FACTORS INFLUENCING GROWTH OF AGENCY BANKING IN KENYA: THE CASE OF EQUITY BANK, KWALE COUNTY, KENYA.

BY

BERNADETTE KANINI KITHUKA

A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF ARTS IN PROJECT PLANNING AND MANAGEMENT OF THE UNIVERSITY OF NAIROBI.

2012
DECLARATION

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

Signature: .......................................................... Date: ..................................................

BERNADATTE KANINI KITHUKA
Reg No: L50/64964/2010

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

Signature: .......................................................... Date: 15/08/2012

MR. JOHNBOSCO M. KISIMBII
LECTURER, DEPARTMENT OF EXTRA-MURAL STUDIES,
UNIVERSITY OF NAIROBI
DEDICATION

I dedicate this work to my lovely son Sariel Mutati Sitienei and my fellow colleagues for their support, encouragement during the entire period of my study and continued prayers towards successful completion of this course. May the almighty God bless you abundantly.
ACKNOWLEDGEMENTS

This project could not have gone this far without the contribution and support of various personalities. First and foremost, I wish to express my sincere thanks to the University of Nairobi for giving me the chance to undertake the degree and to my supervisor Mr. Johnbosco M. Kisimbii for having agreed to supervise this research paper and his occasional guidance towards completion.

I would also like to express my sincere thanks to my beloved colleagues, Caro and Purity whose administrative support came very handy during my hard times.

I wish to express my sincere thanks and support to my group members who were always there for me during this period. To you all I say God Bless You!!

Lastly heartfelt thanks are extended to the most high for his guidance and providence which enabled me to undertake this proposal that is too involving in time and resources.
<table>
<thead>
<tr>
<th>Section</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>DECLARATION</td>
<td>ii</td>
</tr>
<tr>
<td>DEDICATION</td>
<td>iii</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENTS</td>
<td>iv</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
<td>v</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>vii</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>viii</td>
</tr>
<tr>
<td>ABBREVIATIONS AND ACRONYMS</td>
<td>ix</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>x</td>
</tr>
<tr>
<td>CHAPTER ONE: INTRODUCTION</td>
<td></td>
</tr>
<tr>
<td>1.1 Background of the Study</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Statement of the problem</td>
<td>6</td>
</tr>
<tr>
<td>1.3 Purpose of the Study</td>
<td>7</td>
</tr>
<tr>
<td>1.4 Objectives of the study</td>
<td>7</td>
</tr>
<tr>
<td>1.5 Research Questions</td>
<td>8</td>
</tr>
<tr>
<td>1.6 Research Hypothesis</td>
<td>8</td>
</tr>
<tr>
<td>1.7 Significance of the study</td>
<td>9</td>
</tr>
<tr>
<td>1.8 Delimitations of the study</td>
<td>10</td>
</tr>
<tr>
<td>1.9 Limitations of the study</td>
<td>10</td>
</tr>
<tr>
<td>1.10 Basic Assumptions of the Study</td>
<td>11</td>
</tr>
<tr>
<td>1.11 Definition of significant terms as used in the study</td>
<td>11</td>
</tr>
<tr>
<td>1.12 Organization of the study</td>
<td>12</td>
</tr>
<tr>
<td>CHAPTER TWO: LITERATURE REVIEW</td>
<td></td>
</tr>
<tr>
<td>2.1 Introduction</td>
<td>13</td>
</tr>
<tr>
<td>2.2 Agency Banking</td>
<td>13</td>
</tr>
<tr>
<td>2.3 Security and growth of agency banking</td>
<td>17</td>
</tr>
<tr>
<td>2.4 Distance to the nearest bank branch and the growth of agency banking</td>
<td>18</td>
</tr>
<tr>
<td>2.5 Perceived usefulness and the growth of agency banking</td>
<td>18</td>
</tr>
<tr>
<td>2.6 Financial Education and the growth of agency banking</td>
<td>19</td>
</tr>
<tr>
<td>2.7 Lack of co-ordination between commercial banks</td>
<td>20</td>
</tr>
<tr>
<td>2.8 Theoretical framework</td>
<td>21</td>
</tr>
<tr>
<td>2.9 Conceptual Framework</td>
<td>23</td>
</tr>
<tr>
<td>2.10 Summary of Literature</td>
<td>25</td>
</tr>
<tr>
<td>CHAPTER THREE: RESEARCH METHODOLOGY</td>
<td></td>
</tr>
<tr>
<td>3.1 Introduction</td>
<td>26</td>
</tr>
<tr>
<td>3.2 Research Design</td>
<td>26</td>
</tr>
<tr>
<td>3.3 Target Population</td>
<td>26</td>
</tr>
<tr>
<td>3.4 Sample Size and Sampling Procedure</td>
<td>27</td>
</tr>
<tr>
<td>3.5 Data Collection Methods</td>
<td>27</td>
</tr>
<tr>
<td>3.6 Data Collection Procedure</td>
<td>24</td>
</tr>
<tr>
<td>3.7 Validity and reliability of Research instruments</td>
<td>28</td>
</tr>
</tbody>
</table>
CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction ........................................... 31
4.2 Response Rate ........................................... 31
4.3 Demographic characteristics of respondents .......... 31
4.4 Period the banking agents had been in operation ...... 34
4.5 Security and the growth of agency banking .......... 35
4.6 Attitudes Towards agency banking by users ......... 37
4.7 The extent of access to financial services .......... 37
4.8 Distance to the nearest banking agency .......... 38
4.9 Financial Services Infiltration in Kwale .......... 39
4.10 Knowledge of the banking agency .................. 39
4.11 Coordination between agencies ...................... 40
4.12 Test of Hypothesis ..................................... 44

CHAPTER FIVE: SUMMARY OF FINDING, DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.1: Introduction ........................................... 47
5.2: Summary of findings .................................. 47
5.3: Discussions .............................................. 48
5.4: Conclusions .............................................. 50
5.5: Recommendations .................................... 51
5.6: Recommended areas for further Research .......... 51

REFERENCES .............................................. 52

APPENDICES
1. Letter of Transmittal ................................... 56
2. Data collection instruments ............................ 57
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Sample size</td>
<td>27</td>
</tr>
<tr>
<td>3.2</td>
<td>Operational definition of variables</td>
<td>30</td>
</tr>
<tr>
<td>4.1</td>
<td>Respondent Rate</td>
<td>31</td>
</tr>
<tr>
<td>4.2</td>
<td>Age of Respondents</td>
<td>32</td>
</tr>
<tr>
<td>4.3</td>
<td>Marital Status</td>
<td>33</td>
</tr>
<tr>
<td>4.4</td>
<td>Types of Clients</td>
<td>33</td>
</tr>
<tr>
<td>4.5</td>
<td>Period of Operations for the agency banks</td>
<td>34</td>
</tr>
<tr>
<td>4.6</td>
<td>Whether Respondents Trusted Banks</td>
<td>35</td>
</tr>
<tr>
<td>4.7</td>
<td>Distance to the nearest Agency banking</td>
<td>38</td>
</tr>
<tr>
<td>4.8</td>
<td>Whether agency banking held joint meetings</td>
<td>40</td>
</tr>
<tr>
<td>4.9</td>
<td>Distribution of the gaps in agency banking in Kwale</td>
<td>41</td>
</tr>
<tr>
<td>4.10</td>
<td>Test of Hypothesis</td>
<td>44</td>
</tr>
</tbody>
</table>
# LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1</td>
<td>Conceptual Framework</td>
<td>24</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>--------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
<td></td>
</tr>
<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
<td></td>
</tr>
<tr>
<td>CCK</td>
<td>Communication Commission of Kenya</td>
<td></td>
</tr>
<tr>
<td>CCTV</td>
<td>Closed Circuit Television</td>
<td></td>
</tr>
<tr>
<td>GOK</td>
<td>Government of Kenya</td>
<td></td>
</tr>
<tr>
<td>ICT</td>
<td>Information Communication Technology</td>
<td></td>
</tr>
<tr>
<td>PIN</td>
<td>Personal Identification Number</td>
<td></td>
</tr>
<tr>
<td>SACCO</td>
<td>Saving And Credit Cooperative</td>
<td></td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
<td></td>
</tr>
<tr>
<td>POS</td>
<td>Point Of Sale</td>
<td></td>
</tr>
</tbody>
</table>
ABSTRACT

Because of globalization, liberalization, and technological advancement, banks like any other organization faced many challenges. These challenges called for search for suitable strategies to be adopted by organization for growth and survival, thus, agency banking became strategy for banking sector. This project, therefore, was intended to investigate the factors that affect the growth of agency banking in Kenya with specific focus for Kwale County. The project is also trying to address the distinctiveness features of agency banking, the customers as well as the characteristics of banks offering the agency banking services. Banks and Financial related Institutions in the developing world are increasingly deploying the use of payments using agencies to enhance the quality of their financial services and increase growth. The pace of transformation in the financial sector speeded up with more agency banking businesses realizing the potential of using the agencies in transacting payments in their service delivery. However, there are only a handful of studies on the application of digital technology for success and growth on banking agencies. The study will concentrate with a sample of 100 agencies doing bank focused, bank led and non-bank led transactions engaged in the 3 categories. The samples were taken for the study using stratified and simple random sampling. Data was collected by a simple process of answering the basic questions through the use of a questionnaire that include demographic profiles, characteristics of banking agencies, successes and challenges, being the general factors that influence the growth of agency banking, designed in a closed ended. The study applies the Theory of Descriptive survey which was extended to include other factors to help us predict success and growth in agency banking. Analyses of the data reveal that convenience of the money transfer technology plus its accessibility, cost, support and security factors are related to behavioral intention to use and actual usage of the payment services by the agency banking micro businesses to enhance their success and growth. The findings revealed security influenced the growth of agency banking in Kenya, distance does not influence the frequency of customer transactions, perceived usefulness influences the growth of agency banking, financial education enhances knowledge, attitude and practice in agency banking and lack of coordination between banking agencies influence the growth of agency banking in Kenya and especially Kwale County. Since the research could not capture the customer satisfaction, then it is recommended that further research to be carried out to establish how customer satisfaction influences the growth of agency banking in Kenya.
CHAPTER ONE
INTRODUCTION

1.1 Background of the study

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

In the global competitive business scenario, banks, among other organizations, have been facing many changing challenges caused by globalization, liberalization, technological advancements, and changing customers' technological-driven expectations (Moreno et al., 2005). Banks, among other organizations, have been facing a dynamic business environment that is technologically driven, globally unbounded, and customer oriented (Peschel, 2008). These challenges, among many others, called for extensive search for suitable strategies to be adopted by organizations for growth and survival in the changing and turbulent market place (Al-Mansour, 2007).

Agier and Assuncao (2009) contend that financial relations all over the world, have been deeply transformed in the last two decades. New products, new markets and new regulatory systems have radically altered the environment in which financial sectors operate, opening new profit opportunities but also creating new risks. Among the most important of these changes, we have the worldwide movement of liberalization and deregulation of the banking industry (Pearce & Robinson, 1997). It has been widely emphasized that customers of the banks are the main business partners that use and promote the products and services (Moya 2009).

According to Marketing Intelligence (2003), computerization in the Kenyan banking industry got off to a slow start and only picked up momentum in the 2000's. By linking up technological developments in telecommunications and Information Technology, real-time on-line electronic funds transfer came into existence. Today, as indicated in here, commercial banks in Kenya have the privilege of various delivery channels for their products and services. This includes the brick
and mortar branch office networks, automated teller machines (ATM’s), tele-banking or mobile banking via the telecommunication channel Internet banking and agency banking (Mwirigi, 2010).

Lyman et al., (2008) define a banking agent as a retail outlet contracted by a financial institution to process clients’ transactions. Ignacio (2008) states that rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw and transfer funds, pay their bills, inquire about an account balance or even get direct deposit from their employer. Globally, these retailers are increasingly utilized as important distribution channels for financial institutions.

Banking agents help financial institutions to divert existing customers from crowded branches providing a more convenient channel (Lyman et al., 2008). Other financial institutions, especially in developing markets, use agents to reach an additional client segment or geography. Ivatury et al., (2008) states that reaching poor clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of a branch. In such environments banking agents that piggy back on existing retail infrastructure and lower set up and running cost can play a vital role in offering many low income people their first-time access to a range of financial services (Lyman et al., 2008; Ivatury et al., 2008 & Ignacio, 2008).

Aguirre et al., (2008) contend that developing an agent channel for a bank presents arange of technological and operational challenges that may be new for a bank. However, according to Siedek (2008) the main challenge is strategic that is, understanding specifically how this new channel fits within its customer segmentation, service proposition, and branding objectives. The challenge is particularly important for banks pursuing agents as a way to offer banking services to those previously with no bank account.

Relatively little research has addressed the issue of challenges faced by financial institutions in implementing agency banking. Prior studies frequently focus on positive aspects of branchless or agency banking, e.g. benefits (Polatoglu and Ekin, 2008; Lyman et al., 2008), technology &
infrastructure (Ivatury et al., 2008 & Ignacio, 2008), innovations (Aguirre et al., 2003). There is little published work on banks about challenges in agency banking, particularly in the context of developing countries in the dynamic African region.

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and other various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector comprised of 45 institutions, 42 of which are commercial banks, 2 mortgage finance companies and 1 non-bank financial institution as at 31st December 2007. Out of 45 institutions, 35 are locally owned and 10 foreign owned. The locally owned financial institutions comprised of 3 banks with significant shareholding by the Government and State Corporations, 29 commercial banks, 2 mortgage finance institutions and 1 non-bank financial institution. Local private institutions constitute 71.1 per cent of total institutions while local public institutions constitute 6.7 per cent and foreign institutions 22.2 per cent. The total net assets for local private institutions constituted 54.7 per cent while the local public institutions and foreign institutions constituted 5.3 per cent and 40.0 percent of the total net assets respectively (CBK, 2011).

Equity Bank commenced business on registration in 1984. It has evolved from a Building Society, a Microfinance Institution, to now the all inclusive Nairobi Stock Exchange and Uganda Securities Exchange public listed Commercial Bank. With over 7.3 million accounts, accounting for over 57% of all bank accounts in Kenya, Equity Bank is the largest bank in the region in terms of customer base and operates in Uganda, South Sudan and Rwanda (Equity, 2012).

Business practices in Kenya have gone through many changes, the most important being the introduction of Information Communication Technology (ICT). The agency banking has been a key ICT product that has affected business practices. This is manifest in various areas including advertisements, marketing and emergence of new products and new methods of payments. The methods of payment through the use of mobile phones have been the most recent development in Kenya and have revolutionized how business is conducted among the small scale business holders. Micro-businesses have embraced the use of mobile payment technology in their operations. They view this mode of payment as an easier form of cash delivery to their suppliers
and business partners, a system which is relatively affordable, personal and can be used anywhere and at anytime (Anurag, Tyagi and Raddi, 2009).

The majority of the micro businesses in Kenya operate in the informal sector (GOK, 1999) with most of them being sole proprietorships or family businesses usually employing less than five persons. They are involved in small semi-organized and sometimes unregulated activities that are mainly concentrated in urban as well as in some parts of the rural areas. The business functions are usually conducted by the owner/manager in market stalls, open-yards, and residential houses and on undeveloped open grounds. Under the Local Government Act CAP 265 of the Laws of Kenya, these businesses are required to be registered and licensed by the municipal, town or county councils of the areas where they operate from but many of them are not registered. Many of these micro business operators do not have bank accounts while those who do, find the bank accounts cumbersome to operate as they have to leave their businesses unattended in order to conduct transactions in a bank.

In March 2007, Safaricom mobile operator launched the mobile money transfer system, the M-Pesa. Since then the mobile payment system has become popular with both the banked and the unbanked population. Micro-business operators in Kenya have adopted the use of the mobile payments as a way of transacting their business because of the relative affordability of mobile phones and the mobile banking services they offer. Various transactions are carried out using mobile payments such as paying suppliers for goods and services, paying bills, sending money to friends and relatives, withdrawing cash and topping up airtime accounts. Currently some mobile operators offer calling cards of denomination for as low as twenty Kenya shillings which provide affordable reach to most users (CCK, 2008/09). Arunga and Kahora (2007) concluded that sole proprietors and small businesses in Kenya benefited largely from the mobile phone revolution as they are able to make savings and gain access to more customers and new services.

The agency banking micro-business operators are able to transact payments directly with their customers and suppliers most of them through a mobile phone in the palm of their hands without necessarily going through a bank (Anuradi, Tyagi and Raddi, 2009) and without having to leave their business premises. This is beneficial because all it requires is for one to have a mobile
phone and basic literacy to operate the phone. Other benefits derive from the fact that the system does not rely on any physical infrastructure such as phone wires and is accessible to a large segment of the population (Elder and Rashid, 2009); and from the fast speed in transacting money transfers. These features bring considerable convenience to business operations. The mobile payment providers' agents are well distributed and easily accessible to the micro-business owners for support of their services in Kenya. It is also easy for the micro business operators to control their mobile phone accounts as they can access their accounts any time.

Several agency banking trend studies have revealed the potential of network technologies for payment purposes (Pousschti, 2003; Taga and Karlson, 2004; Speedfacts online Research, 2001). Most of these studies were conducted in developed countries and thus may not reflect the impact on the success and growth of different business environments and in particular the micro businesses in a developing country like Kenya. There exists a need therefore, for a substantive research on the impact of mobile payments on the success and growth of micro-business operators who are among those who employ mobile payments in Kenya. So far there has been no clear insight into the role that micro payments play in the development of micro-business. This implies that technology providers, government agencies and development partners may not address the required interventions and there is therefore a need to examine the contribution of mobile payment technology on micro businesses and the impact on their success and growth.

The micro business operator also needs to fully understand the entrepreneurial impact of this new technology on their business so as to cope with the increasing developments in the mobile payment services on one hand, and the challenges of the micro business operating environment, on the other hand. The choice and use of technology in micro business is dependent on how well it is likely to influence greater success and growth of the business.

This study begins by first looking at the factors that account for the banking agency payments fast acceptance among the micro business operators and secondly at the level of actual usage of the mobile payments by the micro business operators. The factors that enhance the behavioral intention to use the new payment technology and the actual usage of this new technology by micro businesses are highlighted.
1.2 Statement of the Problem

When the agency money transfer system was launched, the agency banking has become popular with both the banked and the unbanked population serving as a deposit account for many. The service enables subscribers to use even their mobile phones to carry out transactions such as pay for goods and services, pay bills, send to and receive money from friends and family, withdraw cash for their use, top up their own airtime account or top up someone else’s account and manage their own accounts.

The agency banking technology requires basic knowledge to operate. As a result, majority of the micro business operators in Kenya have embraced its use in their daily business operations. Consequently, they carry out various transactions at local level even by using their mobile phones within and around their business surroundings such as paying suppliers for goods and services, paying bills, sending money to friends and relatives, withdrawing cash and topping up airtime accounts. They are able to know their account balances and easily manage their accounts. This has enabled the banked to avoid long queues at banks. The banked and the unbanked can also maintain account balances in their mobile phones which can be perceived as deposits (Njenga, 2009). This has become a convenient way of doing business. However, there are no existing studies that have been done to find out the impact of using these mobile payments on the success and growth of these micro businesses.

In an increasing number of developing countries, agency banking has been growing in the last few years and it has the potential to provide financial services to low income households who are not reached by traditional bank networks, especially those living in remote and rural areas. Previous studies by Ivatury et al., (2008) & Ignacio (2008) have shown that branchless or agency banking through agents can significantly reduce set-up and delivery costs, offering cash-in/cash-out operations only or a broader range of financial services to customers who usually feel more comfortable banking at their local merchants than at traditional bank branches.

The increasingly competitive environment poses challenges to bankers with the last decade seeing a lot of changes in the economy of Kenya. Most of these changes have mainly had to do with liberalization, globalization, technological advancement and a more enlightened consumer
Banks have not been spared. In his study, Munywoki (2010) sought to establish the strategies used by commercial banks in Kenya. Although the study established the main strategies used by banks to deal with services breakdown, it did not focus on all aspects of bank's strategy in attaining competitiveness.

Studies carried out attempting to shed some light on the subject under study are more general and have failed to give a detailed insights and analysis of the issues under the current study. So far no known study by the researcher has attempted to find out the factors influencing growth of agency banking in Kenya.

However, the factors that were identified in literature review contributed to the growth of banking agencies included: Security status and measures for transactions, distance and accessibility, Usefulness of the services. Knowledge, attitude and practices and Coordination between banking agencies and non banking agencies.

Therefore this study sought to establish those factors that influence the growth of banking agencies in Kenya.

1.3 Purpose of the Study

The purpose of this study was to analyze the factors influencing growth of agency banking in Kenya focusing on Equity Bank.

1.4 Objectives of the Study

The study was guided by the following objective;

i) To establish how security influences the growth of banking agencies in Kenya.

ii) To assess how distance and accessibility influences the growth of banking agencies in Kenya.

iii) To determine how the perceived usefulness influenced the growth of banking agencies in Kenya.

iv) To examine how knowledge and attitude of the agents influences the growth of agency banking in Kenya.
v) To assess how coordination between banking agencies and non-banking agencies influences the growth of agency banking in Kenya.

1.5.1 Research Questions
The research sought to answer the following research questions:

i) How has security influenced the growth of banking agencies in Kenya?

ii) How has distance influenced the accessibility and availability of services from banking agencies in Kenya?

iii) How has the perceived usefulness influenced the growth of banking agencies in Kenya?

iv) How has the knowledge and attitude of the agents influenced the growth of agency banking in Kenya?

v) How has coordination between banking agencies and non-banking agencies influenced the growth of agency banking in Kenya?

1.5.2 Research Hypothesis
The study tested the following research hypothesis;

\[ H_0 : \mu \]

i. = Security does not influence the growth agency banking in Kenya.

\[ H_1 : \mu \neq \]

ii. Security influences the growth of agency banking in Kenya.

\[ H_0 : \mu \]

iii. Distance does not influence the frequency of customer transactions in agency banking services in Kenya.

\[ H_1 : \mu \neq \]

iv. Distance influences the frequency of customer transactions in agency banking services in Kenya.

\[ H_0 : \mu \]

v. Perceived usefulness does not influence the growth of banking agencies in Kenya

\[ H_1 : \mu \neq \]

vi. Perceived usefulness influences the growth of banking agencies in Kenya.
iv. $H_0: \mu = \text{Agents knowledge and attitude does not influence growth of agency banking.}$

$H_1: \mu \neq \text{Agent knowledge and attitude does influence the growth of agency banking.}$

v. $H_0: \mu = \text{Lack of coordination between banking agencies and non-banking agencies influences the growth of agency banking in Kenya.}$

$H_1: \mu \neq \text{Lack of coordination between banking agencies and non-banking agencies does not influence in the growth of agency banking in Kenya.}$

1.7 Significance of the Study

Findings from the study will be beneficial in the following ways:

The study will be of importance to the bank’s management in providing them with insights on how coordination between the agency and non-agency banking influences the growth of agency banking in Kenya. This will help them strategize their operations in-order to be more productive and profitable. These insights will contribute to the development of a robust regulatory framework for agent banking services in Kenya. They will also develop their market niches in line with their relative comparative advantages and strengths. In this scenario, the agent banking framework will play a complementary role for all financial players in the market.

The study would be significant to the banking industry, especially to decision makers involved in implementation of electronic services delivery strategies for their banks. Perceived usefulness and financial education in relation to growth of agency banking will be necessary for improvements to enhance agency banking usage in Kenya. Further, commercial banks that are still hesitant to implement can use the findings of this research to clarify issues of prevalence and to get a greater insight into the adoption of agency banking in Kenya.

The regulators and the policy makers can use the finding as reference for policy guidelines on management and control of agency banking. For instance, issues to do with security in terms of robbery, fraud and risks in relation to growth of agency banking can help in formulating viable
policy documents that effectively address problems faced by commercial banks in implementing agency banking. These may relate to regulating those aspects that threaten to adversely impact on the operations and development of such institutions.

The study will provide an insight of the general status in the banking agencies and equip the community with information on the pros and cons in the same sector. The study will help the community to know the usefulness of agency banking in terms of cost and time, and help them understand the need to have financial education hence, assisting them to understand the dynamics of the agency banking.

The findings of this study will enrich existing knowledge and hence will be of interest to both researchers and academicians who seek to explore and carry out further investigations. It will provide basis for further research and enrich the references for the subject matter.

1.8 Delimitation of the Study

This study was carried out within the Coastal region of Kenya with specific emphasis to Kwale County. It evaluated the population by selecting and studying a selected sample within the County in order to determine the measure and the way of distributing the variables. Kwale County on its own has three (3) districts namely Msambweni, Kwale and Kinango; which for the purpose of this study will be referred to as the strata. This study will estimate the proportion of agents which have certain characteristics and make predictions for the purpose of this study. Below the specific strata (districts), there will be various sub-divisions according to the administrative boundaries.

1.9 Limitations of the Study

The study faced the following limitations;

i. Finance were not sufficient to enable the researcher carry out a wider study. To mitigate this, the researcher proposed to reduce the sample to manageable size that gave representative information or find for partners to find the research.

ii. The researcher proposed to use local enumerators to collect data to reduce suspicion, easier communication and area familiarity. The researcher created a good rapport with informants
by introducing the aim of the research to them through physical interaction where possible, through physical introductory letters and other appropriate means.

1.10 Basic Assumptions of the Study

Not all users were involved in the study, a sample was used to represent the whole population. Another assumption was that respondents responding to questionnaires would do so honestly and objectively, which they did.

1.11 Definitions of significant terms

**Agency Banking:** retail outlet contracted by a financial institution to process clients' transactions (Lyman et al., 2008).

**Security:** The status and measures (in terms of risks and fraud) for transactions within the banking agencies across all geographical boundaries.

**Distance to the nearest branch:** Accessibility and availability of services from banking agencies.

**Perceived usefulness:** The efficiency and usefulness of the services from the banking agencies.

**Financial education:** The knowledge, attitude and practices of the clientele in usability of agency banking.

**Coordination between commercial banks:** The extent of synergy and collaboration between banking agencies and non-banking agencies in sustainable service delivery.
1.12 Organization of the study

The study is organized into five chapters. Chapter one provides a description of the introduction, where the background to the study is presented, and the problem is brought out. The purpose stated and objectives, research questions and research hypothesis developed from it. The significance of the study is also explained, with the limitations examined and mitigated. Key terms are also defined.

Chapter two surveys the literature review on the key determinants of agency banking, where the relationship between the independent variables (determinants) and the dependent variables and sketched and described through a conceptual framework.

Chapter three describes the research methodology, outlining how the research design was identified and why it was preferred. Data collection instruments and procedure are examined and data analysis techniques also described, and ethical consideration in carrying out such a study.

Chapter four presents data analysis, presentation and interpretation. Response rate and demographic characteristics of respondents are dealt with, and the study provides a detailed analysis of each factor that influences the growth of agency banking and to demonstrate any association between the variables, hypothesis is tested for each determinant and the results analysed.

Chapter five outlines the summary of the key findings, discussions of these findings in reference to literature surveyed, conclusions are arrived at and recommendations made, together with suggestions for future research.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter presents a review of literature related to agency banking. The researcher herein shall make a desk top review of all the factors that influence the growth of agency banking in Kenya. Past studies shall make an integral guide to the researcher on what other studies done focus on the independent variable of this study.

2.2 Agent Banking
Agency banking means delivery of financial services using ICT infrastructure in a franchise set-up (Aguirre et al., 2008). This is relatively cheaper alternative to brick and mortar branch banking set-up. It supports expansion of delivery channels for financial services to a large segment of society. This has different forms like use of retail agents, electronic banking, mobile banking and ATMs & point of sale (POS) network etc (Ignacio, 2008).

Mwirigi, (2010) contends that for bank customers, a major benefit of a branchless banking approach is the flexibility and proximity of banking services. The opportunity for a bank to work close to home is a key value from the customer’s perspective (Prodhan, 2009). Since critical financial services, such as deposits and withdrawals, involve cash exchange, most agency banking options for banks are going to require cash-in and cash-out points. Siedek (2008) points out that to achieve a low-cost and pervasive landscape of cash-in/cash-out points an network of agents is required. This is true regardless of the type of technology solution deployed like point-of-sale (POS), mobile phone or a combination of both. Agents can either be employed by the financial institution or they can be independent third-parties, such as agents (Prodhan, 2009).

According to Ignacio (2008), agency banking strategies rely on agents that operate outside of bank branches. Agent banking is undoubtedly a necessity in Kenya. However, in comparison to Brazil and Colombia, Kenya suffers the following disadvantages; poor fixed line infrastructure, high incidence of fraud, insecurity-robberies, theft, carjacking, hijacking, level of technological literacy in rural areas still low, low financial education, poor transport system, few branches in rural areas, insufficient cash flow in rural areas some areas may lack agents who meet financial
qualifications, low penetration of credit and debit cards, low volumes of utility payment bills for electricity, water, telephone and other pressing social concerns such as poverty, drought, famine, banditry, diseases, unemployment. It is however noteworthy that these challenges are surmountable and once due attention is given to them, agent banking can still be implemented (CBK. 2009).

Most of the challenges above have been addressed both in Brazil and Colombia and it will be much easier for CBK and the banking sector to emulate the practice in the two countries but such emulation will be modified to suit Kenya's circumstances. To ensure that agent banking is managed well enough to avoid any shocks that can cause financial instability in the banking sector the following issues (according to CBK 2009) will require consideration;

Since agency banking is a new model of banking business, it will be practical to involve only legal entities with business licenses and who have been engaged in some commercial activity for a reasonable period of time to be agents. In addition, the list of entities will have to be limited but will however be expanded with time depending on the experiences gained during the operation of agents. As a beginning, only legal entities are permitted to conduct agent banking business. Since Kenya is at the inception stage, unlike Brazil and Colombia which already have sufficient experience on agent banking, the agent list is limited for experimental purposes to post offices, shops, financial institutions like SACCOS and microfinance institutions, pharmacies, supermarkets, retail outlets and petrol stations. The market forces will then dictate the need to expand the list (CBK 2009).

The report on the Brazil and Colombia study tour on agent banking indicates that while the temptation to delegate the provision of banking services to the agents will be high, prudence and risk consideration will dictate that initially, agents be permitted to carry on only certain limited activities. The list of services will be reviewed from time to time depending on the situation and demands on the ground. Both Brazil and Colombia have specific list of services that agents are allowed to offer in which Kenya can borrow. The report proposed that agents be allowed to carry out the following activities; payment of bills, national remittances/transfers, deposit and withdrawals, balance enquiry, generation and issuance of mini bank statements limited to a
certain period, disbursement and repayment for loans, collection of documents in relation to account opening, loan application, credit and debit cards, payment of retirement benefits; and payment of salaries. Agents should not initially be allowed to open deposit accounts or approve/appraise credit facilities. Banks should be required to prescribe services that can be provided by particular agents based on a risk assessment (CBK 2009).

The report on agent banking provides that Contract-Mandatory clauses to be contained in the contract between banks and agents. It is proposed that the following should be the minimum provisions to be included in the contract; the bank has the total responsibility for the actions of the agent; state duties and liabilities of both parties; measures to mitigate the financial risks associated with financial services (limits, customer transactions, cash management, etc); duty by the agent to deliver transaction support documents; prohibition from charging the customer additional fees except the normal bank fees; office hours of the agent; confidentiality of customer and user information; technical description of electronic devices; differentiation of services offered by one agent for different banks; remuneration for the agent; duties and liabilities of the agent with respect to their employees distinct from the employees of the bank and termination clause (CBK 2009).

Security requirements of agent premises will be left to the banks to consider what is appropriate in the circumstances depending on the level of risk. These requirements could include safes, a barrier between the cashier and customer (communication and exchange of documents should however be possible); Closed Circuit Television (CCTV) (where necessary depending on volumes of transactions). Initially the CBK will be approving the agents. It is instructive that the Central Bank of Brazil was initially approving the agents but changed course in 2008 when the law was amended to remove the requirement of Central Bank approval.

Since agents are legal entities, their shareholders and directors are vetted and agents must pass suitability test. Factors to consider include negative information in possession of credit reference bureaus or gathered from other sources, criminal record, reputation (based on references from at least two people), financial impropriety, educational qualification. business management skills,
Ability to identify risks, sources of funds, borrowing. The obligation is on banks to conduct the requisite vetting.

The technical requirements for the operating systems of the agent is that the equipment should be able to transmit transaction information in code, carry out online transactions real time, allow handling under different user profiles for administration, maintenance and operation, reverse incomplete transactions due to power outage or other defects, durable and prevent the capture of executed transactions information. As Kenya is advancing in technology and development, it would be better if agents are required to use equipment with interoperability function/solution. The report on agency banking stipulates that banks should own the equipment to be used by the agents (CBK 2009).

The responsibility of banks for all transactions carried out by the agent is a fundamental requirement in agent banking. It is proposed that the clause on responsibility of banks be provided for in the statute to bind the bank, agent and customer. In the absence of such a clause in the law, customers will be unduly exposed as the contract between the bank and the agent is exclusive of the customer. Even though common law provides for agency and liability of the principal for the acts of the agent, the existing exceptions to this general rule may not provide the necessary confidence that a customer needs when transacting with the agent (CBK 2009).

As the Central Bank is the approving authority, it is necessary for the Central Bank to receive on a periodic basis, data and other information on agent operations including information on physical location, nature, volume and value of operations/transactions, incidents of fraud, theft and robbery, customer complaints, internal audit reports. Banks should be charged with the responsibility of submitting to the Central Bank, statistical returns on agent operations (CBK 2009).

Agents should not be allowed to charge customers any additional fees although commissions/fees payable to agents will be agreed on between the banks and the agents. Banks will decide whether transportation for cash should be by agents, bank staff or hired transporters. It should however be provided that cash must be transported by secure/safe means. The report by
CBK on agent banking further recommends that banks be required to ensure that the premises and cash in transit or possession of agents are insured (CBK 2009).

For consumer protection, agents should issue receipts for all transactions, a channel for communication of customer complaint to the bank should be provided for, agents to disclose to the customers the names of the banks they are working for, banks to provide free telephone line for lodging complaints by customers, agents to display to the public within their premises the approval document from the Central Bank, appointment letter from the bank, a copy of the business license of the bank and the license for the commercial activity, apart from the agent banking business; and use of secure system that ensures customer information confidentiality (CBK 2009).

2.3 Security and the growth of agency banking

Physical security is a challenge with regard to security of cash and even people managing and working with agents. Some banks give incentives to their agents by subsidising the cost of transferring cash to commercial banks. The security issue is a challenge mainly in Brazil. In Colombia, communities act as security for agents, as they are viewed to have brought development to the community. According to Aguirre et al. (2008), in Colombia, the police provide security services for free to some agents. Colombia also initially had challenges with illegal agents but this was quickly resolved. Some agents in Brazil use armoured vehicles to transport cash to commercial banks (CBK 2009).

Njenga (2009) states that although the mobile phone balances may seem low, the fact that there are balances proves that there is storage which can be perceived as acceptance of deposits. This is a significant indication of the high value placed on the convenience associated with the use of the mobile payment services. Omwansa (2009) states that a lost or stolen mobile phone or ATM card does not mean catastrophe as no one can access an account without a correct personal identification number (PIN). He further explains that in a country where majority of people have no bank accounts, M-Pesa and other bank support services provides both convenience and safety. People walk around with their virtual money knowing they can withdraw cash any time at a minimal fee. In a mobile environment, it is necessary to have perceived security and trust in the
vendors and the payment system. (Siau, et al., 2004; Mallat, 2007). Security and safety of mobile payment transactions is one of the primary concerns for users (Nam, Yi, Lee and Lim, 2005). They state that safety represents no delay, no transaction incompleteness and no private information disclosure during payment transactions. The use of the pin and secret code for the transactions enhances the security and privacy issues. Key requirements for any financial transaction in an electronic environment should include confidentiality, authentication, data integrity and non-repudiation (Shon & Swatman, 1998). Other security factors important to the users are anonymity and privacy, which relate to use policies of customers' personal information (Java wardhena& Foley, 1998; Shon & Swatman, 1998; Mallat, 2007).

2.4 Distance to the nearest bank branch and the growth of agency banking

The distance from the agent to the nearest bank branch is a challenge particularly in the rural areas. Aguirre et al. (2008) points out that in Brazil, some commercial banks have accounts with other banks with branches near the location of their agents to enable their agent's bank their cash. This has solved the problem of distance. In Colombia however, an agent has to travel to his own branch to deposit cash received. In an attempt to address this problem, some commercial banks give their agents longer periods to bank the cash due to challenges of distance. However, systems of commercial banks are able to monitor what the agent is doing on real time (CBK 2009).

2.5 Perceived usefulness and the growth of agency banking

Cost is a determinant factor in the perceived usefulness in the agency banking. The transaction costs of sending money through the mobile payment or other system technology are lower than those of banks and money transfer companies (Omwansa, 2009). The cost of a payment transaction has a direct effect on consumer adoption if the cost is passed on to customers (Mallat 2007). Transaction costs should be low to make the total cost of the transaction competitive. The cost of the mobile payments should be affordable to most of the micro business operators and far below what the banks normally charge for their bank transactions. There are many different mobile handsets which are easy to operate and have the functionalities required for the mobile payment technology. For this variable, the following hypothesis was formulated.
Accessibility is another determinant in the growth of agency banking. Pagani (2004), states that accessibility (ability to reach the required services) is one of the main advantages of mobile payment services. Small and micro businesses are among the greatest beneficiaries of using either M-Pesa mobile or any other payment. As at 31st March, 2009, there were 8,650 M-Pesa agents spread throughout the country offering the mobile payments service (Annual report, 2008/2009). The micro-business operators go to the bank less often and spend more time running their businesses. Equally, many unbanked Kenyans can now receive or send money wherever they are in the country (Omwansa, 2009). Majority of the micro business operators are familiar with the use of the mobile payment services as they are easy to use and require no formal training before use.

Payment systems exhibit network externalities as the value of a payment system to a single user increases when more users begin to use it (Van Hove, 2001, Mallat, 2007). Consumer decision to adopt a payment system is therefore significantly affected by the amount of other consumers and traders using it. Failure to create a critical mass has contributed to discontinuance of several previous payment systems, including several smart card systems (Szmigin & Bourne, 1999). It is therefore a critical success factor for the payment provider to reach a wide enough base. The coverage area of the payments is spread throughout the country with over six million registered subscriber base as at 31st March, 2009 (Annual Report 2008/2009).

Personal experiences for a lot of people indicate that the current technology is user friendly and previous studies of the adoption of the perceived payments show that it is the usability, usefulness, speed and convenience of the service itself that counts (Pagani, 2004). Safaricom’s Annual Report for Year 2008/2009 shows that by end of March 2009, there were over 6.175 million registered M-Pesa customers with an average of 11,580 new registrations per day representing a growth of 198% from the previous year (Annual Report 2008/2009). This indicates the wide usage and satisfaction that the existing customers have reported which in turn has influenced new customers to take up the services.

2.6 Financial Education and the growth of agency banking

According to a report on agent banking by CBK (2009) financial education is a challenge in both Brazil and Colombia. In Colombia, there are about 3 million families who save in kind e.g. in chicken and livestock and need education to save in formal banking. The geographical
expansiveness of the two countries makes it difficult for the two Governments to extend financial education to all people in all regions. The two Governments are however doing their best and continue each day to bring financial education to the rural population (CBK 2009).

2.7 Lack of co-ordination between commercial banks

This is a challenge in Colombia as customers of one bank cannot bank with another due to associated charges. This is a disadvantage to banks without a large network of branches (AI-CBK 2009).

The rapid spread of the agency banking usage in Kenya means that the number of many users exceeds by far the number of banked people. Some of the bank led agencies offer easy communication and the current facilities have reduced the average transaction costs for the consumer (Vaughn, 2009). The Annual Report 2008/2009 show that person to person transactions stood at KShs. 120.61 billion for the same year against 14.74 billion for the year 2007/2008. The total cumulative person to person transactions stood at KShs. 135.38 billion as at 31st March 2009 since inception of the mobile payment service. This indicates that agency payment is reaching the unbanked (Vaughn, 2009). Omwansa (2009) argues that the benefits associated with agency banks are so enormous that those who try to place regulatory pressure on it might feel guilty if they appear to frustrate it.

The extent to which the mobile payment usage would impact on performance depends largely on whether there is an enabling environment (Porteous, 2006). Porteous defines an enabling environment as a set of conditions which promote a sustainable trajectory of market development. Of particular interest are the environments in which widespread access is likely. Agency banks have widespread access and require an enabling environment to enhance the success of its consumers. The micro businesses are spread throughout the country with huge clusters in the market areas and near shopping centers. This enables them to easily access the service providers for registration and to make cash deposits into their accounts. The mobile payment providers’ agents.
2.8 Theoretical Framework

This section examines some of the models developed to explain growth of agency banking.

2.8.1 Trends in Agent Banking

The advent of the Internet has revolutionized the way the financial services industry conducts business, empowering organizations with new business models and new ways to offer 24 hour accessibility to their customers. The ability to offer financial transactions online has also created new players in the financial services industry, such as agency banking, online banks, online brokers and wealth managers who offer personalized services, although such players still account for a tiny percentage of the industry (Lyman & Ivatury, 2007).

Peschel (2008) asserts that successful branchless business models must work not only for providers and end clients, but also for agents. Providers depend on the energy of agents for customer acquisition and for managing liquidity so as to support cash withdrawals and deposits. In fact, successful providers view their agents as an important category of customer, rather than a passive channel. These schemes have *inter alia* structured their commissions to make being an agent pay well. As the trend is shifting to agent banking, there is a challenge for owners and advisors of these banks to decide on how to leverage their investment in internet banking and offer agent/branchless banking, in the shortest possible time.

2.8.2 Agent Banking Business Models

Loretta (2008) states that, a wide spectrum of agent/branchless banking models are evolving. However, no matter what business model, if agent banking is being used to attract low-income populations in often rural locations, the business model will depend on banking agents. The banking agent is an important part of the agent banking business model since customer care, service quality, and cash management will depend on them. These models differ primarily on the question that who will establish the relationship (account opening, deposit taking, lending etc.) to the end customer, the Bank. Loretta (2008) further adds that another difference lies in the nature of agent agreement between bank and the Non-Bank. Models of branchless banking can be classified into three broad categories - Bank Focused, Bank-Led and Non-bank-Led.
2.8.3 Bank-focused Model

The bank-focused model 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, mobile phone banking or agent 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 (Rashid, 2009).

2.7.4 Bank-led Model

The 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 (or through mobile phone) instead of at bank branches or through bank employees. This model promises the potential to substantially increase the financial services outreach by using a different delivery channel (retailers), a different trade partner having experience and target market distinct from traditional banks, and may be significantly cheaper than the bank-based alternatives. Any licensed bank can deliver financial services by using ICT infrastructure and retail network to push the access to finance by considering the prudential regulatory framework of country. This may be transformed by developing venture between bank and a telecom operator or bank and market agents or both. But account must be opened in bank and cash related (cash-in, cash-out) transactions may be handled by bank itself or market agents. In this model customer account relationship rests with the bank (Ochieng, 2010).

2.7.5 Non-bank-led Model

The non-bank-led model is where a bank does not come into the picture (except possibly as a safe-keeper of surplus funds) and the non-bank performs all the functions (Loretta, 2008).

There are rising expectations that agent banking will prove a cost-effective way of reaching large numbers of un-served customers. But that expectation fails to take into account the fact that to date agent channels have had a limited role in reaching large numbers of lower income customers on a sustainable basis. To assess the role that agent banking will play in reaching the
un-served majority, we need to look beyond the current reality to understand the forces and uncertainties in play and see how they will affect the rollout of agent banking (Peschel, 2008).

2.9 Conceptual Framework

Mugenda and Mugenda (2003), defines a conceptual framework as a hypothesized model identifying the concepts under study and their relationships. In this framework, there are certain factors influencing the growth of agency banking in Kenya. These factors include but are not limited to security, distance to nearest bank branch, financial education and lack of co-ordination between commercial banks. For this study, four variables are considered as the independent variables while CBK requirements will be the moderating variable. Factors influencing growth of agency banking in Kenya is the dependent variable that is affected by the independent variables.
Factors influencing growth of agency banking in Kenya will be reflected as illustrated in the figure below:

**Independent Variables**

- Security and the growth of agency banking
  - Robbery
  - Fraud
  - Risk

- Distance to the nearest bank branch
  - Ease of access
  - Availability

- Perceived usefulness
  - Ease of use
  - Cost
  - Time

- Financial Education
  - Knowledge
  - Skills
  - Attitude

- Lack of co-ordination between commercial banks
  - Stiff competition
  - Network failures

**Dependent Variable**

- Growth of Agency Banking in Kenya
  - Number of agencies
  - Extent of service uptake from agency banking
  - Geographical distribution of banking agencies

**Moderating Variable**

- Central Bank of Kenya Requirements

**Figure 2.1: Conceptual Framework**

Source: Researcher, (2012)
2.10 Summary of Literature Review

In terms of general macroeconomic impacts, there are only a couple of key studies that have demonstrated the positive influence of agency banking penetration in developing countries. One well-known study found that while agency banking in less developed countries are playing the same crucial role that fixed banks played in richer countries in the 1970s and 1980s, the growth impact of agency banking is around twice as important in developing countries, where there is also a critical mass effect, and that a rise of ten banks per 100 agents GDP growth by 0.6% (Waverman, Meschi & Fuss 2005). Another reported that the impact of agency banking penetration is positively linked to Foreign Direct Investment (FDI), and that this impact has grown more significant in recent years, with a 1% increase in agency banking penetration rates associated with 0.5-0.6% higher rates of FDI and GDP (Williams 2005).

One aspect of agency banking in the developing world that is being looked at with some anticipation is the introduction of mobile financial services and transactions. Many if not most rural users in less developed countries have no access to financial services of any kind, and getting these “unbanked” citizens linked somehow into the formal banking sector is a priority for many governments. However, the evidence to date of initial efforts in this regard is mixed. While users are employing the agency banking systems to make payments for things such as petty expenditures and pre-paid electricity, and many are using them for sending remittances back to friends and relatives in their rural villages, there is little evidence to date of an increase in the number of users registering for more formal banking services, such as savings and credit services (Ivatury, Pickens 2006; Morawczynski 2008).

Initial analysis seems to indicate that while today agency banking systems are providing good money transfer and payment services to early users, there will need to be better marketing and training involved to help consumers understand what the systems are capable of, as well as improved policy measures to ensure that the benefits of agency banking are evenly distributed across all banking and consumer sectors (Ivatury, Pickens 2006)
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter outlined the methods that were used for data collection and presentation; have the research design, target population and sample size, data collection methods and procedures and data analysis, techniques, and ethical considerations are outlined.

3.2 Research Design
This study adopted a descriptive survey design which according to Churchill (1991) was appropriate where the study sought to describe the characteristics of certain groups, estimated the proportion of people who have certain characteristics and make predictions. The study aimed at collecting information from respondents on factors influencing growth of agency banking in Kenya.

Khan. (1993) recommended descriptive survey design for its ability to produce statistical information about aspects of education that interest policy makers and researchers. The design was chosen for this study due to its ability to ensure minimization of bias and maximization of reliability of evidence collected. Furthermore, descriptive survey design raised concern for the economical completion of the research study. The method is rigid and focuses on the objectives of the study.

3.3 Target Population
The population for purposes of this study was business channels managers/ branch managers of all Equity bank branches in Coast with specific focus to Kwale County. Another targeted category of the population includes service users which in this context are the bank customers. The agents running the agency banking services would also be focused in this study. Mugenda and Mugenda (2003), state that, the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study.
3.4 Sample Size and Sampling Procedure

The sampling technique was the process of selecting a specific number of agents to form respondents for a study (Ngulube, 2003). Information taken from the Equity Bank Branch in Mombasa Moi Avenue shows that, more than 1,100 agents are found in the Coast. Of these, about 800 are bank and about 300 non banking agencies. A sample of 10% of the population was randomly selected for the study. Khan (1993, pp 47) warns that “there was no fixed number of percentages of subjects that determine the size of an adequate sample.” To them, the ideal sample was “large enough to serve as an adequate representation of the population about which the researcher wished to generalize and small enough to be selected economically in terms of subject availability, expense in terms of time and money and complexity of data analysis”.

The researcher targeted 10% of the population which in this case may be enough of the accessible population according to Mugenda & Mugenda 2003. Therefore the sample frame will be as shown below;

Table 3.1: Sample size

<table>
<thead>
<tr>
<th>Category of respondents</th>
<th>No in Category</th>
<th>Proportion of the population</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Related Agencies</td>
<td>600</td>
<td>10%</td>
<td>60</td>
</tr>
<tr>
<td>Non-Bank related agencies</td>
<td>150</td>
<td>10%</td>
<td>15</td>
</tr>
<tr>
<td>Bank Customers</td>
<td>350</td>
<td>10%</td>
<td>35</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1100</strong></td>
<td><strong>10%</strong></td>
<td><strong>110</strong></td>
</tr>
</tbody>
</table>

3.5 Data Collection Methods

The study relied on data collected through a questionnaire structured to meet the objectives of the study. The questions were both open ended and closed ended. According to Mugenda and Mugenda (2003), questionnaires were commonly used to obtain important information about a population under study. Each item was developed to address specific themes of the study. The questionnaire will be distributed to the selected members of the sample. Each member selected was briefed on how to fill in the questionnaire. The respondents will be given a time frame within which they responded to the questionnaire after which the questionnaire will be collected.
by the researcher on the agreed time. The researcher used questionnaires because it was less costly and less time consuming.

3.6 Data collection procedures

Two (2) main data collection techniques were used to gather data for the purpose of this research study.

There were structured questionnaire covering the various aspects covered in the study design document prepared. The questionnaires were administered by hired enumerators for five (5) days to 100 respondents to gather the required quantitative data and a bit of qualitative data since there will be several open-ended questions in the questionnaire.

Key informant interviews were used to gather in-depth information on the subject matter of the study. The focus was on respondents such as Bank managers. The key informant interviews will be done using a pre-prepared interview guide which will be earlier approved by the Research supervisor.

3.7 Validity and reliability of research instruments

Validity shows whether the items measure what they are designed to measure (Borg and Gall, 1989). Pre-testing was conducted to assist in determining accuracy, clarity and suitability of the research instrument Borg and Gall (1989) notes that two to three cases are sufficient for some pilot studies. For this study, a sample of five was sufficient. The purpose of the pre-test is to assist the researcher to identify the items which could have been inadequate and necessary corrections are then made, and ambiguous questions are reframed. Content validity will be examined to ensure the instruments would answer all the research questions (Borg and Gall, 1996). Based on the analysis of the pre-test results, the researcher will make corrections, adjustments and additions to some research instruments.

This was the dependability, consistency or trustworthiness of a test. The test items were divided into two halves with items matched on content and difficulty and the scores of the two halves will be scored separately. If a test is reliable the scores on the two halves have high association (Cohen, Manion and Morrison, 2007). From the results of the pre-test the two scores of each
The respondent will be computed separately. The Pearson Product Moment Correlation coefficient will be used.

3.8 Data Analysis Techniques

All the questionnaires and interview schedules completed each day were checked for completeness at two levels: One by the enumerators and then the researcher. This ensured that many anomalies detected were corrected while still in the field.

Certain questions in the instruments were designed to give very closely related information. Technically, this was done deliberately in order to be able to assess the consistency of the responses.

All the questionnaires from the field were collected for further processing. They were edited and coded. The coded data was further be edited to search for illegal codes, omissions, logical inconsistencies and any error found were referenced back to the original data forms (questionnaire) and the necessary corrections made.

Both qualitative and quantitative data analysis techniques were employed to bring out the relationship among the key variables of the study. Statistical Package for Social Scientists (SPSS Version 17 for quantitative data analysis will be used to analyze the data and to give frequency distribution and cross tabulations of key variables.

The qualitative data was analyzed by categorizing the responses into related categories (themes). Qualitative data is normally useful in supplementing and illustrating quantitative data.

3.9 Ethical Considerations

In the world of research, there was need for the researcher to get an informed consent before undertaking the research in the field. With the respondents, it was equally important to get permission from them allowing them to participate voluntarily in the study. The researcher or research assistants aimed and objectives of the research clearly explained before and after undertaking the research, which helped in attaining an informed consent from the respondents. The researcher also had to maintain utmost confidentiality about the respondents. Legal requirements and prior appointments for the interviews have to be sought and met by the researcher before embarking on the field.
### Operational Definition of variables

**Table 2: Operational definitions of variables**

<table>
<thead>
<tr>
<th>Objective Research question</th>
<th>Type of variable</th>
<th>Indicators</th>
<th>Measure</th>
<th>Level of scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>How has security influenced the growth of banking agencies in Kenya?</td>
<td><strong>Independent</strong> Security</td>
<td>1. Robbery 2. Fraud 3. Risk</td>
<td>Number of cases reported, No of agencies that have reported robbery cases</td>
<td>Ordinal, Ratio</td>
</tr>
<tr>
<td>How has distance influenced the accessibility and availability of services from banking agencies in Kenya?</td>
<td>Distance from the nearest branch</td>
<td>1. Ease of access 2. Availability</td>
<td>Distance from banking agency, No of agency banking available</td>
<td>Ordinal, Ratio</td>
</tr>
<tr>
<td>How has the perceived usefulness influenced the growth of banking agencies in Kenya?</td>
<td><strong>Perceived usefulness</strong></td>
<td>1. Ease of use 2. Cost 3. Time</td>
<td>How much it costs to use, Period it takes to access the service</td>
<td>Ordinal, Ordinal</td>
</tr>
<tr>
<td>How has the financial education influenced knowledge, attitude and practices in agency banking in Kenya?</td>
<td><strong>Financial education</strong></td>
<td>1. Knowledge 2. Skills 3. Attitude</td>
<td>Understanding on how to use the service, Customers perception on the agency banking services</td>
<td>Ordinal, Ordinal</td>
</tr>
<tr>
<td>How has coordination between banking agencies and non banking agencies influenced the growth of agency banking in Kenya?</td>
<td>Lack of coordination between commercial banks</td>
<td>1. Stiff competition 2. Network failures</td>
<td>Quality of similar services offered by other providers, Quality of services offered</td>
<td>Ordinal, Nominal</td>
</tr>
<tr>
<td><strong>Dependent</strong> Growth of Agency Banking in Kenya</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Moderating</strong> Government policies and regulations (from the Central Bank of Kenya Requirements)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER FOUR
DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction
The analysis of the key findings discussed in this study was derived from data taken from the interviews undertaken with the banking agents together with some of the clients especially those who were found at the banking agents.
During the analysis, the demographic profile of respondents was presented followed by the characteristics of attendants at the banking agents.
The data related to the factors that affect the growth of agency banking are then presented. From the analysis, Mean and standard deviations are used for the presentation of these significant variables and discussions are made based on the data presented and analyzed, hypothesis have also been formulated and tested.

4.2 Response Rate
Questionnaires were submitted to the operators of the banking agents. After a while, they were collected for analysis and in return, 90 questionnaires were collected and analyzed.
In summary the response rate of the survey was 90%. Some of the limitations of this study are important to keep in mind. The sample used was small due to the time and resources that such a research would otherwise require, hence the severest drawback to my study.

Table 4.1: Response rate

<table>
<thead>
<tr>
<th>Category of respondents</th>
<th>Issued</th>
<th>Completed</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank related agencies</td>
<td>60</td>
<td>54</td>
<td>90%</td>
</tr>
<tr>
<td>Non-bank related agencies</td>
<td>15</td>
<td>14</td>
<td>90%</td>
</tr>
<tr>
<td>Bank customers</td>
<td>35</td>
<td>32</td>
<td>90%</td>
</tr>
<tr>
<td>Total</td>
<td>110</td>
<td>100</td>
<td>100%</td>
</tr>
</tbody>
</table>

As shown in table 4.1, the response rate was 90% of the samples population, with bank related agencies, non-bank related agencies and bank customers returning 90% of the questionnaires issued.

4.3 Demographic Characteristics of respondents
The data collected in answering the basic questions asked to the banking agents within the entire Kwale County are presented and analyzed. From the respondents, the study needed to establish the age and the marital status of the respondents. This would be helpful in determining the extent to
which various age groups would behave in adopting technology as a result of the current advancements in the banking sector.

4.3.1 Respondents’ Age

Age was so an important factor to determine how various age groups adoption of technology was paramount.

Table 4.2: below represents the gender proportion for the respondents.

Table 4.2: Age of the respondents

<table>
<thead>
<tr>
<th>Age</th>
<th>No of respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 20 Years</td>
<td>11</td>
<td>12%</td>
</tr>
<tr>
<td>21-30 Years</td>
<td>15</td>
<td>17%</td>
</tr>
<tr>
<td>31-40</td>
<td>45</td>
<td>50%</td>
</tr>
<tr>
<td>Above 40</td>
<td>19</td>
<td>21%</td>
</tr>
<tr>
<td>Total</td>
<td>90%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 4.2 above shows that half of the respondents were within the youthful age of 31 to 40 years. It shows out clearly that banking agencies were run by mostly young people with those who were above 40 forming a minority. It should also be noted that a significant proportion of respondents reported by 17% fell between the ages of 21 to 30 thus increasing the number of youth representation in the business operations and management.

Availability of young people in business operations highly signifies how the youth have really embraced technology and are able to cope and learn in the diverse atmosphere unlike old age who from the analysis may be so rigid to cope up with the changing world.

It is important to note that banking agency operations is a form of technology that requires fast thinking and not only running of the business but also coping up with the raging challenges in the same.

In terms of training in the business operation, some training on operationalization of the agency banking skills would therefore appear so strenuous too considering that majority of the respondents was old age.

This therefore means that, growth of the agency banking is relative to the age.
4.3.2 Marital status
The study analysis sought to find out the marital status of the respondents and the findings were as shown in Table 4.3 below.

Table 4.3: Distribution of respondents according to marital status

<table>
<thead>
<tr>
<th>Marital status</th>
<th>No of respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single / never married</td>
<td>60</td>
<td>66.7%</td>
</tr>
<tr>
<td>Married</td>
<td>17</td>
<td>18.9%</td>
</tr>
<tr>
<td>Separated</td>
<td>13</td>
<td>14.4%</td>
</tr>
<tr>
<td>Divorced</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Widowed</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>90</td>
<td>100%</td>
</tr>
</tbody>
</table>

The above analysis shows that majority of the respondents (66.7%) were single and had never been married while a significant proportion of respondents (18.9%) were married with another 14.4% who were separated from their families.

The above analysis of other marital status was relevant to determine the diverse in status for those who operated the banking agents.

4.3.3 Clientele status
The growth of banking agency was related to the types of clients that the operators mostly dealt with. This was used to show the connectivity of the banking agencies and the extent to which they reach their customers. When asked what clients they were mostly involved in, responses were collected, analyzed and presented in Table 4.4 below.

Table 4.4: Types of clients

<table>
<thead>
<tr>
<th>Types of clients</th>
<th>No of respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual customer</td>
<td>75</td>
<td>83.3%</td>
</tr>
<tr>
<td>Offices</td>
<td>8</td>
<td>8.9%</td>
</tr>
<tr>
<td>Corporate</td>
<td>7</td>
<td>7.8%</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>90</td>
<td>100%</td>
</tr>
</tbody>
</table>
Table 4.4 above indicates that individuals formed majority of the clients in the banking agencies while offices and corporates were reported at 8.9% and 7.8% respectively.

While agency banking fights too hard to boom in the banking arena, it was important to note that the types of clients dealt with had a direct correlation with the growth of the same. Studies conducted worldwide have confirmed that agencies that affirmed their growth had a network with corporates and offices that provided multi-million transactions and thus the volume of their transactions was not limited.

While the foregoing is so, it should be noted that banking agencies within Kwale County struggled for growth as the most clients they dealt with were the small scale whose transactions were very minimal.

### 4.4 Period the banking agents had been in operation

The duration of operation in the agency banking is relative to the connectivity between the clients and the agency, relationship and confidence gained throughout the period, the affirmation of the readily availability of the services to the clients as well as experience in the operations which contribute to the growth of the agency.

It was for this reason that the study sought to find out how long the agency banking had been in operation.

**Table 4.5: Period of operation of the agency banking**

<table>
<thead>
<tr>
<th>Period of operation</th>
<th>No of respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>75</td>
<td>83.3%</td>
</tr>
<tr>
<td>2 years</td>
<td>8</td>
<td>8.9%</td>
</tr>
<tr>
<td>3 years</td>
<td>4</td>
<td>4.4%</td>
</tr>
<tr>
<td>4 years</td>
<td>3</td>
<td>3.3%</td>
</tr>
<tr>
<td>5 years</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Above 5 years</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>90</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

From the analysis of the findings shown in table 4.5 above, it was clear that majority of the banking agents had barely one year of operation. The experience in agency banking was so limited that could
affirm effective growth of the banking agencies. However, a few had about two years of so, although the experience could be enough to read the clients behaviors and patterns, it should also be noted that the percentage coverage was so minimal that it could not determine growth.

There was need for the agencies to learn the clientele behaviors and patterns considering that their experience was still very little in the same sector. In order to realize growth, various connections to offices and corporates ought to be made so as to ensure that their connectivity, increase in clientele went hand in hand with the experience they gained in the sector.

4.5 Security and the growth of agency banking

Security is another determinant factor in the growth of the agency banking. Since majority of the transactions in the agency banking were made via mobile phones, the security measures within the aforementioned gadgets needed to be looked at.

This study revealed that loss of a mobile handset and security passwords were the biggest security concerns both rural and urban businessmen had, regarding an M-banking service. The urban small business owner also worried about encryption of data stored in his mobile phone.

In view to the above, the respondents were asked if they trusted the agency banking and responses categorized as shown in table 4.6 below.

<table>
<thead>
<tr>
<th>Whether the respondents trusted agency banking</th>
<th>No of respondent</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>35</td>
<td>38.8%</td>
</tr>
<tr>
<td>No</td>
<td>55</td>
<td>61.1%</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>100%</td>
</tr>
</tbody>
</table>

It was clear that the level of trust was very low even to the operators. Security had decreased the level of confidence as banking agency operators reported several cases of clients’ dissatisfaction on the security of their money.
lost of the clients instead notated how secure it was to use the banking institutions than the agency even though the access to the banking institution was still a challenge.

It was therefore important to note that failure to the security measures that revolve all-round the agency banking to be taken, the agency banking would always face some huddles in their growth as majority of the clients already expressed their dissatisfaction and had expressed their opinions of going back to the banking institutions.

When asked if the agency banking operators had encountered any fraud in the agency banking, majority of them (54.1%) denied having experienced any fraud and added that agency banking was the safest way of conducting some transactions within the rural where banking institutions were expensive to run.

However, a significant proportion of 45.9% confirmed having encountered some fraud within the banking agencies.

Further analysis of the findings on the kinds of frauds experienced, the respondents had these to say:

“Transactions not done at the agencies always faced a lot of fraud. A case where a client used his colleagues M-Pesa account to make some deposits raised some drama when after doing the transaction, the guy doing the M-Pesa transactions called the M-Pesa service providers and asked them to revert the transaction alleging that it had been made to the wrong mobile number. While the other ‘client’ had already given out his cash in return to the transaction made, it was learnt later that the money deposited in his account had been reverted to the original sender” M-Pesa dealer at Diani.

The above comments clearly describe the level of fear that clients have in the agency banking.
Attitudes Towards agency banking by users

This study sought to establish individuals' view of agency banking among users as well as non-users with and without bank accounts. A series of questions were asked to respondents and results of those who answered in the affirmative were recorded and analyzed. The respondents were grouped into three distinct cohorts based on whether they were: Users of m-banking service (Safaricom's M-PESA was used as the reference), Non users of M-Pesa but with bank accounts, Non users of M-Pesa and without bank accounts.

A higher number of the unbanked cohort than any other cohort of the three responded in the affirmative.

This can be deciphered to mean that they have appositive attitude towards m-banking and therefore can easily be tapped into utilizing the facility. Non-users of M-Pesa but who have traditional bank accounts had moderately receptive attitudes towards M-Pesa.

This can be interpreted to mean that while they are comfortable with the financial services they receive from their banks inside banking halls and through ATMs they might be willing to take advantage of M-Pesa with a little convincing. Surprisingly, users of M-Pesa were the most skeptical of m-banking services with majority answering in the negative. This can be attributed to the fact that most of them are still uncertain of whether the service is viable over the long-term due to its newness.

The extent of access to financial services

This study revealed that only 18% of small businesses in Kwale have access to formal financial services through banks while 8% are served through microfinance institutions. 35% are served through informal institutions like pyramid schemes and self-help groups. Sadly 38% of small businesses in Kwale have no access to any type of financial services and rely on personal savings. In contrast, 27% of small business owners own a mobile phone while a further 28% can access one through family or friends. In totality therefore 55% of small businesses in Kwale can access financial services through m-banking if they wanted to. The study also found out that 45% of small businesses in Kenya currently cannot access m-banking services.

It can be seen therefore that the high penetration of the mobile phone in Kwale can serve to help the high percentage of unbanked small business access financial services through m-banking. The mobile
The industry can therefore be seen as an ideal partner to offer financial services to unbanked segments of the population.

4.8 Distance to the nearest banking agency

The population of study was small businesses in Kwale. Forty percent of the firms included in the sample survey were small businesses in rural areas in the outskirts of Diani and Kwale town while sixty percent were small businesses operating within the towns. Because of time and cost considerations all the firms included in this sample were located in Kwale.

During the distribution of questionnaires, it was confirmed that the distance between agency banking to the other was between 3 to 5 kilometers. This symbolized the distance that was covered to get to the banking agencies as the questionnaires were administered.

However, the positioning of the agency banking according to the agency banking operators was strategically placed to ensure distribution of services to those not reached. This meant that the distance was far apart since according to them, the nearer the banking agencies were, the less clients they shared thus growth was challenged.

The analysis of the findings proved the distance gap as shown in table 4.6 below.

Table 4.7: Distance to the nearest banking agency

<table>
<thead>
<tr>
<th>Distance to the nearest banking agency</th>
<th>No of respondents</th>
<th>% coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Below 1 km</td>
<td>20</td>
<td>22.2%</td>
</tr>
<tr>
<td>2. Between 2 and 4 kms</td>
<td>34</td>
<td>37.8%</td>
</tr>
<tr>
<td>3. Between 5 and 7 kms</td>
<td>26</td>
<td>28.9%</td>
</tr>
<tr>
<td>4. Above 7 kms</td>
<td>10</td>
<td>11.1%</td>
</tr>
<tr>
<td>Total</td>
<td>90</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 4.7 above gives a confirmation of the distance reported by the respondents. While the clients complained to cover long distances to access the agency banking services, it was to the advantage of the agency banking. The strategic positioning of the agency banking services was explained to have been done following some feasibility studies which recommended the distance gap to be essential for the business operations for profitability.
While 77.8% of the respondents said that clients covered more than 2 kilometers to get to the banking agency services, the agencies took advantage of the huge population coverage within the range of kilometers square.

It was equally important to determine how fast services were accessed from the banking services. Clients who were seen served at the agency banking centres were asked to tell if the services were fast or had some delays. 88.2% of them reported that services were fast to access while 11.8% refuted that the services were very slow and to some extent inaccessible based on the distance gap.

The foregoing analysis clearly indicates that distance influenced the accessibility and availability of services from banking agencies in Kenya. As many of the banking agencies would rejoice when the distance gap is very huge, it should be noted that this distance gap influence negatively the accessibility of such services and as a result many clients hesitated going to the agencies.

4.9 Financial Services Infiltration in Kwale
This study revealed that there are a high number of banking agents in Kwale than all other financial services agents combined. ATM bank branches fall a distance second at 22%. Banking halls are much fewer in number and Western union agents are the least in number in disbursing financial services in Kwale.

4.10 Knowledge of the banking agency
All of the respondents were knowledgeable in the area of agency banking and understood how the service works. This increases the level of authenticity in the findings of this study presented in table 10 below. There was more sole proprietor businesses in the rural areas (Kwale outskirts) and therefore a higher percentage of respondents were the actual owners. Within Kwale and Ukunda towns most of the businesses were run by professional managers and thus were the most common respondents.

When asked if they had been trained on the service operation, all of them affirmed to have received training upon registration of the banking agents with the financial institution: either
with a bank, or a mobile service provider with the main service providers providing experts to train in service delivery.

The training given to the operators was very essential to ensure quality and satisfactory service delivery and as a result assure growth of the same.

Similarly, the respondents also retorted that some of the knowledge was elementary and thus experience on service delivery would also be leaning process.

With the availability of the financial education in effective service delivery, the knowledge, attitude and practices in the use of agency banking would be greatly influenced.

4.11 Coordination between agencies

Agency banking services were mostly decentralized within the town areas such as Ukunda, Kwale and Msambweni towns and were largely scattered throughout the rural areas of Kinango, LungaLunga, Tiwi, Maganyankulo and Vanga rural.

It was therefore necessary to determine if the banking agents normally had joint meetings to strategize on their business.

Table 4.8: Whether banking agents had joint meetings

<table>
<thead>
<tr>
<th>Whether banking agents had joint meetings</th>
<th>No of respondent</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>2</td>
<td>2.2%</td>
</tr>
<tr>
<td>No</td>
<td>88</td>
<td>97.8%</td>
</tr>
<tr>
<td>Total</td>
<td>90</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 4.8 above shows that 97.8% of the respondents declined that the agency banking did not have joint meetings to strategize on their work but rather operated independently. Competition was tough and thus agency banking needed to make money without necessarily involving the other in planning.
This study revealed that security and applications updating were the major challenges facing M-Pesa that small business users. Regulatory barriers set by CCK (communications commission of Kenya) and the Central Bank on the M-Pesa service was the least concern that the small business owner’s had.

Slow speed in customer adoption, data quality and lack of interoperability were other challenges facing the M-Pesa service that the business owners were not so worried about. The scale used in Table 4.9 ranges from: 1=Not a problem, 2=Slight problem, 3=Problem, 4=Big Problem, 5=Major Problem. Table 4.9, Challenges of M-banking according to my survey for small business owners, done between May-August 2008 in Kenya.

Table 4.9: Distribution of the gaps in agency banking in Kwale

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Magnitude</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of interoperability</td>
<td>3</td>
<td>1.92</td>
<td>1.28</td>
</tr>
<tr>
<td>Slow speed in Customer adoption</td>
<td>2</td>
<td>2.58</td>
<td>1.30</td>
</tr>
<tr>
<td>Data quality</td>
<td>3</td>
<td>2.18</td>
<td>1.29</td>
</tr>
<tr>
<td>Security</td>
<td>4</td>
<td>2.12</td>
<td>1.14</td>
</tr>
<tr>
<td>Personalization</td>
<td>2</td>
<td>3.59</td>
<td>1.37</td>
</tr>
<tr>
<td>Applications updating</td>
<td>4</td>
<td>2.19</td>
<td>1.27</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2.49</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Grand mean / standard deviation
is discussed in the table above that Lack of interoperability is the main challenge in the growth of agency banking in Kwale. But the table shows that agency banking had access to services from the banks they were connected to. It shows a mean score of 1.92 with a standard deviation of 1.28. Therefore, the average score of the respondents with regard to Lack of interoperability is 'negative' with little deviations among them.

As the mean score (2.58 and standard deviation (1.30) in the table above show, the respondents Slow speed in Customer adoption is almost undecided. It seems that these banking agents were satisfied in the service delivery. But as the table above shows, Regulatory Barriers in Slow speed in Customer adoption for the banking agencies is low with a mean of 3.69 and standard deviation of 1.38.

One success factor for an agency banking growth is having own secured service delivery mechanism as described elsewhere in this report. The table above shows that the respondent security and level of trust in the service delivery at banking agency level was alarming. The response shows a mean of 2.18 with a standard deviation of 1.29. However, these banking agencies respond that they have much zeal to expand their entrepreneurial venture and would need to acquire different business opportunities through application updating. As the mean score (2.19) and standard (1.27) clearly depicts, the respondent entrepreneurs agree on the application upgrading and updating for expansion.

The relationship between the aforementioned gaps varies from one place to the other. The agency banking merchants operate in a safe environment where clients could easily make decision on whether or not to use the agency banking or prefer some other means of making transactions. This is justified by the mean score (2.49) and the standard deviation (0.1).
### 4.10 Hypothesis Testing

<table>
<thead>
<tr>
<th>HYPOTHESIS</th>
<th>Pearson Chi-square Test</th>
<th>Pearson’s R</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Degree of Freedom (df)</td>
<td>Asymptotic Significance (2-sided)</td>
</tr>
<tr>
<td>$H_0$: Security does not influence the growth agency banking in Kenya.</td>
<td>49.063*</td>
<td>3</td>
<td>0.000</td>
</tr>
<tr>
<td>$H_1$: Security influences the growth of agency banking in Kenya.</td>
<td>138.476*</td>
<td>12</td>
<td>0.002</td>
</tr>
<tr>
<td>$H_0$: Distance does not influence the frequency of customer transactions in agency banking in Kenya.</td>
<td>91144*</td>
<td>6</td>
<td>0.001</td>
</tr>
<tr>
<td>$H_1$: Distance influences the frequency of customer transactions in agency banking in Kenya.</td>
<td>55.619*</td>
<td>1</td>
<td>0.000</td>
</tr>
<tr>
<td>$H_0$: Perceived usefulness does not influence the growth of agency banking in Kenya.</td>
<td>59.763*</td>
<td>3</td>
<td>0.000</td>
</tr>
<tr>
<td>$H_1$: Perceived usefulness influences the growth of agency banking in Kenya.</td>
<td>59.763*</td>
<td>3</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Security does not influence the growth agency banking in Kenya.

Distance does not influence the frequency of customer transactions in agency banking in Kenya.

Perceived usefulness does not influence the growth of agency banking in Kenya.

Financial education does not enhance knowledge, attitude and practice in agency banking.

Lack of Coordination between banking agencies and non-banking agencies does not influence the growth of agency banking in Kenya.

Lack of Coordination between banking agencies and non-banking agencies influences the growth of agency banking in Kenya.
Objective 1: To establish how security influences the growth of banking agencies in Kenya.

It is found that there was a statistically significant relationship between the security level of the agency banking services and its growth. This is because the p-value (.000) is very small indicating that the relationship is supported.

The study also found the Pearson's R to be 0.702 indicating that there was a high degree of positive correlation between the security level of the agency banking services and its growth. This means that the higher the security of the agency banking services the faster the growth of the agency banking will be.

Objective 2: To assess how distance influences the frequency of customer transactions in agency banking services in Kenya.

The researcher found out that there was a statistically significant relationship between the distance of the agency banking services from the banks and the number of customer transactions. This is because the p-value (.002) is very small indicating that the relationship is supported.

The study also found the Pearson's R to be 0.799 indicating that there was a high degree of positive correlation between the distance of the agency banking services from the banks and the number of customer transactions. This means that the further the agency is from the bank the higher the frequency of customers to the agency.

Objective 3: To determine how the perceived usefulness of the agency banking services influences the growth of banking agencies in Kenya.

The researcher found out that there was a statistically significant relationship between the perceived usefulness of the agency banking services and the growth of banking agencies in Kenya. This is because the p-value (.001) is very small indicating that the relationship is supported.

The study also found the Pearson's R to be 0.825 indicating that there was a high degree of positive correlation between the perceived usefulness of the agency banking services and the growth of banking agencies in Kenya. This means that the positive perception towards the agency banking services will lead to the growth of banking agencies in Kenya.
iv. **Objective 4: To establish how knowledge and attitude of the agents influence agency banking.**

The researcher found out that there was a statistically significant relationship between training on financial education and the knowledge, attitude and practices in agency banking in Kenya. This is because the p-value (.000) is very small indicating that the relationship is supported. The study also found the Pearson's R to be 0.834 indicating that there was a high degree of positive correlation between training on financial education and the knowledge, attitude and practices in agency banking in Kenya. This means that the more the agents are trained on agency banking services the higher the rate of growth of banking agencies in Kenya will be.

v. **Objective 5: To assess how coordination between banking agencies and non-banking agencies influences the growth of agency banking in Kenya.**

The researcher found out that there was a statistically significant relationship between coordination of banking agencies and non-banking agencies and the growth of agency banking in Kenya. This is because the p-value (.000) is very small indicating that the relationship is supported.

The study also found the Pearson's R to be 0.733 indicating that there was a high degree of positive correlation between coordination of banking agencies and non-banking agencies and the growth of agency banking in Kenya. This means that the higher the degree of coordination among the banking agencies the higher the rate of growth of banking agencies in Kenya will be.
CHAPTER FIVE
SUMMARY OF FINDING, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1.1 Introductions
In this chapter, the major findings are outlined, discussion of the findings carried out, conclusions drawn based on the findings and recommendations for the various stakeholders and further research suggested in the gaps identified by the study.

5.2 Summary of findings
In summary the response rate of the survey was 90%. The purpose of the study was to establish the factors that influence the growth of agency banking in Kenya, and particularly in Kwale County, Kenya.

It was found that there was a statistically significant relationship between the security level of the agency banking services and its growth. Also, there was a high degree of positive correlation between the security level of the agency banking services and its growth. This means that the higher the security of the agency banking services the faster the growth of the agency banking.

The researcher found out that there was a statistically significant relationship between the distance of the agency banking services from the banks and the number of customer transactions. There was a high degree of positive correlation between the distance of the agency banking services from the banks and the number of customer transactions. This means that the further the agency is from the bank the higher the frequency of customers to the agency.

The researcher found out that there was a statistically significant relationship between the perceived usefulness of the agency banking services and the growth of banking agencies in Kenya. The study indicated that there was a high degree of positive correlation between the perceived usefulness of the agency banking services and the growth of banking agencies in Kenya. This means that the positive perception towards the agency banking services will lead to the growth of banking agencies in Kenya.
The researcher found out that there was a statistically significant relationship between training on financial education and the knowledge, attitude and practices in agency banking in Kenya. There was a high degree of positive correlation between training on financial education and the knowledge, attitude and practices in agency banking in Kenya. This means that the more the agents are trained on agency banking services the higher the rate of growth of banking agencies in Kenya. It was confirmed that financial education in terms of knowledge, skills and attitude influenced the agency growth, the more people are enlightened on agency banking, the more they will be likely to use it hence its growth.

The researcher found out that there was a statistically significant relationship between coordination of banking agencies and non-banking agencies and the growth of agency banking in Kenya. There was a high degree of positive correlation between coordination of banking agencies and non-banking agencies and the growth of agency banking in Kenya. This means that the higher the degree of coordination among the banking agencies the higher the rate of growth of banking agencies in Kenya.

5.3 Discussions
Physical security is a challenge with regard to security of cash and even people managing and working with agents. Some banks give incentives to their agents by subsidising the cost of transferring cash to commercial banks. The security issue is a challenge mainly in Kwale and is something that requires redress for agency banking sustainability. Several authors including Njenga (2009) stated that although the mobile phone balances may seem low, the fact that there are balances proves that there is storage which can be perceived as acceptance of deposits. This is a significant indication of the high value placed on the convenience associated with the use of the mobile payment services.

The distance from the agent to the nearest bank branch is a challenge particularly in the rural areas. As Aguirre et al. (2008) pointed, some commercial banks have accounts with other banks with branches near the location of their agents to enable their agent’s bank their cash. This has
solved the problem of distance. In Kwale however, an agent has to travel to his own branch to deposit cash received. In an attempt to address this problem, some commercial banks give their agents longer periods to bank the cash due to challenges of distance. Therefore, the further the agency is from the bank the higher the frequency of customers to the agency, and thus leading to growth of agency banking.

The study indicated that there was a high degree of positive correlation between the perceived usefulness of the agency banking services and the growth of banking agencies in Kenya. Cost being a determinant factor in the perceived usefulness in the agency banking, the transaction costs of sending money through the mobile payment or other system technology are higher than those of banks and money transfer companies. This has been proven by several literatures including (Omwansa, 2009). But, even though agency banking is expensive to customers when transacting, it is found out that it’s easy to use and time saving. This is because, the clients are able to transact beyond bank working hours and mostly there are no queues like in banks.

Accessibility is another determinant in the growth of agency banking as realized in this study. Accessibility (ability to reach the required services) was found to be one of the main advantages of mobile payment services. Small and micro businesses are among the greatest beneficiaries of using either M-Pesa mobile or any other payment. This report provides practical guidance the entrepreneurs’ and policy makers and all other stakeholders based on a sound evidence base as well as to promote further research coverage of issues addressable by many disciplines giving suggestions for an active participation of computer and telecommunication experts, social scientists, economists and business strategists.

Agency banking technology is increasingly being used by micro business enterprises in Kenya. These findings provide evidence to support that the agency banking users consider the technology to be convenient, well supported and that perceived advantages will influence the behavior to use the technology.
There was no coordination between the agency and non bank agencies. This means that there is no or little sharing of information on challenges and benefits of agency banking, therefore, hindering its growth. This is because, the study established that the higher the degree of coordination among the banking agencies the higher the rate of growth of banking agencies in Kenya.

5.4 Conclusion

There was need for the Equity Bank to liaise with the Mobile subscribers in the partnership to ensure that the security issues reported in this study would be dealt with. Banks and mobile subscribers should seek staff goodwill in eradicating the insecurity issues that revolve around agency banking processes including ATM, M-Pesa among others. With this in mind, agency banking would run away from insecurities to a secure banking environment where all actors including the clients and banks/ banking agencies were safe.

There was need for banks to consider the distance between the agencies registered under them. While the registration is meant for the agencies themselves as a micro-enterprise development initiative, banks need to levy some of the charges and reduce registration and subscribing costs to ensure that being an agency with the bank for transactions was not a hustle. This would greatly increase the number of agency banking within given areas as well as reduce the distance covered to reach a banking agency.

There was need for financial education to the operators and customers of agency banking. This will enable them to understand the advantages and disadvantages of agency banking, and when faced by any challenge concerning agency banking, they are able to approach it calmly and knowledgeably.

There was need for banks to coordinate with the banking agencies to ensure there was enough education on financial transactions on both the clients using the agencies as well as the agency operators so that there could be effectiveness and efficiency in the entire process.
5.5 **Recommendations**

As long as coordination between banks would greatly affect competitiveness in the entire process, there was need for structured coordination mechanisms to ensure proper communication, sharing of strengths and challenges within the agency banking and come up with uniform measures of ensure that the service uptake was satisfactory and in return earn the confidence of the entire clientele populace.

Based on the research model and research findings, the government and the mobile service providers can enhance the micro business operators' use of the mobile payments and the digital technology by:

1. Increasing the daily transaction amounts from the existing low minimum of Kshs.35,000. This will enable the businessmen to transact larger payments.
2. Provide infrastructure that minimizes congestion periods within the network.
3. Sensitize people on the procedure and benefits of agency banking.

The above measures would encourage positive attitude in the mobile payment users which would result in increased use of the services.

5.6 **Recommended areas for further Research**

Following that there was limited time and cost to study the factors that influence the growth of agency banking in Kenya, it could be wise to recommend a further research to be carried out to establish how the customer satisfaction in relation to agency banking service influence the sustainable growth of agency banking in Kenya.
REFERENCES


Safaricom, (May, 2009), Financial Year 2008/2009: Annual Results Presentation and Investor
update.


Letter of Transmittal

Bernadette Kanini Kithuka
P.O. Box 81544 – 80100 GPO
Mombasa
April 18, 2012

The .............................................

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

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

Dear Sir/Madam,

RE: ACADEMIC RESEARCH

I am a student at University of Nairobi. I am currently doing a Research study to fulfill the requirements of the Award of Master of Project Planning and Management on the FACTORS INFLUENCING GROWTH OF AGENCY BANKING IN KENYA: A CASE OF EQUITY BANK.

You have been selected to participate in this study and I would highly appreciate if you assisted me by responding to all questions in the attached questionnaire as completely, correctly and honestly as possible. Your response will be treated with utmost confidentiality and will be used only for research purposes of this study only.

Thank you in advance for your co-operation.

Yours faithfully,

Bernadette Kanini
L50/64964/2010
Data collection instruments – Questionnaire

Hello my name is Bernadette Kanini currently pursuing my Masters Degree in Project Management at the University of Nairobi.

I am conducting a study to familiarize myself with the current status in agency banking in order to identify factors that are likely to impact the growth in payment services through banking agencies. Participation in the study is voluntary. Whatever information you provide will be treated with confidentiality and will not be used for any other purpose other than the objectives of this study.

Signature of interviewer: ____________________________
Date: ____________________________________________

Seek to proceed: Can I proceed?

Respondent agreed to be interviewed
1. Yes..... [ ]
2. No..... [ ]

Start time: ________________________

1. Business Identification
This section is to be completed for each interviewer

a) Name of District ________________________
b) Division Name ________________________
c) Location Name ________________________
d) Sub –Location Name ________________________
e) Interviewer number ________________________

2. Respondent Information

a. Your age
   1. below 20 Years
   2. 21-30 Years
   3. 31-40
   4. Above 40

b Marital status
   1. Married
   2. Single
3. Divorced
4. Widowed

c. What clients are you mostly involved in?
   1. Individual customer
   2. Offices
   3. Corporate
   4. Other (specify) _________________________________

d. For how long have you been doing this agency banking?
   1. 1 year
   2. 2 years
   3. 3 years
   4. 4 years
   5. 5 years
   6. Above 5 years

3. Security
   a. Do you trust the agency banking?
      1. Yes
      2. No
   b. Have you encountered any fraud in the agency banking?
      1. Yes
      2. No
   c. If yes, of what kind?
   d. In your own opinion, how has security influenced the growth of banking agencies in Kenya?
   e. Owing to the security position in agency banking, would you recommend someone to invest in agency banking?
      1. Yes
      2. No
In your own observation following the security of agency banking in your area, at what rate do you expect agency banking to grow?

1. Very slow
2. Slow
3. Fast
4. Very fast

4. Distance

a. How long is the distance from the nearest agency banking?
   
   1. Below 1 km
   2. Between 2 and 4 kms
   3. Between 5 and 7 kms
   4. Above 7 kms
   5. Don’t Know

b. How fast do you access the services?
   
   1. Very fast
   2. Slow
   3. Very slow
   4. Inaccessible

c. How has distance influenced the accessibility and availability of services from banking agencies in Kenya?

5. Perceived usefulness

a. How long does it take for one transaction?
   
   1. Less than 30 minutes
   2. Between 30 minutes and 1 hour
   3. More than an hour

b. Is agency banking expensive compared to the bank?
   
   1. Yes
   2. No
c. Is the agency banking system easy to adopt?
   1. Yes
   2. No

d. In relation to the factors of ease of use, cost and time, how do you perceive the usefulness of agency banking?
   1. Very useful
   2. Useful
   3. Less useful
   4. Not useful

6. Financial education

a. Do you know how to operate the services?
   1. Yes
   2. No

b. Have been trained on the service operation?
   1. Yes
   2. No

c. If yes, where?

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

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

d. Who trained you?

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

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

e. If no, did you have any intention to get knowledge on the same?
   1. Yes
   2. No

f. Does the financial education enhance knowledge, attitude and practices in agency banking in Kenya?
   1. Yes
   2. No
7. **Coordination between agencies**

a. How many agencies do you have around this area?

b. Do you normally have joint meetings to strategize on your business?
   1. Yes
   2. No

c. How is the response in coordination from the other agencies?
   1. Excellent
   2. good
   3. Fair
   4. Bad
   5. Others (specify)

d. Is there any competition in service delivery?
   1. Yes
   2. No

e. How has coordination between banking agencies and non-banking agencies influenced the growth of agency banking in Kenya?
Data collection instruments – Interview Guide

Hi, my name is Bernadette Kanini, a Masters of Arts degree student in Project Planning and Management. I am conducting a research on Factors influencing growth of agency banking in Kenya, a case study of Equity bank – Kwale County.

I am conducting a study to familiarize myself with the current status in agency banking in order to identify factors that are likely to impact the growth in payment services through banking agencies. Participation in the interview is voluntary. Whatever information you provide will be treated with confidentiality and will not be used for any other purpose other than the objectives of this study.

IDENTIFICATION INFORMATION

Key Respondent Code............................................................................................................

Date of Interview..............................................................................................................

Section A: Interview Guide for Key informants

Job title: ..................................................................................................................................

Organization: .....................................................................................................................

If trained please specify:

a) Kind of training: ............................................................................................................

b) Level of training: ............................................................................................................

c) Educational level: ..........................................................................................................

Section B: security

1) Have you encountered any fraud in the agency banking, and if yes which kind of fraud?

2) In your own opinion, how has security influenced the growth of banking agencies in Kenya?

3) In your own observation following the security of agency banking in your area, at what rate do you expect agency banking to grow?

Section C: Distance

1) How long is the distance from the nearest agency banking?
2) How has distance influenced the accessibility and availability of services from banking agencies in Kenya?

Section D: Perceived usefulness
1) How long does it take for one transaction?
   a) Less than 30 minutes
   b) Between 30 minutes and 1 hour
   c) More than an hour

2) Is agency banking expensive compared to the bank?
   a) Yes
   b) No

3) In relation to the factors of ease of use, cost and time, how do you perceive the usefulness of agency banking?

Section E: Financial Education
1) Does the financial education enhance knowledge, attitude and practices in agency banking in Kenya?
   a) Yes
   b) No

Section F: Coordination between agencies
1) How many agencies do you have around this area?

2) Do you normally have joint meetings to strategize on your business?
   a) Yes
   b) No

3) How has coordination between banking agencies and non-banking agencies influenced the growth of agency banking in Kenya?

Thanks for giving me your time and taking part in this exercise.