic growth and social development. Financial inclusion empowers low income people and marginalized sectors of society to actively participate in the economy, which leads to increasing employment and decreasing poverty levels (Arora and Ferrand, 2007). Apart from increasing access to those excluded from financial services and reducing reliance on informal financial sources such as Accumulating Savings and Credit Associations (ASCAs), Rotating Savings and Credit Associations (ROSCAs) and shylocks, agent banking has reduced the need for more staff and branches to reach customers (Arora and Ferrand, 2007).

The study conducted by Bean (2009), states that agent banking has reduced cost and enhanced efficiency in the financial sector with a possibility and availing financial services at much lower cost to consumers (Bean, 2009). It has also increased the ease of banks’ expansion hence outreach to far flung market pockets of bankable populations (Bold, 2011). Agent banking means commercial outlets like shops and supermarkets acting in some capacity on behalf of formal banks (Hogan, 1991).

## **2.4 Customer Information Security in Agent Banking**

Aspects of branchless banking that contribute to a generally held sentiment that consumer protection requires special regulatory attention: potentially large distances separate customers, agents, and retail transactions from the premises (let alone head offices) of the bank or non-bank institution that is using the branchless banking model in question (and the tribunals where disputes ordinarily would be taken for redress); the insertion of retail agents between customers and the bank or non-bank institution providing their financial services will lead to factual (and perhaps also legal) disagreements about who is responsible to the customer in the case of fraud or other alleged misdeeds (Arora and Ferrand, 2007). (Moreover, certain kinds of fraud or abuse may be more prevalent or easier to get away with in the case of transactions undertaken through retail agents.); ensuring transparency (and comprehensibility) of pricing becomes more difficult the larger the number of parties whose fees and commissions need to be factored in and the greater the number of arguably separate, yet embedded, services involved (e.g., airtime purchases, SMS fees, commissions paid to the retail agent for the cash-in/cash-out function, and so forth) (World Bank, 2009).

Integrant guidance on response programs for unauthorized access to customer information and customer notice provides information and examples of list of security controls that an institution must consider and adopt: access controls on customer information systems, including controls to authenticate and permit access only to authorized individuals; access restrictions at physical locations containing customer information (Bold, 2011); encryption of electronic customer information, including while in transit or in storage; procedures designed to ensure that customer information system modifications are consistent with the institution's information security program; dual control procedures, segregation of duties, and employee background checks for employees with responsibilities for or access to customer information (Bean, 2009); monitoring systems and procedures to detect actual and attempted attacks on or intrusions into customer information systems; response programs that specify actions to be taken when the institution suspects or detects that unauthorized access to customer information systems has occurred, including customer notification; and measures to protect against destruction, loss, or damage of customer information due to potential environmental hazards or technological failure (Bold, 2011).

Electronic storage and transmittal of minutely detailed electronic records about customers and their transactions as part of branchless banking increase the importance of consumer data privacy and security protection, (Bean, 2009). Many of the countries studied started out with consumer protection-related challenges not directly related to branchless banking. In Russia, for example, consumer protection for all matters, from consumer product safety complaints to credit card fraud, falls within the jurisdiction of a single, centralized, and lightly staffed body (Bean, 2009). On the other hand, in India, primary legislative jurisdiction for consumer protection lies at the state level, meaning providers face a patchwork of different requirements depending on the location of their agents. In all seven countries studied, to a greater or lesser extent, poorer and more remote clients may not know about or understand their rights even if adequate regulatory protections are in place (World Bank, 2009).

Customer information security is determined by platform or infrastructure that agent banking utilizes from physical and electronic facilities that a it uses to access, collect, store, use, transmit, protect, or dispose of customer information (Arora and Ferrand, 2007). Just as in electronic commerce transactions, agent banking is carried out through Web browsers that are connected to banking agent sites that in turn connect to the commercial banks. Like any sound information system, the transition when conducting such a transaction should be seamless and transparent for the user but feedback needs to be displayed in order to generate a feeling of control (Chellappa, 2001).

In reports by the National Office for the Information Economy (1999),it is highlighted that the security protections offered to banks agents should include; careful reference to their authorized Web sites/portal, verification via the use of a digital certificate, evidence of security protection displayed on the screen; e.g. Padlock icon, protection of PINs and passwords, on-screen and mouse-operated keypads for sensitive information, virus protection, at least 128-bit encryption, firewall implementation and stated limits to customer liability for unauthorized use of access codes (National Office for the Information Economy, NOIE, 1999).



## **2.5 Technology Requirement for Agent Banking**

Technology adoption especially, in banking systems has shown a great momentum and spread at an unbelievable pace across the world. Considering the importance of banking system's high presence and affordability, there is great potential of using this in agent banking for provision of banking services to unbanked community (Arora and Ferrand, 2007). However, technology systems have associated data and network security risks which make them susceptible for conducting financial transactions. Technology risks regarding information and data security based on applicable models of agent banking have been reported thus creating uncertainty to the clients (Owens, 2006).

Financial Institutions are required to plan and act for long term development and prosperity of their agents for them to reach the targeted customers at a set population. This requires close coordination/collaboration with agents; providing them opportunities to learn more, to become more efficient and; a fair pricing mechanism for the services provided by the agents (Arora and Ferrand, 2007). As the technology changes rapidly, banks have been greatly affected in its operation, whereby application of the technology ensures quick and effective services to the clients. However, banking agents do not change their system as frequent often leading to system failure and the consequent delays in transaction execution (Lyman, *et al*, (2008). This leads to customer inconvenience and trust over the security/safety of transaction lodged with agent banks. Moreover, these constant systems failure makes transactions with banking agents vulnerable to fraud.

Technology/system failure related risks should be recognized, addressed and managed by financial institution such as banking agent in a prudent manner according to the fundamental characteristics and challenges of agent banking services, (Chellappa , 2001). Use of technology increases the risk that customers cannot understand their rights and press claims when aggrieved. It is not always clear to customers how they are protected against fraud when they use agents to conduct financial transactions whenever a problem occurs. To create confidentiality to the customers FI and technology service provider should have proper technology infrastructure backup, disaster recovery plan and technical security infrastructure in place to ensure timely services availability to all clients (Wilmot, 2009).

Appropriate customer protection against risks of fraud, loss of privacy and even loss of service is needed for establishing trust among consumers as trust and customer confidence is the single most necessary ingredient for growth of agent banking (Arora and Ferrand, 2007). To be effective, banks should implement and continuously evaluate competence and effectiveness of their customer and application of technology whenever they are transacting. Methods to evaluate a program's effectiveness include tracking the number of customers who report fraudulent attempts to obtain their authentication credentials such as ID/password, the number of clicks on information security links on websites and the number of inquiries (Bold, 2011).

## **2.6 Theoretical Framework**

Branchless banking represents a new distribution channel that allows financial institutions and other commercial actors to offer financial services outside traditional bank premises. A wide spectrum of branchless banking models is evolving (State Bank of Pakistan, 2011). Theories of branchless banking can be classified into three broad categories: Bank Focused theory, Bank-Led and Nonbank-Led theories.

### **2.6.1 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). The bank is the ultimate provider of financial services and is the institution in which customers maintain accounts. Retail agents have face-to-face interaction with customers and perform cash-in/cash-out functions, much as a branch-based teller would take deposits and process withdrawals (Owens, 2006).

In some countries, retail agents also handle all account opening procedures and, in some cases, even identify and service loan customers. Virtually any outlet that handles cash and is located near customers could potentially serve as a retail agent. Whatever the establishment, each retail agent is outfitted to communicate electronically with the bank for which it is working. The equipment may be a mobile phone or an electronic point-of-sale (POS) terminal that reads cards.

Bank-led model offers a distinct alternative to conventional branch-based banking in that customer conducts financial transactions at a whole range of retail agents instead of at bank branches or through bank employees (Lyman, Ivatury and Staschen, 2006). This model promises the potential to substantially increase the financial services outreach by using a different delivery channel (retailers/ mobile phones), a different trade partner (Chain Store) having experience and target market distinct from traditional banks, and may be significantly cheaper than the bank based alternatives. In this model customer account relationship rests with the bank (Tomášková, 2010).

Agents Related Risks arise from substantial outsourcing of customer contact to retail agents. From a typical banking regulator's perspective, 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 & 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 (State Bank of Pakistan, 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 reputation 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 (Kumar, et al. 2006).

The bank led theory is related to the study as it focus on how financial institution like bank deliver their financial services through a retail agent, where the bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction . Family bank of Kenya distribute it financial product through it *Pesa Pap* agent, where the agent have face-to-face interaction with customers and perform cash-in/cash-out functions, much as a branch-based teller would take deposits and process withdrawals.

### **2.6.2 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. Customers exchange their cash for e-money stored in a virtual e-money account on the non-bank's server, which is not linked to a bank account in the individual's name (Kumar, et al. 2006). This model is riskier as the regulatory environment in which these non-banks operate might not give much importance to issues related to customer identification, which may lead to significant Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT) risks. Bringing in a culture of Know Your Customer (KYC) to this segment is a major challenge. Further the non-banks are not much regulated in areas of transparent documentation and record keeping which is a prerequisite for a safe financial system. Regulators also lack experience in the realm. For these reasons, allowing nonbank-led model to operate is an unnecessarily big leap and an unjustifiably risky proposition. However, this model becomes viable after regulators have gained sufficient experience in mitigating agent related risks using bank led model and need to think about mitigating only e-money related risks (Kapoor, 2010).

To mitigate the e-money risks (which are peculiar to Nonbank-Led model), necessary changes in the existing regulations are required. It starts by bringing Non-Banks under financial-regulatory net by giving these entities special status of some sort of quasi-bank/remittance agent etc (Hogan, B. 1991). Grant of this status depends upon meeting pre-specified standards of transparency, financial strength and liquidity. There should be clear, well-defined limits on nature, type and volume of transactions that such entities can undertake. To avoid insolvency, these entities may be required to deposit their net e-banking surplus funds with scheduled banks meeting certain minimum rating criteria (State Bank of Pakistan, 2011). The Nonbank-Led Theory is found relevant to the study as it explain how agent deal with customer on behalf of the bank , the *Pesa Pap* agents deal with the Banks customer on behalf of family bank .

### **2.6.3 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

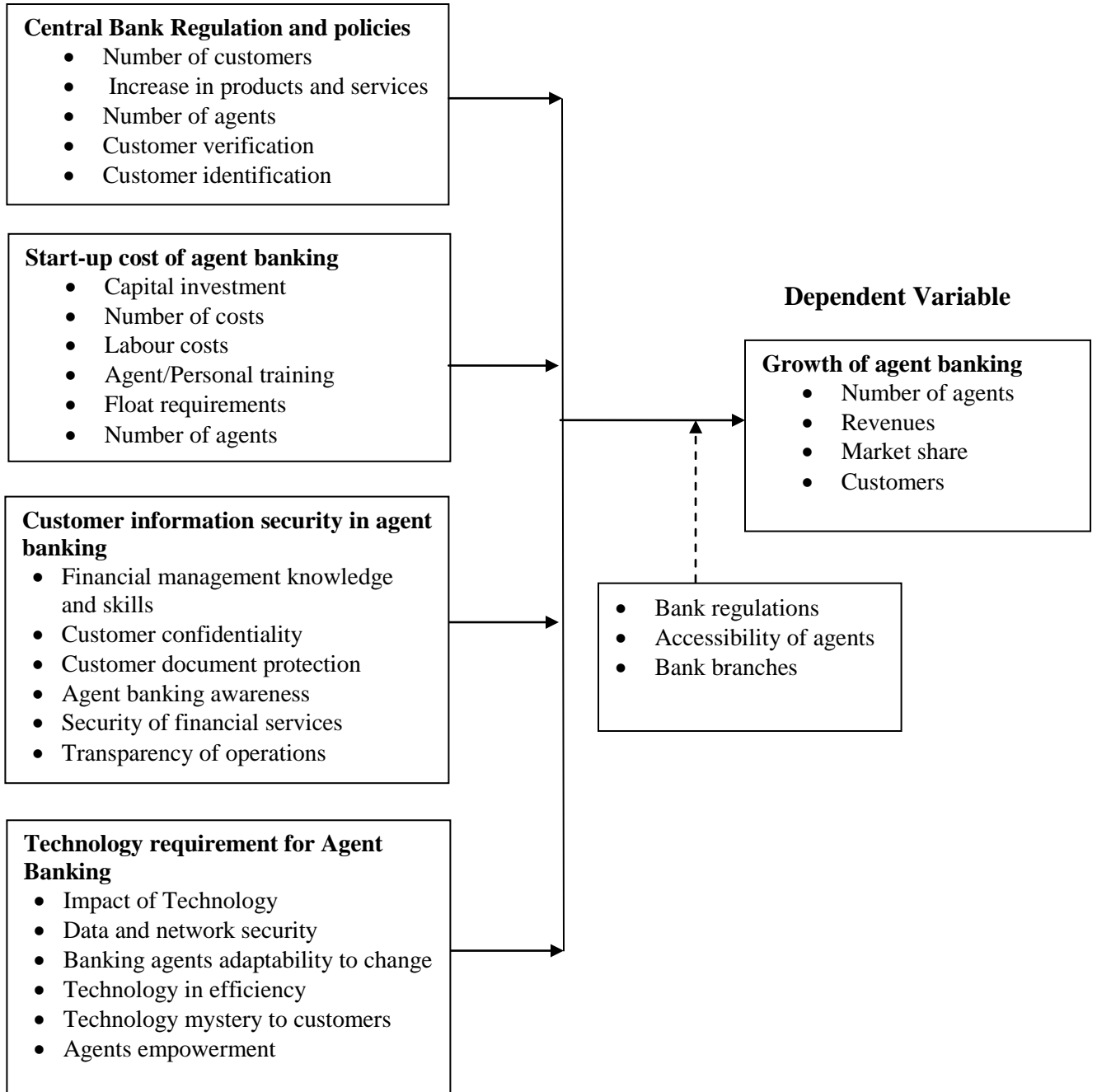
from use of automatic teller machines (ATMs) to internet banking or mobile phone banking to provide certain limited banking services to banks' customers. This model is additive in nature and may be seen as a modest extension of conventional branch-based banking. Although the bank-focused model offers advantages such as more control and branding visibility to the financial institutions concerned, it is not without its challenges. Customers' primary concerns are to do with the quality of experience, security of identity and transactions, reliability and accessibility of service and extent of personalization allowed. Banks address these issues by providing a branchless banking service with an easy to use interface, made secure with the help of multi-factor authentication and other technology, capable of running uninterrupted 365 days a year (Kapoor, 2010).

The bank-focused theory emerges when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers. With the use of agent Family Bank achieve economies of scale by serving many customers at low cost, this is therefore related to the study as Family Bank utilize *Pesa Pap* agent for low cost delivery of its financial service.

## **2.7 Conceptual Framework**

Conceptual framework is a presentation on how the independent and dependent variables are related. It therefore, specifies the working definition of a variable and enables a simple explanation of the flow of theoretical framework used by the study (Mugenda and Mugenda, 2003). In this study, the independent variables were Central Bank Regulations and policies, Start-up cost, Customer information security and Technological requirements while the dependent variable was growth of agent banking.

## Independent Variable



Source, Researcher (2014)

**Figure 2.1 Conceptual Framework showing Factors influencing the growth of Family Bank Pesa Pap Agents.**

## 2.8 Summary of the Literature Review

Access to Finance is critical for sustainable economic growth and social development. Financial inclusion empowers low income people and marginalized sectors of society to actively participate in the economy, which leads to increasing employment and decreasing poverty levels (Bold, 2011). Apart from increasing access to those excluded from financial services and reducing reliance on informal financial sources such as Accumulating Savings and Credit Associations (ASCAs), Rotating Savings and Credit Associations (ROSCAs) and shylocks, agent banking has reduced the need for more staff and branches to reach customers (Arora and Ferrand, 2007). Agent banking has reduced cost and enhanced efficiency in the financial sector with a possibility and availing financial services at much lower cost to consumers (Bean, 2009). It has also increased the ease of banks' expansion hence outreach to far flung market pockets of bankable populations (Bold, 2011). Previous studies mainly in developed countries like U.S.A and Britain shows the essence of agent banking to an economy, despite this there has been no empirical study that has been undertaken in Kenya to establish factors influencing the growth of agent banking in Kenya .

**Table 2.1: Summary of Literature Review**

Variable	Author and year	Findings of the study
Central Banks Regulation and Policies on Agent Banking	CGAP Report (2010) Debating the Regulation of Branchless Banking: Agents at the Center. World Bank report (2010) on branchless banking Anti-Money Laundering Act (2008) international standards set by the Financial Action Task Force Bold (2011) Branchless Banking in South Africa. Tarazi and Breloff, (2011) Regulating Banking Agents	Policymakers around the world seek to encourage the provision of financial services to the unbanked and under-banked poor, they implement regulatory frameworks that enable the spread of low-cost branchless banking while at the same time protect consumers against fraud. Branchless banking is only allowed to be undertaken by licensed deposit-taking financial institutions (bank and non-bank) or their agents
Start Up cost for Agent Banking	Arora and Ferrand, (2007), Meeting the Challenge of Creating an Inclusive Financial Sector Bean (2009), The great moderation, the great panic and the great contraction Hogan, (1991), How to hatch new businesses Bold, (2011) Branchless Banking in South Africa.	Agent banking has reduced cost and enhanced efficiency in the financial sector with a possibility and availing financial services at much lower cost to consumers Financial inclusion empowers low income people and marginalized sectors of society to actively participate in the economy, which leads to increasing employment and decreasing poverty levels

Customer Information Security in Agent Banking	<p>Arora and Ferrand, (2007) Meeting the Challenge of Creating an Inclusive Financial Sector</p> <p>Bold, (2011) Branchless Banking in South Africa.</p> <p>Bean, C., (2009), "The great moderation, the great panic and the great contraction</p> <p>Chellappa, K. (2001). Contrasting classical electronic infrastructure and the Internet</p> <p>National Office for the Information Economy (1999),</p>	<p>Monitoring systems and procedures to detect actual and attempted attacks on or intrusions into customer information systems; response programs that specify actions to be taken when the institution suspects or detects that unauthorized access to customer information systems has occurred, including customer notification; and measures to protect against destruction, loss, or damage of customer information due to potential environmental hazards or technological failure</p>
Technology Requirement for Agent Banking	<p>Arora, S., &amp; Ferrand, D. (2007). Meeting the Challenge of Creating an Inclusive Financial Sector.</p> <p>Owens, J. (2006). <i>RBAP Text-a-Payment and G-Cash Cash-in/Cash-out Services: Innovative Banking Services at Your Fingertips.</i></p> <p>Lyman, T.R., Ivatury, G., &amp; Staschen, S. (2006). Use Of Agents In Branchless Banking For The Poor: Rewards, Risks, And Regulation</p> <p>Wilmot, J., Sweeney, J., Klein, M., Lantz, C. (2009), "Long shadows, collateral money, asset bubbles and inflation"</p>	<p>As the technology changes rapidly, banks have been greatly affected in its operation, whereby application of the technology ensures quick and effective services to the clients. However, banking agents do not change their system as frequent often leading to system failure and the consequent delays in transaction execution</p> <p>Use of technology increases the risk that customers cannot understand their rights and press claims when aggrieved.</p>
Theoretical Framework	<p>Lyman, T.R., Ivatury, G., &amp; Staschen, S. (2006). Use Of Agents In Branchless Banking For The Poor: Rewards, Risks, And Regulation.</p> <p>Tomášková, H. (2010). M-Commerce and M-banking focused on Czech republic. <i>Communication and Management in Technological Innovation and Academic Globalization</i></p> <p>Kapoor, S. (2010). Succeeding in UK with the bank-focused model of mobile banking. <i>Finacle Whiteboard</i></p> <p>Kumar, A., Nair, A., Parsons, A., &amp; Urdapilleta, E. (2006). Expanding Bank Outreach through Retail Partnerships: Correspondent Banking in Brazil</p>	<p>The bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction</p> <p>Bank-led model offers a distinct alternative to conventional branch-based banking in that customer conducts financial transactions at a whole range of retail agents instead of at bank branches or through bank employees</p> <p>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</p>



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter described the intended research design for the study, the target population for the study, the sampling procedure used in conducting the study, methods of data collection, instrumentation issues with regard to validity and reliability, operational definition of variables, data analysis used in conducting the research and finally the summary of the chapter.

#### **3.2 Research Design**

Research design is the basic plan that indicates an overview of the activities that are necessary to execute the research project. This research problem was studied through the use of a descriptive survey research design. According to Cooper and Schindler (2003), a descriptive study is concerned with finding out the what, where and the how of a phenomenon. This study therefore is able to generalize the findings to all the banks. This method concerns the intense investigation of problem solving situations in which problems are relevant to the research problem.

The research project focused on investigating factors influencing the growth of Family Bank *Pesa Pap* agents in Nairobi County. The underlining concept was to select several targeted cases where an intensive analysis identifies the possible alternatives for solving the research questions on the basis of the existing solution applied in the selected case study. The study attempts to describe and define a subject, often by creating a profile of group of problems (Cooper & Schindler, 2003).

#### **3.3 Target Population**

According to Ngechu (2004) a study population is a well-defined or specified set of people, group of things, households, firms, services, elements or events which are being investigated. The population of the study was Family Bank employees at the head office, branches and agents in Nairobi. The bank's headquarters and Nairobi region branches has 800 employees who formed the target population for this study. A sample was drawn from the

targeted 800 employees at the headquarters and Nairobi Branches, the study also targeted 70 agents located within Nairobi region. The target population therefore was 870 respondents.

**Table 3.1 Target Population**

<b>Department</b>	<b>Population</b>	<b>Percent</b>
Top Management	67	7.7
Middle level management	235	27.0
Low level management	498	57.2
Agent	70	8.0
<b>Total</b>	<b>870</b>	<b>100</b>

**Source, Researcher (2014)**

### 3.4 Sample size and Sampling Procedure

This section discusses sample size and sampling procedure used in the study.

#### 3.4.1 Sample size

A sampling frame is a complete list of all the members of the population that we wish to study (Kothari, 2004). The sampling frame for this study was the list of employees working in all the departments and sections of the banks headquarter and branches in Nairobi. The study adopted a mathematical formula for the purpose of determining the sample size. (Taro Yemane, 1970) has suggested the following mathematical formula for determining sample size.

$$n = \frac{n}{1 + N(e)^2}$$

Where, N was the total population size, and e was the error or confidence level. The conventional confidence level of 95% was used to ensure a more accurate result from the sample. Based on this, the error term would equal to 0.05. Using the total population of 870 and error margin of 0.05, the sample size was calculated as follows.

$$n = 870$$

$$1 + 870(.05)^2$$

$$n = 870/3.175 = 274.0157$$

$$n=274 \text{ respondents}$$

### 3.4.2 Sampling procedure

Stratified random sampling technique was used to select the sample. According to Kerry and Bland (1998) the technique produce estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population. The study groups the population into four strata i.e. low level, middle level, top level management and Family Bank *Pesa Pap* agents. This in turn increases the precision of any estimation methods used. Out of the total population of 870 employees of Family Bank and agents, a sample size of 274 was selected. Stratified random sampling was adopted to select the 274 participants. The selected participants represented 31.5% of the total population, thus from each department the researcher picked 31.5%.

**Table 3.2 Sample Size**

<b>Department</b>	<b>Population</b>	<b>Sample</b>	<b>Percent</b>
Top Management	67	21	31.5%
Middle level management	235	74	31.5%
Low level management	498	157	31.5%
Agent	70	22	31.5%
<b>Total</b>	<b>870</b>	<b>274</b>	<b>31.5%</b>

**Source, Researcher (2014)**

### 3.5 Data Collection Instruments

The use of survey method of data collection was chosen for this study. The study used semi structured questionnaires containing closed-ended and open-ended questions to collect primary data. Questionnaires were administered to the respondent through drop and pick method where the respondents gave their feedback later (Kothari, 2004). The reason for choosing a survey method is because the method is more efficient and economical as compared to other methods such as observation. Disseminating the questionnaires to the respondents through email was chosen because it gave the respondent ample time to give true and accurate information, less costly than personal interviews. Drop and pick questionnaires gave the respondents enough time to think about the response they want to give concerning the factors influencing the growth of Family Bank *Pesa Pap* agents in Nairobi County Kenya.

The researcher used a five point rating scale questionnaire to ensure collection of data from many respondents within a short time (Mugenda and Mugenda,2003).Secondary data regarding this study was sourced from Banks reports and other studies. Together with the data that was collected using the questionnaire, analysis was done, findings and conclusions drawn.

### **3.5.1 Pilot testing**

The study carried out a pilot study to pretest and validate the questionnaire. Cronbach's alpha methodology, which is based on internal consistency, was used. Cronbach's alpha measures the average of measurable items and its correlation. This is in line with a quantitative research design methodology which was employed in this research project.

### **3.5.2 Instrument Validity**

Validity refers to the accuracy and meaningfulness of inferences based on the research results (Mugenda & Mugenda, 2003) can be enhanced by absence of errors in the data collected. The research instrument was piloted with 15 respondents who did not form part of the respondents selected for the study. This was ensured by going through the questionnaire with the respondents to ascertain that each of the items is framed in the least ambiguous way. The pilot study aimed at establishing construct validity of the instruments (Mugenda & Mugenda, 2003). The pilot study assisted in identifying the problems which the respondents may encounter in the process of answering the questions put across to them. The piloted questionnaire was revised and ambiguous items modified.

### **3.5.3 Instrument Reliability**

In this study, a pilot study was carried out on with 10 staff of Family Bank and 5 *Pesa Pap* agents who were not included in the actual data collection. The researcher administered the instruments personally to the respondents. The feedback was used to validate the instruments in readiness for the study. After administering the instruments to the selected respondents, the data obtained was a true reflection of the variables under study. To test the reliability of the instruments, the researcher used the split-half technique. The instrument was split into two sub sets (the sets which have odd numbers and even numbers). All even

numbered items and odd numbered responses in the pilot study was computed separately. By using this method, the researcher aimed at determining the co-efficient of internal consistency and the reliability co-efficient whose value varied between 0.00 (indicating no reliability) and +1.00 (indicating perfect reliability). The odd numbered scores for all items was correlated with even numbered scores.

The researcher used Spearman Brown Prophecy formula:

$$Re = \frac{2 \times \text{Corr. between the halves}}{1 + \text{Corr. between the halves}} \quad \text{Or } Re = \frac{2R}{r + 1}$$

Where Re = reliability of the original test

r = reliability of the coefficient resulting from correlating the scores of the odd items with the scores of the even items. A coefficient of 0.70 is considered adequate but a coefficient of 0.80 is good according to Gay (2003). The study established a reliability coefficient of 0.813 which was considered good.

### 3.6 Data Collection Procedure

The researcher applied for a permit from National Council for Science Technology and Innovations before embarking on the study. The researcher sought an appointment with respondents before administering research instruments. The questionnaires was administered by the researcher and trained research assistant through a drop and collect method. The key informants' interviews were conducted by the researcher on appointment with the heads of departments in their offices. Each interview session took 35 to 45 minutes. The researcher took short notes during interviews.

### 3.7 Data Analysis

In this study, a descriptive approach to data analysis was used to analyze data collected on the factors influencing the growth of Family Bank *Pesa Pap* agents in Nairobi County Kenya. The researcher perused through the completed questionnaires. Quantitative data collected was analyzed using SPSS and presented through percentages, means, standard

deviations and frequencies. The information was displayed using frequency tables. This involved tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS. To establish the influence of Central Bank regulations and policies, Start up cost for Agent, Customer information security of Agent and technological requirement for Agent on the growth of Family Bank *Pesa Pap* agent, the data collected was subjected to multiple regression analysis. To do this hypothesis was conceptualized from the research problem that the factors under study did not have a significant influence on the growth of Family Bank *Pesa Pap* agents. The regression equation was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where Y was the dependent variable (growth of Family Bank *Pesa Pap* agents),  $\beta_0$  was the regression constant,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$  and  $\beta_4$  were the coefficients of independent variables,  $X_1$  was Central Bank Regulation,  $X_2$  was start-up cost,  $X_3$  was customer information security, and  $X_4$  was technology requirement.  $\epsilon$  is an error term normally distributed about a mean of 0 and for purpose of computation, the  $\epsilon$  was assumed to be 0. The set level of significance was 0.05.

### **3.8 Ethical Consideration**

While conducting the research, the researcher made an effort at all times to avoid research procedures that are likely to cause any physical or emotional harm such as violating informant's rights to privacy by posing sensitive questions or by gaining access to records that may contain personal data and ensuring the confidentiality of the data obtained; and learning enough about the culture of informants to ensure it is respected during the data collection process. The ethical issues related to the study were addressed by maintaining high level confidentiality of the information volunteered by the respondents and not to be disclosed to protect their rights. All the personal details were limited to general information. Moreover the researcher had an introduction letter from the institution for introduction to the host institution to ensure that data collected was for educational purpose only.

### 3.12 Operational Definition of Variables

**Table 3.3 Operational Definition of Variables**

<b>Objective</b>	<b>Variable</b>	<b>Indicators</b>	<b>Scales</b>	<b>Data collection tool</b>	<b>Type of Analysis</b>
To establish the influence of Central Bank Regulation and policies on the growth of <i>Pesa Pap</i> agent banking in Family Bank.	<b>Independent variable</b> Central bank regulation and policies.	<ul style="list-style-type: none"> <li>• Number of customers</li> <li>• Increase in products and services</li> <li>• Number of agents</li> <li>• Customer verification</li> <li>• Customer identification</li> </ul>	Ordinal	Questionnaire	Descriptive
To examine the influence of start-up cost on the growth of <i>Pesa Pap</i> agent banking in Family Bank.	<b>Independent variable</b> Startup cost	<ul style="list-style-type: none"> <li>• Capital investment</li> <li>• Number of costs</li> <li>• Labour costs</li> <li>• Agent/Personal training</li> <li>• Float requirements</li> <li>• Number of agents</li> </ul>	Ordinal	Questionnaire	Descriptive
To assess the influence of customer information security on the growth of <i>Pesa Pap</i> agent banking in Family Bank.	<b>Independent variable</b> Customer Information security	<ul style="list-style-type: none"> <li>• Financial management knowledge and skills</li> <li>• Customer confidentiality</li> <li>• Customer document protection</li> <li>• Agent banking awareness</li> <li>• Security of financial services</li> <li>• Transparency of operations</li> </ul>	Ordinal	Questionnaire	Descriptive
To find out how technological requirement influence the growth of <i>Pesa Pap</i> agent banking in Family Bank.	<b>Independent variable</b> Technological requirement	<ul style="list-style-type: none"> <li>• Impact of Technology</li> <li>• Data and network security</li> <li>• Banking agents adaptability to change</li> <li>• Technology in efficiency</li> <li>• Technology mystery to customers</li> <li>• Agents empowerment</li> </ul>	Ordinal	Questionnaire	Descriptive
Growth of <i>Pesa Pap</i> agent banking in Family Bank.	<b>Dependent variable</b> Growth of Agent banking	<ul style="list-style-type: none"> <li>• Number of agents</li> <li>• Revenues</li> <li>• Market share</li> <li>• Customers</li> </ul>	Ordinal	Questionnaire	Descriptive

Source, Researcher (2014)

## CHAPTER FOUR

### DATA ANALYSIS, INTERPRETATION, FINDINGS AND DISCUSSIONS

#### 4.1 Introduction

This chapter presents the research findings to establish the factors influencing the growth of Family Bank *Pesa Pap* agents in Nairobi County; Descriptive and inferential statistics were used to analyze the data. In the descriptive statistics, relative frequency counts, were used and results interpreted and inferential statistic, multiple regression analysis was used.

#### 4.2 Response Rate

The study sampled 274 respondents from the target population of 800 in collecting data with regard to factors influencing the growth of Family Bank *Pesa Pap* agents in Nairobi County Kenya. The questionnaire return rate results are shown in Table 4.1

**Table 4.1 Response Rate**

	<b>Frequency</b>	<b>Percentage</b>
Responded	235	85.8
Non response	39	14.2
<b>Total</b>	<b>274</b>	<b>100</b>

The study was conducted on 274 respondents who were served with a questionnaire; out of 274 targeted respondents 235 respondents filled-in and returned the questionnaires which make a response rate of 85.8%. This response rate was good, representative and conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and above is excellent. This commendable response rate can be attributed to the data collection procedure, where the researcher engaged a research assistant to administer questionnaires and waited for respondents to fill in, while respondents left with questionnaires were reminded to fill in the questionnaires through frequent phone calls and picked the questionnaires once fully filled. Any clarifications sought by the respondents were addressed without delay. The questionnaires that were not returned were due to respondents not being available to fill them



on time and after persistence follow-ups, there was no positive feedback from them. The response rate here demonstrated the willingness of the respondents to participate in the study.

### **4.3 Demographic Characteristics of the Respondents**

The study targeted Family bank employees at the head office, branches and agents in Nairobi County. As such the results on demographic characteristics of these respondents were investigated in the first section of the questionnaire.

#### **4.3.1 Gender of the Respondents**

The study investigated the gender of the respondents. Table 4.2 shows the summary of the findings. The results are summarized in Table 4.2.

**Table 4.2 Gender of the Respondents**

	<b>Frequency</b>	<b>Percent</b>
Male	124	52.8
Female	111	47.2
<b>Total</b>	<b>235</b>	<b>100.0</b>

From the findings, majority of the respondents 124 (52.4%) indicated that they were males whereas 111(47.6%) of the respondents indicated that they were females. This is an indication that both genders were involved in the study through not in equal proportion.

#### **4.3.2 Highest Academic Qualification**

The study was also inquisitive to establish the highest academic qualification of the respondents. This is illustrated in Table 4.3.

**Table 4.3 Highest Academic Qualification**

	<b>Frequency</b>	<b>Percent</b>
College certificate	37	15.7
University degree	139	59.1
Post graduate	59	25.1
<b>Total</b>	<b>235</b>	<b>100.0</b>

Table 4.3 shows that majority of the respondents are shown by 139 (59.1%) had bachelor's degrees certificates, 59 (25.1%) of the respondents had post graduate degrees certificates, whereas 37 (15.7%) of the respondents had college diploma certificates, this is an indication that majority of the respondents engaged in this study had bachelor's degree certificates as their highest level of education.

#### **4.3.3 Distribution of respondents by Age**

The study investigated the age brackets within which the respondents were. Table 4.4 shows the summary of the findings.

**Table 4.4 Distribution of respondents by Age**

	<b>Frequency</b>	<b>Percent</b>
18-24 years	24	10.2
25-31 years	39	16.6
32-38 years	67	28.5
39 – 45 Years	51	21.7
46-52 years	41	17.4
above 52years	13	5.5
<b>Total</b>	<b>235</b>	<b>100.0</b>

Table 4.4 shows that most of the respondents were represented by 67 (28.5%) indicated that they were aged 32 to 38 years, 51(21.7%) indicated that they were aged 39 to 45 years, 41 (17.4%) indicated that they were aged 46 to 52 years, 39 (16.6%) indicated that they were aged 25 to 31 years, 24(10.2%) indicated that they were aged 18 to 24 years whereas 13 (5.5%) of the respondents indicated that they were aged above 52 years, this is an indication that the respondents were well distributed in terms of their age.

#### 4.3.4 Respondents job position in the Bank

The study was also inquisitive to establish the respondent's job position in the Bank. This is illustrated in Table 4.5.

**Table 4.5 Respondents job position in the Bank**

	<b>Frequency</b>	<b>Percent</b>
Senior manager	49	20.9
Middle level manger	76	32.3
Junior manager	110	46.8
<b>Total</b>	<b>235</b>	<b>100.0</b>

From the findings, most of the respondents as shown by 110 (46.8%) indicated that their job position as junior employees, 76 (32.3%) indicated that their job position as middle managers whereas 49 (20.9%) indicated their job position as top management, this is an indication all organizational levels were fairly represented in this study.

#### 4.4. Influence of Central Bank Regulations and Policies on the growth of Family Bank *Pesa Pap* Agents

The study requested respondent to indicate their level of agreement with the statements relating to the influence of Central Bank Regulation and policies on the growth of *Pesa Pap* agent banking at Family Bank. Tables 4.6, 4.7 and 4.8 illustrates the findings of the study.

**Table 4.6 Agent Banking Regulation and Policies by the Central Bank of Kenya**

<b>Statement</b>	<b>Very great extent</b>	<b>Great extent</b>	<b>Moderate</b>	<b>Less extent</b>	<b>No extent</b>	<b>Mean</b>	<b>Standard deviation</b>
Maintenance of confidence in the financial system.	46 19.6%	149 63.4%	12 5.1%	8 3.4%	20 8.5%	2.18	0.25
Promote public understanding of the financial system.	66 28.1%	151 64.3%	8 3.4%	7 3.0%	3 1.3%	1.85	0.27
Protect consumers of financial services and reduce financial crime.	75 31.9%	140 59.6%	12 5.1%	6 2.6%	2 0.9%	1.81	0.25
The government of Kenya allows scope for different means of compliance so as not to unduly restrict market participants from launching new financial products and services.	95 40.4%	122 51.9%	10 4.3%	6 2.6%	2 0.9%	1.71	0.24
Kenyan government should hold banks liable for the conduct of their agents	125 53.2%	94 40.0%	12 5.1%	3 1.3%	1 0.4%	1.56	0.25

The information in Table 4.6 reveals that majority of the respondents agreed to a great extent that; Central bank regulation policies aims at maintaining confidence in the financial system shown by mean of 2.18, central bank regulation policies aims at Promote public understanding of the financial system as shown by mean of 1.85, central bank regulation policies aims at Protecting consumer of financial services and reduce financial crime as shown by 1.81, The government of Kenya allow scope for different means of compliance so as not to unduly restrict market participants from launching new financial products and services as shown by mean of 1.71, Kenyan government should hold banks liable for the conduct of their agents as shown by a mean of 1.56 and the overall mean being 1.82. This is a clear indication that central bank regulation policies greatly influenced the growth of banking agents in Kenya banks. This was supported by low standard deviation an indication that respondent had similar opinion. World Bank report (2010) indicates that branchless banking is only allowed to be undertaken by licensed deposit-taking financial institutions (bank and non-bank) or their agents.

**Table 4.7 Banking Agents in Terms of Policies and Regulations**

<b>Statement</b>	<b>Strongly agree</b>	<b>Agree</b>	<b>Moderately agree</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Mean</b>	<b>Std deviation</b>
Acquiring license to operate as a bank agent is complex.	48 20.4%	175 74.5%	8 3.4%	2 0.9%	2 0.9%	1.87	0.32
Regulations require high capital investment to operate as agent.	56 23.8%	158 67.2%	9 3.8%	8 3.4%	4 1.7%	1.92	0.28
Overly restrictive location requirements complicate the business case for viable agent-based banking.	59 25.1%	162 68.9%	8 3.4%	4 1.7%	2 0.9%	1.84	0.29
Regulations do not allow us to offer variety of services hence low transaction volume.	45 19.1%	175 74.5%	7 3.0%	6 2.6%	2 0.9%	1.91	0.31

Table 4.7 reveals that majority of the respondents agreed that overly restrictive location requirements complicate the business case for viable agent-based banking as shown by mean of 1.84, Acquiring license to operate as a bank agent is complex as shown by mean of 1.87, Regulations do not allow banks to offer variety of services hence low transaction volume as shown by mean of 1.91. Regulations require high capital investment to operate as agent as shown by mean 1.92, and overall mean of 1.89. This is an indication that policies and regulations greatly influence the growth of banking agents in Kenya banks. This was supported by low standard deviation an indication that respondent had similar opinion. Bean (2009), states that agent banking has reduced cost and enhanced efficiency in the financial sector with a possibility and availing financial services at much lower cost to consumers. Hogan (1991), Agent banking means commercial outlets like shops and supermarkets acting in some capacity on behalf of formal banks.

**Table 4.8 Agent Banking Regulation and Policies in operations.**

Statement	Very great extent	Great extent	Moderate	Less extent	No extent	Mean	Standard deviation
By substantially broadening the scope of activities that could be outsourced to correspondents, including receiving documents for account opening and handling deposits and withdrawals will encourage other banks to opt for agent banking.	123 52.3%	90 38.3%	12 5.1%	8 3.4%	2 0.9%	1.62	0.24
They should be mechanism to promote public understanding of the financial system so as to promote agent banking.	180 76.6%	40 17.0%	8 3.4%	4 1.7%	3 1.3%	1.34	0.32
Protection of consumers of financial services and reduction of financial crime is very critical in Kenya.	197 83.8%	21 8.9%	9 3.8%	6 2.6%	2 0.9%	1.28	0.36
Kenya bank overlook transparency of pricing for services rendered to their customers.	158 67.2%	59 25.1%	10 4.3%	6 2.6%	2 0.9%	1.45	0.28
Without financial education and outreach, customers of agent banking are unlikely to take full advantage of the protections afforded by regulation.	168 71.5%	52 22.1%	11 4.7%	3 1.3%	1 0.4%	1.37	0.30
Adequate customer due diligence (KYC) be undertaken on all new accounts and on one-off cash transactions over designated thresholds.	119 50.6%	94 40.0%	12 5.1%	8 3.4%	2 0.9%	1.64	0.23

Table 4.8 shows information Regulations and Policies in terms of operations to which, majority of the respondents agreed to a very great extent that; Protection of consumers of financial services and reduction of financial crime is very critical in Kenya as shown by mean 1.28, there should be mechanism to promote public understanding of the financial system so as to promote agent banking as shown by mean of 1.34, Without financial education and outreach, customers of agent banking are unlikely to take full advantage of the protections afforded by regulation as shown by mean of 1.37, Kenya bank overlook transparency of pricing for services rendered to their customers as shown by mean of 1.45,

others agreed to a great extent that ; By substantially broadening the scope of activities that could be outsourced to correspondents, as shown by mean of 1.62, including receiving documents for account opening, handling deposits and withdrawals will encourage other banks to opt for agent banking, Adequate customer due diligence (KYC) be undertaken on all new accounts and on one-off cash transactions over designated thresholds as shown by mean of 1.64. The overall mean of influence was 1.45 which means it greatly influenced the growth of Family Bank *Pesa Pap* agent. This was supported by low standard deviation an indication that respondent had similar opinion. Bean (2009), states that consumer protection for all matters, from consumer product safety complaints to credit card fraud, falls within the jurisdiction of a single, centralized, and lightly staffed body. Arora and Ferrand (2007), Customer information security is determined by platform or infrastructure that agent banking utilizes from physical and electronic facilities that a it uses to access, collect, store, use, transmit, protect, or dispose of customer information.

#### **4.5 Influence of Startup Cost on the growth of Family Bank *Pesa Pap* Agents.**

The study requested respondent to indicate their level of agreement with the statements relating to the influence of start-up cost on the growth of *Pesa Pap* agent banking at Family Bank, Extent to which securing financing for startup business is important for agents, and the response from the statement “Additional capital is often required to carry out a successful agent banking”. Tables 4.9, 4.10 and 4.11 illustrates the findings of the study.

**Table 4.9 Statements relating to startup cost.**

<b>Statement</b>	<b>Very great extent</b>	<b>Great extent</b>	<b>Moderate</b>	<b>Less extent</b>	<b>No extent</b>	<b>Mean</b>	<b>Standard deviation</b>
Rules on record keeping and agent training can be expensive, adversely influencing the business case for agent banking.	65 27.7%	149 63.4%	12 5.1%	7 3.0%	2 0.9%	1.86	0.27
Time and money spent to acquire market information is a big challenge to majority of startup agent banking.	86 36.6%	131 55.7%	8 3.4%	8 3.4%	2 0.9%	1.76	0.25
Central banks should lower the cost of complying with government regulations.	76 32.3%	142 60.4%	9 3.8%	4 1.7%	4 1.7%	1.80	0.26
Labor cost is a challenge to majority of startup agent banking.	63 26.8%	156 66.4%	8 3.4%	6 2.6%	2 0.9%	1.84	0.28
Although resources may be available in the environment, in new business startups it is critical that the founder(s) have the ability to mobilize such resources. Capital required more than Ksh 50,000/=	52 22.1%	168 71.5%	10 4.3%	4 1.7%	1 0.4%	1.87	0.30
Agents prior experience with the banks customers is positively related to both performance and survival.	65 27.7%	151 64.3%	10 4.3%	7 3.0%	2 0.9%	1.85	0.27

The information in the Table 4.9 reveals that the following aspects influence the growth of agent banking to a greater extent; Central banks should lower the cost of complying with government regulations as shown by mean of 1.76, Time and money spent to acquire market information is a big challenge to majority of startup agent banking as shown by mean of 1.80, Labor cost is challenge to majority of startup agent banking as shown by mean of 1.84, Agents prior experience with the banks customers is positively related to both performance and survival as shown by mean of 1.85, Rules on record keeping and agent training can be expensive, adversely affecting the business case for transformational



branchless banking as shown by mean of 1.86 Although resources may be available in the environment, in new business startups it is critical that the founder(s) have the ability to mobilize such resources as shown by mean of 1.87 and overall mean of 1.83 meaning it influenced greatly on the growth of Family Bank *Pesa Pap* agent. This was supported by low standard deviation an indication that respondent had similar opinion. Bean (2009), states that agent banking has reduced cost and enhanced efficiency in the financial sector with a possibility and availing financial services at much lower cost to consumers. According to Hogan (1991), Agent banking means commercial outlets like shops and supermarkets acting in some capacity on behalf of formal banks.

**Table 4.10 Extent to which securing financing for startup business is important for agents.**

<b>Agreement</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly agree	189	80.4
Agree	26	11.1
Moderately agree	20	8.5
<b>Total</b>	<b>235</b>	<b>100</b>

From the findings majority of the respondents' as shown by 189 (80.4%) strongly agreed to the statement, 26 (11.1%) of the respondents were in agreement to the statement whereas 20 (8.5%) of the respondents moderately agreed to the statement, this affirms that Before securing financing for startup agent business, it is important for the agent to understand the cost structures of their business.

**Table 4.11 Additional capital**

<b>Academic qualification</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly agree	47	20.0
Agree	157	66.8
Moderately agree	31	13.2
<b>Total</b>	<b>235</b>	<b>100</b>

The findings in Table 4.11 shows majority of the respondents represented by 15 (66.8%) agree that Additional capital is often required to carry out a successful business agent

banking, 47 (20%) strongly agreed to the statement, whereas 31 (13.2%) agreed to a moderate extent, this affirms that Additional capital is often required to carry out a successful agent banking.

#### **4.6 Influence of Customer Information Security on the growth of Family Bank Pesa Pap Agents.**

The study requested respondent to indicate the extent to which the Bank values Customer Data Privacy and Approaches for combating Money Laundering and Terrorist Financing. The results were as shown in Tables 4.12 and 4.13.

**Table 4.12: Customer Data Privacy.**

	<b>Frequency</b>	<b>Percent</b>
Very great extent	48	20.4
Great extent	158	67.2
Moderate extent	29	12.3
<b>Total</b>	<b>235</b>	<b>100.0</b>

From the above information, the study found that majority of the respondents as shown by 158 (67.2%) indicated that the Bank values customer data privacy to a great extent, 48 (20.4%) indicated that the Bank values customer data privacy to a very great extent whereas 29 (12.3%) of the respondents indicated that the Bank values customer data privacy to a moderate extent, this is an indication that the Bank values customer data privacy to a great extent as noted by Bold(2011) access controls on customer information systems, including controls to authenticate and permit access only to authorized individuals.

**Table 4.13: Approaches for combating Money Laundering and Terrorist Financing**

	<b>Frequency</b>	<b>Percent</b>
Strongly agree	13	5.5
Agree	29	12.3
Moderately agree	161	68.5
Disagree	32	13.6
<b>Total</b>	<b>235</b>	<b>100.0</b>

From the findings, majority of the respondents as shown by 161 (68.5%) agreed to a moderate extent, 32 (13.6%) disagreed that Agent banking is adopting a risk-based approach for combating money laundering and terrorist financing , 29 (12.3%) to agree to that Agent banking is adopting a risk-based approach for combating money laundering and terrorist financing, whereas 13 (5.5%) strongly agreed that Agent banking is adopting a risk-based approach for combating money laundering and terrorist financing. This implies that Agent banking is adopting a risk-based approach for combating money laundering and terrorist financing.

#### **4.7 Influence of Technological Requirements on the growth of Family Bank *Pesa Pap* Agents.**

This section outline the various responses from the respondents on the statements relating to Technological Requirement. It indicates their level of agreement with the statements. The findings were as shown in Table 4.14.

**Table 4.14: Technology Challenges faced by Banking Agents**

Statement	Strongly agree	Agree	Moderately agree	Disagree	Strongly disagree	Mean	Std deviation
Technology adoption especially, in banking systems has shown a great momentum and spread at an unbelievable pace across the world.	79 33.6%	135 57.4%	10 4.3%	5 2.1%	6 2.6%	1.83	0.25
Technology systems have associated data and network security risks which make them susceptible for conducting financial transactions.	60 25.5%	153 65.1%	9 3.8%)	8 3.4%	5 2.1%	1.91	0.27
Technology risks regarding information and data security based on applicable models of agent banking have been reported thus creating uncertainty to the clients.	65 27.7%	157 66.8%	7 3.0%	4 1.7%	2 0.9%	1.81	0.28
Banking agents do not change their system as frequent often leading to system failure and the consequent delays in transaction execution.	57 24.3%	160 68.1%	8 3.4%	7 3.0%	3 1.3%	1.89	0.28
Technology/system failure related risks should be recognized, addressed and managed by financial institution such as banking agent in a prudent manner according to the fundamental factors influencing agent banking service.	63 26.8%	161 68.5%	6 2.6%	4 1.7%	1 0.4%	1.80	0.29
Use of technology increases the risk that customers cannot understand their rights.	66 28.1%	162 68.9%	3 1.3%	2 0.9%	2 0.9%	1.77	0.30
Banks should implement and continuously evaluate competence and effectiveness of their customer and application of technology whenever they are transacting	64 27.2%	158 67.2%	10 4.3%	0	3 1.3%	1.81	0.29

From the study findings, majority of the respondents agreed that; Use of technology increases the risk that customers cannot understand their rights as shown by mean of 1.77, Technology/system failure related risks should be recognized, addressed and managed by financial institution such as banking agent in a prudent manner according to the fundamental factors influencing agent banking service as shown by mean of 1.80, banks should implement

and continuously evaluate competence and effectiveness of their customer and application of technology whenever they are transacting as shown by mean of 1.81, Technology adoption especially, in banking systems has shown a great momentum and spread at an unbelievable pace across the world as shown by mean of 1.83, Banking agents do not change their system as frequent often leading to system failure and the consequent delays in transaction execution as shown by mean of 1.89. Technology systems have associated data and network security risks which make them susceptible for conducting financial transactions as shown by mean of 1.91 and overall mean of 1.83. This is an indication that technology requirement influences the growth of agent banking in Kenya banks. This was supported by low standard deviation an indication that respondent had similar opinion. Technology risks regarding information and data security based on applicable models of agent banking have been reported thus creating uncertainty to the clients (Owens, 2006). According to (Chellappa, 2001), Technology/system failure related risks should be recognized, addressed and managed by financial institution such as banking agent in a prudent manner according to the fundamental characteristics and challenges of agent banking services.

#### **4.8 Findings from Agents**

This section shows findings from Family Bank *Pesa Pap* agents who were served with the questionnaires.

##### **4.8.1 Gender of the respondents.**

The study investigated the gender of the respondents. Table 4.15 shows the summary of the findings.

**Table 4.15 Gender of the respondents.**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	15	68.2
Female	7	31.8
<b>Total</b>	<b>22</b>	<b>100</b>

Table 4.15 shows information on gender distribution of *Pesa-pap* agents, it shows that 15 (68.2%) of the respondents indicated that they were Males, whereas 7 (31.8%) of the

respondents indicated that they were Females, this is an indication that both genders were represented in this research and thus the findings in this study did not suffer from gender bias.

#### 4.8.2 Highest Academic Qualification

The study was also inquisitive to establish the highest academic qualification of the respondents. This is illustrated in Table 4.16

**Table 4.16 Highest Academic Qualification.**

<b>Academic qualification</b>	<b>Frequency</b>	<b>Percentage</b>
College certificate	16	72.7
University degree	6	27.3
<b>Total</b>	<b>22</b>	<b>100</b>

Table 4.16 shows that majority of the respondents as shown by 16 (72.7%) held college diploma certificates whereas 6 (25.3%) were university graduates, no one indicated to help either primary or secondary education, this is an indication that majority of the respondents engaged in this study had college diploma certificates.

#### 4.8.3 Age of the Agents

The study investigated the age brackets within which the respondents were. Table 4.17 shows the summary of the findings.

**Table 4.17 Age bracket**

<b>Age bracket</b>	<b>Frequency</b>	<b>Percentage</b>
18-24 years	2	9.1
25-31 years	6	27.3
32-38 years	3	13.6
39 – 45 Years	8	36.4
46-52 years	2	9.1
Above 52 years	1	4.5
<b>Total</b>	<b>22</b>	<b>100</b>

Table 4.17 shows distribution of *Pesa Pap* agents by age, from the information above the research established that most of the respondents as shown by 36.4% were aged

between 39 to 45 years, 27.3% of the respondents were aged between 25 to 31 years, 13.6% of the respondents were aged between 32 to 38 years, 9.1% of the respondents were aged either 18 to 24 years or 46 to 52 years whereas 4.5% of the respondents were aged above 52 years. This is an indication that respondents were well distributed in terms of their age.

#### 4.8.4 Period of agent establishment

The study investigated the Length of Time since Enrolment as an Agent. Table 4.18 shows the summary of the findings.

**Table 4.18: Period of agent establishment**

	Frequency	Percentage
Less than 1 years	9	40.9
1- 2 years	11	50.0
3-4 years	2	9.1
<b>Total</b>	<b>22</b>	<b>100</b>

Table 4.18 above tabulates information on the period which the respondent had been operating agent banking. From the findings above, majority of the respondents as shown by 11 (50%) response rate indicated that they have been operating *Pesa Pap* for a period of 1 to 2 years, 9 (40.9%) indicated to have been operating *Pesa Pap* for a period of Less than 1 year whereas 2 (9.1%) indicated to have been operating for a period of 3 to 4 years. This is an indication that majority of the *Pesa pap* agents had operating agent for a considerable time and thus their experience in running business could be relied in this study.

#### 4.9 Influence of Central Bank Regulations and policies on the growth of Family Bank

##### *Pesa Pap* Agents.

The study requested respondent to indicate their level of agreement with the statements relating to Agent Banking Regulation in Kenya. The findings are shown in Tables 4.19, 4.20 and 4.21.

**Table 4.19: Agent Banking Regulations and Policies relating to financial systems.**

Statement	Very great extent	Great extent	Moderate	Less extent	No extent	Mean	Standard deviation
Maintenance of confidence in the financial system.	6 (27.3%)	13 (59.1%)	1 (4.5%)	1 (4.5%)	1 (4.5%)	2.0	0.24
Promote public understanding of the financial system.	9 (40.9%)	10 (45.5%)	2 (9.1%)	1 (4.5%)	0	1.7	0.21
Protect consumers of financial services and reduce financial crime.	7 (31.8%)	11 (50.0%)	2 (9.1%)	1 (4.5%)	1 (4.5%)	2.0	0.20
Kenyan government should hold banks liable for the conduct of their agent business.	7 (31.8%)	13 (59.1%)	1 (4.5%)	1 (4.5%)	0	1.8	0.25

From the information in Table 4.19 majority of the respondents agreed that agent Promoting public understanding of the financial system banking regulation aims as shown by a mean of 1.77, Kenyan government should hold banks liable for the conduct of their agent business aims as shown by a mean of 1.82, CBK regulations aims at Protecting consumers of financial services and reduce financial crime, CBK regulations aims to Efficiently to maintain confidence in the financial system as shown by mean of 2.00 in each case and overall mean of 1.90 which means it greatly influenced the growth of Family Bank *Pesa Pap* agent. This was supported by low standard deviation an indication that respondent had similar opinion. A report by (CGAP, 2010) established that policymakers seek to encourage the provision of financial services to the unbanked and under-banked poor, this enabled the spread of low cost branchless banking while at the same time protect customers.



**Table 4.20: Agent Banking Regulation and Policies in Kenya.**

<b>Statement</b>	<b>Very great extent</b>	<b>Great extent</b>	<b>Moderate</b>	<b>Less extent</b>	<b>No extent</b>	<b>Mean</b>	<b>Standard deviation</b>
There should be mechanism to promote public understanding of the financial system so as to promote agent banking.	10 (45.5%)	10 (45.5%)	1 (4.5%)	1 (4.5%)	0	1.68	0.23
Protection of consumers of financial services and reduction of financial crime is very critical in Kenya.	7 (31.8%)	14 (54.5%)	0	1 (4.5%)	0	1.77	0.29
Kenya bank overlook transparency of pricing for services rendered to their customers.	8 (36.4%)	12 (54.5%)	1 (4.5%)	0	1 (4.5%)	1.82	0.24
Without financial education and outreach, customers of agent banking are unlikely to take full advantage of the protections afforded by regulation.	5 (22.7%)	12 (54.5%)	2 (9.1%)	2 (9.1%)	1 (4.5%)	2.18	0.20
Special attention to threats that may arise from new technologies that may favor anonymity.	10 (45.5%)	9 (40.9%)	2 (9.1%)	1 (4.5%)	0	1.73	0.21
Adequate customer due diligence (KYC) be undertaken on all new accounts and on one-off cash transactions over designated thresholds.	5 (22.7%)	13 (59.1)	2 (9.1%)	2 (9.1%)	0	2.05	0.24

Table 4.20, respondents agreed to a greater extent that; There should be mechanism to promote public understanding of the financial system so as to promote agent banking as shown by mean of 1.68, Special attention should be given to threats that may arise from new technologies that may favor anonymity as shown by mean of 1.73, Protection of consumers of financial services and reduction of financial crime is very critical in Kenya as shown by mean of 1.77, Kenya bank overlook transparency of pricing for services rendered to their customers as shown by mean of 1.82, Adequate customer due diligence (KYC) should be undertaken on all new accounts and on one-off cash transactions over designated thresholds as shown by mean of 2.05,

and that Without financial education and outreach, customers of agent banking are unlikely to take full advantage of the protections afforded by regulation as shown by mean of 2.18 and overall mean of 1.87 which means it greatly influenced the growth of *Pesa Pap* agent. This was supported by low standard deviation an indication that respondent had similar opinion. The findings from (Arora and Ferrand, 2007), reveals that Customer information security is determined by platform or infrastructure that agent banking utilizes from physical and electronic facilities that it uses to access, collect, store, use, transmit, protect, or dispose of customer information.

**Table 4.21: Growth of Agents in Terms of Policies and Regulations in terms of operations.**

Statement	Strongly agree	Agree	Moderately agree	Disagree	Strongly disagree	Mean	Std deviation
Acquiring license to operate as a bank agent is complex	11 (50%)	8 (36%)	2 (9.1%)	1 (4.5%)	0	1.68	0.22
Regulations require high capital investment to operate as agent.	16 (72.7%)	5 (22.7%)	0	1 (4.5%)	0	1.36	0.33
Overly restrictive location requirements complicate the business.	15 (68.2%)	4 (18.2%)	1 (4.5%)	1 (4.5%)	1 (4.5%)	1.59	0.28
Regulations do not allow us to offer variety of services.	16 (72.7%)	2 (9.1%)	1 (4.5%)	2 (9.1%)	1 (4.5%)	1.64	0.30

Table 4.21 shows that, majority of the respondents strongly agreed that Regulations require high capital investment to operate as agent as shown by mean of 1.36, others agreed that, Overly restrictive location requirements complicate the business as shown by mean of 1.59, Regulations do not allow agents to offer variety of services as shown by mean of 1.64, and Acquiring license to operate as a bank agent is complex as shown by mean of 1.68, and overall mean of 1.57. This is an indication that policies and regulations on agent banking by the CBK had a negative impact on the growth on agent banking in Kenya. This was supported by low standard deviation an indication that respondent had similar opinion. Consumer protection for all matters, from consumer product safety complaints to credit card fraud, falls within the jurisdiction of a single, centralized, and lightly staffed body (Bean, 2009).

#### 4.10 Influence of Startup Cost on the Growth of Family Bank *Pesa Pap* Agents.

This section shows the respondent's level of agreement with the statements relating to Startup Cost influence on Growth of Agent Banking in Kenya. The response is as shown in Table 4.22.

**Table 4.22: Startup Cost influence on Growth of Agent Banking in Kenya**

Statement	Very great extent	Great extent	Moderate	Less extent	No extent	Mean	Standard deviation
Rules on record keeping and agent training are expensive and adversely affect growth of agent banking.	7 (31.8%)	12 (54.5%)	2 (9.1%)	1 (4.5%)	0	1.86	0.23
Time and money spent to acquire market information is a big challenge.	7 (31.8%)	14 (54.5%)	0	1 (4.5%)	0	1.77	0.29
Labor cost is not challenge to majority of startup agent banking.	8 (36.4%)	12 (54.5%)	1 (4.5%)	0	1 (4.5%)	1.82	0.24
Agent prior experience with the ventures is positively related to both performance and survival.	7 (31.8%)	11 (50.0%)	1 (4.5%)	2 (9.1%)	1 (4.5%)	2.05	0.20

Table 4.22 shows that majority of the respondents agreed to a greater extent that following aspects influences growth of agent banking in Kenya; time and money spent to acquire market information is a big challenge as shown by mean of 1.77, Labor cost is not challenge to majority of startup agent banking as shown by mean of 1.82, Rules on record keeping and agent training are expensive and adversely affect growth of agent banking as shown by mean of 1.86, Agent prior experience with the venture's is positively related to both performance and survival as shown by mean of 2.05 and overall mean of 1.88. This is an indication that startup cost influences growth of agent banking in Kenya . This was supported by low standard deviation an indication that respondent had similar opinion. It was revealed by (Hogan, 1991) that, Agent banking means commercial outlets like shops and supermarkets acting in some capacity on behalf of formal banks.

#### 4.10.1 Cost Structures of Agent banking.

The respondents gave their level of agreement with the statements. “Before securing financing for startup agent business, it is important for the agent to understand the cost structures of their business”. Table 4.23 illustrates the findings of the study.

**Table 4.23: Cost Structures of Agent banking.**

	<b>Frequency</b>	<b>Percent</b>
Strongly agree	14	63.6
Agree	7	31.8
Moderately agree	1	4.5
<b>Total</b>	<b>22</b>	<b>100.0</b>

Table 4.23 shows the respondents level of agreement with the above statement relating to cost structures, From the findings majority of the respondents’ as shown by 14 (63.6%) strongly agreed to the statement, 7 (31.8%) of the respondents were in agreement to the statement whereas 1 (4.5%) of the respondents moderately agreed to the statement, this affirms that before securing financing for startup agent business, it is important for the agent to understand the cost structures of their business.

#### 4.10.2 Additional capital

This section indicates the respondent’s level of agreement with the statements. “Additional capital is often required to carry out a successful business agent banking”. Table 4.24 illustrates the findings of the study.

**Table 4.24 Additional capital**

	<b>Frequency</b>	<b>Percent</b>
Strongly agree	16	72.7
Agree	4	18.2
Moderately agree	2	9.1
<b>Total</b>	<b>22</b>	<b>100.0</b>

Table 4.24 shows the respondents level of agreement with the above statement relating to additional capital. From the above findings majority of the respondents as shown by 16

(72.7%) strongly agree that Additional capital is often required to carry out a successful business agent banking, 4(18.2%) were in agreement to the statement, whereas 2 (9.1%) agreed to a moderate to a moderate extent, this affirms that Additional capital is often required to carry out a successful business agent banking.

#### **4.11 Influence of Customer Information Security on the growth of Family Bank Pesa Pap Agents**

This section presented the findings from the respondents in relation to the customer information security.

##### **4.11.1: Extent to which bank value customer data privacy.**

The study further sought to establish the extent to which bank value customer data privacy. Table 4.25 illustrates the findings of the study.

**Table 4.25: Extent to which bank value customer data privacy**

	<b>Frequency</b>	<b>Percent</b>
Very great extent	13	59.1
Great extent	7	31.8
Moderate extent	2	9.1
<b>Total</b>	<b>22</b>	<b>100.0</b>

The information in Table 4.25 reveals that majority of respondents as shown by 13 (59.1 %) indicated to a very greater extent, 7 (31.8%) of the respondents indicated to a greater extent whereas 2 (9.1%) indicated to a moderate extent, this implies that the bank had persistent through communication to the agents on the importance of maintaining high customer data privacy.

##### **4.11.2 Curbing Money Laundering and Terrorist Financing.**

The study further sought to establish the extent to which the respondents agreed with the statement relating to Quality of Mechanisms adopted to curb Money Laundering and Terrorist Financing. Table 4.26 illustrates the findings of the study.

**Table 4.26: Curbing Money Laundering and Terrorist Financing**

	<b>Frequency</b>	<b>Percent</b>
Strongly agree	2	9.1
Agree	3	13.6
Moderately agree	7	31.8
Disagree	10	45.5
<b>Total</b>	<b>22</b>	<b>100.0</b>

Table 4.26 shows the respondents level of agreement with the above statement relating to approaches made by banks to reduce money laundering and terrorist financing through agent banking, from the findings most of the respondents as shown by 10 (45.5%) disagreed that enough is being done to counteract money laundering and terrorist financing through agent banking, 7 (31.8%) were of moderate opinion 3 (13.6%) of the respondents agreed that enough is being done to counteract money laundering and terrorist financing whereas 2 (9.1%) respondents strongly agreed that enough is being done to counteract money laundering and terrorist financing. This is an indication that the current mechanisms / policies are not capable of counteracting money laundering and terrorist financing. According to (Bean, 2009) Consumer protection for all matters, from consumer product safety complaints to credit card fraud, falls within the jurisdiction of a single, centralized, and lightly staffed body.

From the findings on what can be done for most agent who cannot meet the technological requirements for agent banking, the study revealed that there was need for the bank to finance potential agents in order for them to acquire the technological equipment required in the agent banking, there is need for the government to tax exempt equipment used in agent banking and also Family Bank should provide startup cost for technological equipment to potential agents.

To establish the contribution of Central Bank Regulations and Policies, Start up cost, Customer information security and technological requirement, data obtained was subjected to Regression Analysis. The results were as shown in Table 4.27.

#### 4.12 Inferential Statistics of Influence on growth of Family Bank *Pesa Pap* Agents

The results of regression analysis were shown in Tables 4.27 and 4.28.

**Table 4.27: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.808(a)	.653	.633	.69440

R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in table 4.27 the value of R squared was 0.653 an indication that there was variation of 65.3% on the growth of agent banking due to changes in central bank regulations and policies, start-up cost of agent banking, customer information security in agent banking and technology requirement for agent banking at 95% confidence interval . This shows that 65.3% changes in growth of agent banking could be accounted to changes in central bank regulation and policies, start-up cost of agent banking, customer information security in agent banking and technology requirement for agent banking. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.808.

To establish influence of each factor on growth of Family Bank *Pesa Pap* agent banking, the data collected was subjected to multiple regression analysis. The output was as shown in Table 4.28 and the level of significance was set at 0.05.

**Table 4.28: Regression Analysis.**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 Constant	1.298	.453		2.865	.006
Central Bank Regulation and policies	-.237	.160	-.198	-1.479	.012
Start-up cost of agent banking	-.231	.126	-.245	-1.834	.001
Customer information security in agent banking	-.239	.145	-.008	-2.065	.023
Technology requirement for Agent Banking	-.281	.114	-.031	-1.246	.016

From the data in Table 4.28 the established regression equation was

$$Y = 1.298 - 0.237 X_1 - 0.231 X_2 - 0.239 X_3 - 0.281 X_4$$

From the above regression equation it was revealed that holding central bank regulation and policies , start-up cost of agent banking, customer information security in agent banking and technology requirement for agent banking to a constant zero , growth of agent banking would be at 1.298 , a unit increase in central bank regulation and policies would lead to decrease in growth of agent banking by a factors of 0.237, unit increase in start-up cost of agent banking would lead to decrease in growth of agent banking by factors of 0.231, a unit increase in customer information security in agent banking would lead to decrease in growth of agent banking by a factor of 0.239 and unit increase in technology requirement for agent banking would lead to decrease in growth of agent banking by a factors of 0.281.

At 5% level of significance and 95% level of confidence, customer information security in agent banking had a 0.023 level of significance; technology requirement for agent banking showed a 0.016 level of significance, Central Bank Regulation and policies had a 0.012 level of significance while start-up cost of agent banking showed 0.001 level of significance hence the most significant factor is Start-up cost of agent banking. Overall, Technology requirement for agent banking had the greatest influence on the growth of agents banking, followed by Customer information security, then Central Bank regulations and policies and Start up cost of agent banking had the least influence on the growth agent banking. All the variables were significant ( $p < 0.05$ ).



## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents the summary of key findings, which are set out in line with the study themes or objectives. The themes were to establish the influence of Central Bank Regulation and policies on the growth of *Pesa Pap* agent banking at Family Bank, to examine the influence of start-up cost on the growth of *Pesa Pap* agent banking at Family Bank, to assess the extent to which customer information security influence the growth of *Pesa Pap* agent banking at Family Bank, to find out how technology requirement influence the growth of *Pesa Pap* agent banking at Family Bank.

#### 5.2 Summary of Findings

The study found out that majority of the respondents in the study were males, had bachelor's degrees certificates and aged between 32 to 38 years also majority of them were junior employees. It also shows that Kenyan government should be held banks liable for the conduct of their agents, the government of Kenya allow scope for different means of compliance so as not to unduly restrict market participants from launching new financial products and services, Central bank regulation policies aims at Protecting consumer of financial services and reduce financial crime, central bank regulation policies aims at Promoting public understanding of the financial system, central bank regulation policies aims at maintaining confidence in the financial system.

The study also established that the current mechanisms / policies are not effectively counteracting money laundering and terrorist financing. New mechanism should be induced to promote public understanding of the financial system so as to promote agent banking. Special attention should be given to threats that may arise from new technologies that may favor anonymity as shown by mean of 1.73, Protection of consumers of financial services and reduction of financial crime is very critical in Kenya as shown by mean of 1.77, Kenya bank overlook transparency of pricing for services rendered to their customers, Adequate customer due diligence (KYC) should be undertaken on all new accounts and on one-off cash transactions over designated thresholds as shown by mean of 2.05, and that Without

financial education and outreach, customers of agent banking are unlikely to take full advantage of the protections afforded by regulation as shown by mean of 2.18, the study also revealed that time and money spent to acquire market information is a big challenge, Labor cost is not challenge to majority of startup agent banking as shown by mean of 1.82, Rules on record keeping and agent training are expensive and adversely influences growth of agent banking as shown by mean of 1.86, Agent prior experience with the venture's is positively related to both performance and survival.

The study established that Family Bank organization values customer data privacy to a great extent shown by 67.2% and that Agent banking is currently adopting a risk-based approach for combating money laundering and terrorist financing. The study further established that; Protection of customers of financial services and reduction of financial crime is very critical in Kenya which represented by a mean of 1.28, mechanism should be instituted to promote public understanding of the financial system so as to promote agent banking. Without financial education and outreach, customers of agent banking are unlikely to take full advantage of the protections afforded by regulation, Kenya bank overlook transparency of pricing for services rendered to their customers, others agreed to a great extent that; By substantially broadening the scope of activities that could be outsourced to correspondents, including receiving documents for account opening and handling deposits and withdrawals will encourage other banks to opt for agent banking, Adequate customer due diligence (KYC) should be undertaken on all new accounts and on one-off cash transactions over designated thresholds.

From the findings it was established that Central banks should lower the cost of complying with government regulations, Time and money spent to acquire market information is a big challenge to majority of startup agent banking, Labor cost is also challenge to majority of startup agent banking, Agents prior experience with the banks customers is positively related to both performance and survival, rules on record keeping and agent training can be expensive, adversely influencing the business case for agent banking. Although resources may be available in the environment, in new agents startups it is critical that the founder(s) have the ability to mobilize such resources. Before securing financing for startup agent business, it is important for the agent to understand the cost structures of their business and that an additional capital is often required to carry out a successful business

agent banking. Further the research established that; overly restrictive location requirements complicate the business case for viable agent-based banking. Acquiring license to operate as a bank agent is complex, regulations do not allow banks to offer variety of services hence low transaction volume. Regulations require high capital investment to operate as agent; this is an indication that policies and regulations influence the growth of agents banking in Kenya.

The study established that use of technology increases the risk that customers cannot understand, technology/system failure related risks should be recognized addressed and managed by financial institution such as banking agent in a prudent manner according to the fundamental factors influencing agent banking service, banks should implement and continuously evaluate competence and effectiveness of their customer and application of technology whenever they are transacting, Technology adoption especially, in banking systems has shown a great momentum and spread at an unbelievable pace across the world. Banking agents do not change their system as frequent often leading to system failure and the consequent delays in transaction execution. Technology systems have associated data and network security risks which make them susceptible for conducting financial transactions this is an indication that technology requirement influences the growth of agents banking in Kenya.

Regression equation revealed that holding central bank regulation and policies , start-up cost of agent banking, customer information security in agent banking and technology requirement for agent banking to a constant zero , growth of agent banking would be at 1.298, a unit increase in central bank regulation and policies would lead to decrease in growth of agent banking by a factors of 0.237, unit increase in start-up cost of agent banking would lead to decrease in growth of agent banking by factors of 0.231, a unit increase in customer information security in agent banking would lead to decrease in growth of agent banking by a factor of 0.239 and unit increase in technology requirement for agent banking would lead to decrease in growth of agent banking by a factors of 0.281.

The study also established that 65.3% on the growth of agent banking was accounted for by changes in central bank regulation and policies, start-up cost of agent banking, customer information security in agent banking and technology requirement. The study also established that there was strong relationship between growth of agent banking and central

bank regulation and policies, start-up cost of agent banking, customer information security in agent banking and technology requirement for agent banking.

### **5.3 Conclusions.**

The study concluded that Central Bank regulations and policies restrict many customers from enrolling as bank agents due to their locations, conduct of the customers and financial crime, the agents must have good reputations and no criminal records. Thus it had a negative influence on the growth of *Pesa Pap* agent banking at Family Bank.

The study established that money spent before the startup of the agent banking business was a big challenge to majority of agents and this hindered the growth and uptake of agent banking in Nairobi County, thus the study concludes that high start-up cost had a negative influence on the growth of *Pesa Pap* agent banking at Family Bank.

The study established that Technology risks regarding information and data security based on applicable models of agent banking had been reported thus creating uncertainty to the clients, therefore the study concluded that customer information security had a negative influence on the growth of *Pesa Pap* agent banking at Family Bank.

The study established that Technology systems had associated data and network security risks which made them susceptible for conducting financial transactions also the acquisition and maintenance of high quality systems posed a challenge to the banking institution. This leads to customer inconvenience and trust over the security/safety of transaction lodged with agent banks. Moreover, these constant systems failure makes transactions with banking agents vulnerable to fraud. This negatively influences the growth of *Pesa Pap* agent banking at Family Bank.

### **5.4 Recommendations.**

The study recommends that CBK should formulate new policies relating to money transfers, this should be done in view of increasing levels of scrutiny on money transfers, this will help curb money laundering and financing of criminal activities as this would enhance growth of Family Bank *Pesa Pap* agents. In relation to Start up cost, the study recommends that the management of Family Bank should consider conducting free regular training

sessions to *Pesa Pap* agents on the regular updates made on the system this will help to enhance efficiency in operation between client (agent) and server.

In relation to customer information security, the study recommends that the management of Family Bank needs to keep regular security advancements on the system, this will help to enhance customer data security and thus ultimately help to win customers confidence.

The study recommends that the management of Family Bank should formulate new policies relating contracting of *Pesa Pap* agents, this should be done in view of eliminating the current requirements which pose a big challenge to people willing to venture the market. With regards to technology requirement, the study recommends that Family Bank should develop an IT based automated system to identify suspicious activity/transaction report (STR/SAR) before introducing the services, this will help to win customers confidence with the system thus encouraging trust by the customers.

## 5.5 Contribution to Body of Knowledge

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Objectives	Contribution
To establish the influence of Central Bank Regulation and policies on the growth of <i>Pesa Pap</i> agent banking at Family Bank.	The study established that with strict adherence to Central Bank regulations and policies there will be few enrolled agents thus the study concludes that Central Bank Regulations and policies had a negative influence on the growth of <i>Pesa Pap</i> agent banking at Family Bank.
To examine the influence of start-up cost on the growth of <i>Pesa Pap</i> agent banking at Family Bank.	The study established that time and money spent to acquire market information is a big challenge to majority of startup agent banking thus the study concludes that high start-up cost had a negative influence on the growth of <i>Pesa Pap</i> agent banking at Family Bank.
To assess the extent to which customer information security influence the growth of <i>Pesa Pap</i> agent banking at Family Bank.	The study established that Technology risks regarding information and data security based on applicable models of agent banking have been reported thus creating uncertainty to the clients, thus the study concludes that lack of efficient and reliable information systems/ security had a negative influence on the growth of <i>Pesa Pap</i> agent banking at Family Bank.
To find out how technology requirement influence the growth of <i>Pesa Pap</i> agent banking at Family Bank.	The study established that Technology systems have associated data and network security risks which make them susceptible for conducting financial transactions also the acquisition and maintenance of high quality systems posed a challenge to the banking institutions and thus negatively influencing the growth of <i>Pesa Pap</i> agent banking at Family Bank.

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## **5.6 Recommendations for Further Studies**

This study exposed the following gaps that need to be studied.

- i. Impact of Family Bank *Pesa Pap* agent on the expansion of Family Bank.
- ii. Effectiveness of Family Bank *Pesa Pap* agents in the provision of services to customers.

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## APPENDICES

### Appendix I: Letter of Transmittal

From: Beatrice Chepkirui

To: Respondent

Dear, Sir/Madam,

#### **RE: Questionnaire**

I am a student at University of Nairobi pursuing a degree in Master of Art in Project planning and Management. In order to fulfill one of the requirements of the MA course at University of Nairobi, I am conducting a study on **Factors Influencing the Growth of Family Bank Pesa Pap Agents in Nairobi County, Kenya.**

The results of the questionnaires will be used purely for academic purposes and will not impact your current job in any way or form. All information obtained will be treated with utmost confidentiality.

Thank you for taking your time to complete the questionnaire.

Yours sincerely,

Beatrice Chepkirui

## Appendix II: Questionnaire for the Banks Staff

Please tick the correct answer and give narrative where applicable, to the best of your knowledge. All responses will be treated with confidentiality.

### SECTION ONE: BACKGROUND INFORMATION

#### 1. Indicate Your Gender

Male  Female

#### 2. What is your highest academic qualification?

Primary school certificate  Secondary school certificate

College certificate  University degree

Post graduate

#### 3. Which is your age bracket?

18-24 years  25-31 years  32-38 years

39 – 45 Years  46-52 years  above 52years

#### 4. Which is your position in the this bank

Senior manager  Middle level manger

Junior manager

**Factors Influencing the Growth of Family Bank *Pesa Pap* Agents**

**Central Bank Regulation and Policies.**

5. How do policy makers and regulators approach this new and fast-developing space of technology and financial services such as agent banking?

.....  
 .....  
 .....

6. To what extent do you agree on the following statement as they relate to agent banking regulation by the Central Bank of Kenya? Rate, 1 to very great extent while 5 to no extent. Please tick appropriately.

	1	2	3	4	5
Maintenance of confidence in the financial system.					
Promote public understanding of the financial system.					
Protect consumers of financial services and reduce financial crime.					
The government of Kenya allow scope for different means of compliance so as not to unduly restrict market participants from launching new financial products and services.					
Kenyan government should hold banks liable for the conduct of their agents.					

7. Please indicate your level of agreement ((SA) Strongly agree, (A) Agree, (MA) Moderately Agree, (D) Disagree, (SD) Strongly Disagree,) to the following statements regarding the factors influencing banking agents in terms of policies and regulations.

Statements	SA	A	MA	D	SD
Acquiring license to operate as a bank agent is complex.					
Regulations require high capital investment to operate as agent					
Overly restrictive location requirements complicate the business case for viable agent-based banking					
Regulations do not allow us to offer variety of services hence low transaction volume.					

8. To what extent do you agree on the following statement as they relate to agent banking Regulations and Policies? Rate, 1 to very great extent while 5 to no extent. Please tick appropriately.

	1	2	3	4	5
By substantially broadening the scope of activities that could be outsourced to correspondents, including receiving documents for account opening and handling deposits and withdrawals will encourage other banks to opt for agent banking.					
They should be mechanism to promote public understanding of the financial system so as to promote agent banking					
Protection of consumers of financial services and reduction of financial crime is very critical in Kenya					
Kenya bank overlook transparency of pricing for services rendered to their customers.					
Without financial education and outreach, customers of agent banking are unlikely to take full advantage of the protections afforded by regulation					
Adequate customer due diligence (KYC) be undertaken on all new accounts and on one-off cash transactions over designated thresholds.					

**Startup Cost for Agent Banking**

9. To what extent do you agree on the following statement as they relate to start up cost as a factor influencing the growth of agent banking? Rate, 1 to very great extent while 5 to no extent. Please tick appropriately.

	1	2	3	4	5
Rules on record keeping and agent training can be expensive, adversely affecting the business case for agent banking.					
Time and money spent to acquire market information is a big challenge to majority of startup agent banking					
Central banks should lower the cost of complying with government regulations					
Labor cost is not challenge to majority of startup agent banking					
Although resources may be available in the environment, in new business startups it is critical that the founder(s) have the ability to mobilize such resources. Capital required more than Ksh 50,000/=					
Agents prior experience with the banks customers is positively related to both performance and survival					

10.To what extent to you agree that before securing financing for startup business, it is important for agents to understand the cost structures of agent business.

- Strongly agree [ ]
- Agree [ ]
- Moderately agree [ ]
- Disagree [ ]
- Strongly disagree [ ]

11. Do you agree that additional capital is often not required to carry out a successful agent banking?

- Strongly agree [ ]
- Agree [ ]
- Moderately agree [ ]
- Disagree [ ]
- Strongly disagree [ ]

**Customer Information Security**

12 To what extent does your bank value consumer data privacy?

- To very great extent [ ]      To great extent [ ]
- To moderate extent [ ]      To less great extent [ ]
- To no extent [ ]

13. Do you agree that agent banking is adopting a risk-based approach for combating money laundering and terrorist financing?

- Strongly agree [ ]      Agree [ ]
- Moderately agree [ ]      Disagree [ ]
- Strongly disagree [ ]

Kindly explain your answer

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.....  
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**Technology Requirements**

14. What is your opinion on the following statement “agents are often confronted by problems associated with technology requirement for their business. This is often a result of not having the requisite managerial and technical experience that facilitates success”

.....  
.....  
.....

15. Please indicate your response ((SA): Strongly agree (A); Agree, (MA); Moderately Agree, (D); Disagree, (SD); Strongly Disagree) to the following statements regarding the technology challenges faced by banking agents.

<b>Statements</b>	<b>SA</b>	<b>A</b>	<b>MA</b>	<b>D</b>	<b>SD</b>
Technology adoption especially, in banking systems has shown a great momentum and spread at an unbelievable pace across the world					
Technology systems have associated data and network security risks which make them susceptible for conducting financial transactions.					
Technology risks regarding information and data security based on applicable models of agent banking have been reported thus creating uncertainty to the clients.					
Banking agents do not change their system as frequent often leading to system failure and the consequent delays in transaction execution.					
Technology/system failure related risks should be recognized, addressed and managed by financial institution such as banking agent in a prudent manner according to the fundamental factors affecting agent banking service.					
Use of technology increases the risk that customers cannot understand their rights					
Banks should implement and continuously evaluate competence and effectiveness of their customer and application of technology whenever they are transacting					

16. Most agents cannot meet the technological requirements for agent banking and those who meet the requirements still find them prohibitively expensive, how can the problem be solved?

.....

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.....

**THANK YOU FOR YOUR PARTICIPATION**

### Appendix III: Questionnaire for Agents

Please tick the correct answer and give narrative where applicable, to the best of your knowledge. All responses will be treated with confidentiality.

#### SECTION ONE: BACKGROUND INFORMATION

1. Indicate Your Gender

Male  Female

2. What is your highest academic qualification?

Primary school certificate  Secondary school certificate

College certificate  University degree

Post graduate

3. Which is your age bracket?

18-24 years  25-31 years  32-38 years

39 – 45 Years  46-52 years  above 52years

4. For how long have you operated this agent?

Less than 1 years  1- 2 years  3-4 years

4 – 5 Years  above 5years



**Factor influencing Growth of Agent Banking**

5. How do policies and regulations influence the growth of agent banking in Kenya?

.....  
 .....

6. To what extent do you agree on the following statement as they relate to agent banking regulation in Kenya? Rate, 1 to very great extent while 5 to no extent. Please tick appropriately.

	1	2	3	4	5
Maintenance of confidence in the financial system.					
Promote public understanding of the financial system.					
Protect consumers of financial services and reduce financial crime.					
Kenyan government should hold banks liable for the conduct of their agent business					

7. To what extent do you agree on the following statement as they relate to agent banking Regulations and Policies in Kenya? Rate, 1 to very great extent while 5 to no extent. Please tick appropriately.

	1	2	3	4	5
There should be mechanism to promote public understanding of the financial system so as to promote agent banking.					
Protection of consumers of financial services and reduction of financial crime is very critical in Kenya.					
Kenya bank overlook transparency of pricing for services rendered to their customers.					
Without financial education and outreach, customers of agent banking are unlikely to take full advantage of the protections afforded by regulation.					
Special attention to threats that may arise from new technologies that may favor anonymity.					
Adequate customer due diligence (KYC) be undertaken on all new accounts and on one-off cash transactions over designated thresholds.					

8. Please indicate your level of agreement ((SA) Strongly agree, (A) Agree, (MA); Moderately Agree, (D) Disagree, (SD) Strongly Disagree,) to the following statements regarding the factors influencing growth of banking agents in terms of policies and regulations.

Statements	SA	A	MA	D	SD
Acquiring license to operate as a bank agent is complex.					
Regulations require high capital investment to operate as agent.					
Overly restrictive location requirements complicate the business.					
Regulations do not allow us to offer variety of services.					

9. To what extent do you agree on the following statement as they relate to startup cost influencing growth of agent banking in Kenya? Rate, 1 to very great extent while 5 to no extent. Please tick appropriately.

	1	2	3	4	5
Rules on record keeping and agent training is expensive and adversely influence growth of agent banking.					
Time and money spent to acquire market information is a big challenge					
Labor cost is not challenge to majority of startup agent banking.					
Agent prior experience with the ventures is positively related to both performance and survival.					

10. To what extent to you agree that to the following statement, “before securing financing for startup agent business, it is important for the agent to understand the cost structures of their business”?

- Strongly agree [ ]
- Agree [ ]
- Moderately agree [ ]
- Disagree [ ]
- Strongly disagree [ ]

11. Do you agree that additional capital is often required to carry out a successful business agent banking?

- Strongly agree [ ]
- Agree [ ]
- Moderately agree [ ]
- Disagree [ ]
- Strongly disagree [ ]

12. To what extent does the bank value consumer data privacy?

- To very great extent [ ]      To great extent [ ]
- To moderate extent [ ]      To less great extent [ ]
- To no extent [ ]

13. Do you agree that agent banking is adopting a risk-based approach for combating money laundering and terrorist financing?

- Strongly agree [ ]      Agree [ ]
- Moderately agree [ ]      Disagree [ ]
- Strongly disagree [ ]

14. Most agents cannot meet the technological requirements for agent banking and those who meet the requirements still find them prohibitively expensive, how can the problem be solved?

.....  
.....  
.....  
.....

**THANK YOU FOR YOUR PARTICIPATION**

## Appendix IV: Research Authorization



### NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone: +254-20-2213471,  
2241349, 310571, 2219420  
Fax: +254-20-318245, 318249  
Email: secretary@nacosti.go.ke  
Website: www.nacosti.go.ke  
When replying please quote

9<sup>th</sup> Floor, Utalii House  
Uhuru Highway  
P.O. Box 30623-00100  
NAIROBI-KENYA

Ref: No.

Date:

5<sup>th</sup> August, 2014

**NACOSTI/P/14/0118/2632**

Beatrice Chepkirui Kerich  
University of Nairobi  
P.O.Box 30197-00100  
**NAIROBI.**

#### **RE: RESEARCH AUTHORIZATION**

Following your application for authority to carry out research on "*Factors influencing the growth of Family Bank Pesa Pap Agents in Nairobi County, Kenya,*" I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for a period ending **31<sup>st</sup> October, 2014.**

You are advised to report to **the Chief Executive Officer, Family Bank, the County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

On completion of the research, you are expected to submit **two hard copies and one soft copy in pdf** of the research report/thesis to our office.

  
**SAID HUSSEIN**  
**FOR: SECRETARY/CEO**

Copy to:

The Chief Executive Officer  
Family Bank.

The County Commissioner  
The County Director of Education  
Nairobi County.



