

ANALYSIS OF THE UTILIZATION OF AGENCY BANKING ON THE PERFORMANCE OF KENYAN BANKS

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Abstract

The objective of the study was to assess the utilization of agency banking on the performance of Kenyan banks. Descriptive research design was used in this study. The target population from which the sample was drawn is commercial banks within Nairobi region. A census was done to include all the banks which have successfully rolled out agency banking. Both primary and secondary data was used in the study. Data collected was validated, edited and coded then analysed using descriptive statistics with the aid of statistical package for social sciences (spss). Data presentation methods used were tables, charts and diagrams. The study established that liquidity availability, agency regulation, agency infrastructure cost and security was a major influence to banks performance. Some of the recommendations that the study made were that banks should give more attention to security and find better ways of vetting their agents. The agents should be more financially included to handle many transactions.

Key words: agency banking, financial institutions, bank agents, liquidity.

1.0 Background information

Developing countries including Kenya are increasingly embracing branchless banking as a means of delivering banking services to many unreached people especially low-income households. As per the 2009 National Financial Access Survey, 32 % Kenya's bankable population is still totally out of the financial service orbit. Difficulties in accessing financial main drivers are; long distance to banking channels and relatively high costs of accessing financial services. Early experiences have shown that branchless banking through agency's 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(Lozano and Mandrile,2009).

Pioneering banks, microfinance institutions and mobile operators started to experiment with agency banking networks in various Countries around the World in the 20th century. During the early days, banks were using mobile vans to take services to their customers especially those in rural settings. Then they moved to using the internet and e-mail services to providing

services to their customers. With the innovation of mobile phones banks were forced to change their strategies to mobile phone banking.

One of the major impediments to providing convenient financial services for the poor has been the high cost inherent in the traditional brick and mortar branch mode. The growth of mobile and points of sale (POS) devices has now created an opportunity to reach more unbanked people than ever before.

Branchless banking encompasses the provision of a broad range of financial services outside conventional bank branches and often involves agent banking technologies. Agent banking has become particularly widespread over the past decade. Latin America is the region with the strongest development towards agency banking. Brazil is probably the most developed market where agency banking has significantly increased financial system structure (Bloodgood, 2010).

Agency banking has enabled bank customers to access the basic banking service such as; deposits, withdrawals, disbursement and repayment of loans, payment of bills, transfer of funds, balance enquiry, generation and issuance of mini bank statements, collection of documents in relation to account opening, loan application, credit and debit card applications, agency mobile phone banking services among Others(CBK,2010).

Banks contribute to the operation and growth of an economy through various roles, including that of intermediary and provide of payment settlement facilities. Banks must also execute these roles faultless in order to promote confidence and stability in the system. The traditional role of banks has been that of intermediary, that is, the bringing together of borrowers and lenders. This can only be done successfully and for sustainable period with the careful management of credit, liquidity and risk factor essentially, because a bank is funded primarily by depositors, it has an obligation to ensure that the risks which depositors funds are exposed to is minimised. However, in its role as intermediary, banks have developed systems to facilitate the transfer of funds, such that money can be transferred almost instantaneously, and with minimal risks to the parties involved.

The banking system ensures the efficient allocation of resources in an economy through lending to businesses and individuals using sophisticated credit scoring systems.

Additionally banks facilitate business through the settlement of funds and the provision of credit to customers, provide 24 hour access to funds and facilities to save/invest with safety. Banks must continually upgrade their technologies, products and services in order to facilitate economic transactions and economic growth while maintaining its focus on the minimisation and management of risk (CGAP, 2009).

The government looks towards banks in addressing the socio-economic needs of the citizens, notably the provision of banking services to the previously unbanked, as well as assisting in the financial education of the public. Therefore the sound management and regulation of all banks in the system is crucial. Any modern financial system contributes to economic development and the improvement in living standards by providing various services to the rest of the economy. These include clearing and settlement systems to facilitate trade, channelling financial resources between savers and borrowers, and various products to deal with risk and uncertainty (FSD, 2009).

Agency banking model hoped to enhance access to financial services by allowing small businesses to operate as satellite branches. Based on early experiences, agency banking has a large contribution to make towards financial inclusiveness in developing countries. Policy makers and regulators are demonstrating keen interest in this topic, although in most

countries regulation continues to constrain the emergency of agency banking. Where regulation permits, existing new branchless banking initiatives are being developed by a plethora of market participants (Neil and Leishman, 2010). However, agency banking has yet to demonstrate pro-poor, pro-growth impact for households, communities and the National economics (Morawczynski and mark, 2009). Kenya has witnessed an accelerated expansion of many banking services since independence.

However, despite the existence of banks in Kenya, 32% of Kenya's bankable population remains totally outside the orbit of financial services and many more being served by the informal financial systems (NFAS, 2009).

Agency banking has enabled bank customer to access the banking services within the comfort of their neighbours-hood. Agency banking can dramatically reduce the cost of delivering financial services to unreached people. Agency banking helps address the two main problems of access to finance; the cost of roll-out (physical presence) and the cost of handling low-value transactions. This is achieved by leveraging networks of existing third party agency for cash transactions and account opening and by conducting all transactions on line. This sharp cost reduction creates the opportunity to significantly increase the share of the population with access to formal finance and, in particular, in rural areas where many people in developing countries live (Lyman, et, al, 2008).

According to Ivantury and Timothy (2006), agency banking could be of benefit to the clients in the following ways; lower transaction cost (Closer to clients home), longer opening hours, shorter lines than in branches, more accessible for illiterates and the very poor who might feel intimidated in branches, to the agency; increased sales from additional foot-traffic, differentiation from other businesses, reputation from affiliation with well-known financial institutions, additional revenue from commissions and incentives, finally to the financial institutions; increased customers base and market share, increased coverage with low-cost solutions in areas with potentially less number and volume of transactions , increased revenue from additional investments, interest and fee income, improved indirect branch productivity by reducing congestion.

1.1 Statement of the problem

Agency banking as a branchless banking model has been very successful in propelling the performance of banks in many developing countries. Success stories have been reported in Colombia, Brazil, Peru and India (Kinyanjui 2011). The agency model was launched in Kenya in the year 2010. However, just a handful of banks have so far taken up the option. Only four out of the 43 Kenya Commercial banks have successfully embraced agency banking (CBK 2010). In spite of the success of agency banking globally and good performance of Commercial banks in Kenya, there are a number of challenges facing the agency banking model. For starters many of the banks that have embarked on agency banking roll-out have found that agents lack the capacity to handle large transactions of cash and that they are not spending enough on security measures leading to poor performance of agency banking. (Melinda 2012)

Several research studies have been done on agent banking: Omumi (2010) did a study on agency banking and use of agents including postal corporation of Kenya. Mauricio and Maudrile (2008) did a study on a new agent model for agency banking in Colombia. However, in Kenya, how the utilization of agency banking has contributed to the performance of these banks is not documented. This study therefore, sort to analyse the utilization of agency banking on the performance of banks in Kenya.

1.2 Objectives of the study

The general objective of the study was to analyse the utilization of agency banking on the performance of banks in Kenya.

1.3 Specific Objectives of the research

- i. To assess the effects of agency liquidity on the performance of banks.
- ii. To determine the effects of agency costs on the performance of banks.
- iii. To evaluate the effects of agency security on the performance of banks.
- iv. To evaluate the effects of agency regulations on the performance of banks.

2.0 Literature review

2.1 Theoretical review

Cost saving and accessibility of financial services are the main forces driving banks to embrace agency banking in their operations. Banking agent is retail or postal outlet contracted by a financial institution or a mobile network operator to process client's transactions. Rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transactions and lets clients to deposit, withdraw and transfer funds, pay their bills, inquire about an accounts balance or release government benefits or direct deposit from their employer. Pickens,(2009). Banking agents can be pharmacies, supermarkets, convenient stores, lottery outlets, post office and many more.

Globally, these retailers and post offices are increasingly utilized as important distribution channels for financial institutions.

The points of service range from post office in the outback of Australia where clients from all banks can conduct their transactions, to rural France where the bank credit Agricole uses corner stores to provide financial services to small lottery outlets in Brazil at which clients can receive their social payments and access their bank accounts(AF1,2010).

Banking agencies help financial institutions to divert existing customers from crowded branches providing a "complementary" often more convenient channel. Other financial institutions especially in developing markets use agents to reach an "additional" client segment or geography.

Reaching unbanked clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volume 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 range of financial services. Also, low - income clients often feel more comfortable banking at their local store than walking into a marble branch (Adiera, A-1995).

Banking Agents are the backbone of mobile banking i.e. performing transactions over a mobile device, most often a mobile phone. To enable clients to convert cash into electronic money and vice versa which can be sent to over the mobile phones, clients will have to visit a branch, ATM or banking agency. Especially in remote and rural locations, where cash is still the most important way to pay and transact, a mobile banking service is dependent on banking agency's to enable clients to effectively use the service (podpiera.2008).In relation to the transaction process, for the client, there is no difference in accessing his or her bank account at the agency or in a branch or at an ATM.

However, besides signing a contract with financial institution it will be working for, the banking agency also has to open a bank account at the same and deposit a certain amount of cash which will serve as the working capital. In many cases instead of depositing, the bank extends a credit line to the agency. The size of the credit line depends on its size, expected volume of transactions and how long the agency has already been working with the bank (Porteus, 2006).

2.2 Empirical review

In Kenya, there are forty-three banks and nine non-bank financial institutions (Mortgage financials companies and market brokers). Fifteen micro finance institutions and forty-eight foreign exchange bureaus.

Thirty five of the banks, most of which are small to medium sized, are locally owned. The industry is dominated by a few large banks most of which are foreign owned though partly locally owned. Ten banks are listed on the Nairobi securities exchange. The banks have come together under Kenya bankers association (KBA), which serves as a lobby for the banks' interests and addresses issues affecting member institutions. The commercial banks and non-banking financial institutions offer corporate and retail banking services but a small number, mainly comprises the large banks, offer other services including investment banking. According to central bank of Kenya data, in the year 2011, the banks made a pre-tax profit of Kshs 80 billion, beating the ksh74.2 billion recorded in 2010 (CBK, 2011)

For the last one decade, the banking environment in Kenya has been very dynamic. There has been a shift from stable, non – volatile and predictable business environment to one which is quite volatile, unpredictable and competitive.

Up to the late 1990s, many banks in Kenya enjoyed unchallenged monopolies and government protection (Kaskende A, L, 2008).

Globalization has spearheaded the integration of the Kenya economy with other world class economies such as Singapore, which is now part of the global village. The powers of information and technology, de-regulation, globalization of markets and stiff competition has made banks better educated, more inquisitive, sophisticated and deciding. The banking environment has changed tremendously thereby posing serious implications and challenges to the survival and profitability of banks (CGAP, 2003).

However, according to (FSAK2009) the Kenyan banking sector has demonstrated a solid growth over the past few years. The industry continues to offer significant profit opportunities for the major participants. Banks generally earn their revenues from taking in funds and lending them out at a higher rate. The spread between deposits and loans has continues to be around 8.5% offering much profit potential.

Profit after tax of the overall banking system increased by 38.61%, or Kshs 5.08 billion, from 13.15 billion in December 2005 to Kshs.18.22 billion December 2006. This growth is a continuation of the strong growth in profit after tax that the industry has achieved for the past several years.

The increase in profit reflected an increase in interest income on loans and advances, which rose by 14.36% or Kshs 5.51 billion to Kshs 43.9 billion in December 2006 from Kshs 38.39 billion in December 2005. The increase in interest income was due to the growth of 16% in loans given out. The rate on loans in the industry has been stable at an average of 11 % (CGAP, 2006).

Bank agents help financial institutions to divert existing customer from crowded branches providing a “complementary” often more convenient channel of accessing bank services.

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

Brazil is a pioneer in agent banking. Since 1999, more than 100,000 retail outlets have been turned into bank agents, reaching 13 million extra unbanked people. In Brazil, bill payments and the payments of government benefits to individuals comprised 78% of the 1.53 billion transactions conducted at the country’s more than 95,000 agency’s in 2006(CGAP 2006).

In Russia, more than 100,000 automated payment terminals have sprung up in the larger cities in the recent year. One provider, cyber plat, claims to have processed 1.2 billion transactions worth US\$4.7 billion through the first three quarter of 2007. Via its 70,000 cash acceptance points, mostly for prepaid airtime, television, internet and other utilities (CGAP). The research study also found out the average mobile banking customer of WIZZIT(a mobile phone banking provider in south Africa) bought airtime with WIZZIT twice as often(2.6 times) as they withdrew funds from a branch or ATM(1.3 times)and five times as often as they made a money transfer(0.5 times)(Ivantury and Pickens 2006).

So far in Kenya, Equity bank (Equity mashinani) post bank (Benki yangu), Co-operative bank (Coop Kwa jirani) and Kenya commercial bank (KCB mtaani) have launched forays into the segment.

Recent data from central bank of Kenya reveals that the regulator has licensed over 10,000 establishments to act as agents of banks with Equity bank claiming to have outsourced some of its operations to 5,000 active outlets CBK data shows 8,809 agency outlets were opened in 2010, most of which are being operated by Equity and cooperative bank. KCB hoped to open about 2, 5000 agency branches by 2012, while post bank hoped to open 500 agency branches by 2012.

That poor people are not usefully early adopter of technology can be explained by personal experiences as well as the fact that they are less attractive to providers. This makes the job of governments and donors who are targeting unreached people with financial services much harder. Government programs in India, Russia, Malawi, South Africa and Brazil distribute social protection payments to customers through branchless banking channels. These have been found successful at opening bank accounts for millions of unreached customers in some cases (notably Brazil),but have not led to regular use of those accounts to spread expenditure overtime - balance tend to be withdrawn in full as soon as payments and received. More research is needed on how poor and excluded clients view their relationship with banking agencies and their willingness to trust providers. (Lyman, Ivantury, and staschem, 2006).

Financial service providers view agency networks as key to achieving their business strategy. Most financial service providers see partnership with businesses that have a substantial local retail presence as a key to competitive strategy. They act to build their networks as quickly as they can to expand the pool of potential customers and attain local branch presence.

(Mass and Siedek, 2009) argue that depending on regulations, agents can be use to open new accounts (Sign up customers and conducting customer due diligence), or to conduct customers’ cash transactions (to deposit into and withdraw from an account or to make or receive payments).Given the findings that most branchless banking customers do not build sizable deposit balances, most customer transactions do not in fact entail a cash transaction.

Many banks that want to enter into branchless banking have partnered with businesses that have many local outlets so that they can jump-start the agency networks, including mobile operators, post office, and major retail chains.

Experience to date suggests that branchless banking models can play a part in delivering better, safer and more reliable services than those usually available to the unreached.

Some regulators may perceive that financial service delivering through branchless channels and non bank provider is higher risk than traditional banking.

Portfolios of the poor by (Collins et al, 2009) documents how poor people struggle to manage their financial lives given the lack of services suitable to their tiny, highly viable and uncertain income. In the M-pesa case in Kenya, an innovative business model emerged and scaled rapidly in a safe manner in the absence of an elaborate consumer protection framework. This challenges the perception of risk and promise that substantial consumer protection rules are a precondition for healthy development of branchless banking.

The Kenyan case suggests that there can be providers that have their own (non regulatory) incentives – such as reputation and the need to build trust in the market for a new service to act responsibly. M-pesa and other service providers have offered transparently and adopted safeguards to protect consumers, including those with little or no prior experience with formal providers (Danielle, 2008).

Lyman and Stschem (2006) indicate that protecting client funds is priority for many financial regulators, as loss of funds can have serious consequences for customers, as well as for public confidence in financial systems. Banks are usually required to comply with prudential rules created to ensure systematic stability and depositor protection. Bank deposits also are covered by insurance in many jurisdictions. In addition, governments may provide an implicit guarantee to bank depositors, especially when banks are systematically important. However, in emerging branchless banking models, nonbanks may collect funds in exchange for electronically stored value, without being subject to the full range of prudential rules imposed on banks. Also, there may be models where even if client funds sit in a bank account, they receive a different regulatory treatment than those applicable to bank deposits.

Countries with the most prominent branchless banking models have taken varied approaches to handling and protecting client's funds. In the Philippines, smart money accounts balances are deposited in the clients name in a commercial bank but are considered accounts payable on the bank's books rather than deposits. Hence, although it is a bank based model, it has different regulatory treatment as to bank deposits. In Russia, web based stored value services do not currently follow any regulatory standard for safeguarding client funds. Funds collected by M-pesa, which customers increasingly use as a short-term savings mechanism (Collins 2010), are deposited in pooled trust accounts at the several commercial banks, for the benefit of the customers no system is in place for customers to claim trust assets (e g in the event of insolvency). In Kenya policy and regulation have been used extensively to support the development of a diverse range of delivery channels. In 2006, the CBK and CCK and the Ministry of Finance supported the rollout of safaricom's mobile phone base money transfer product M-pesa, through Safaricom as the implementing agency and not a commercial bank. In 2009 the finance Act was amended to facilitate use of third parties by banks to provide banking services. Central bank's Agent banking guidelines (CBKK/PG/15) issued in 2010 (central bank website) to regulate agency banking.

One shortcoming of most of today's branchless banking system is that they provide security at the network layer only and do not implement any application –layer cryptography. For example, M-pesa, which is the pioneer of the branchless banking concept and serves over

50% of Kenya's adult population, uses a custom-made SIM Tool Kit (STK) program to protect transaction messages exchanged between client phones and the server, Not much is publicly known about M-Pesa's security algorithm but recent attacks on the system reveal that it does not guarantee end-to-end security to customers. Other key players like G-cash in the Philippines rely directly on GSM's default security services to protect client information but these services are known to offer very weak security guarantees; in, it is argued that vulnerabilities in GSM's security suite could be used to deliver subvert G-cash transactions. Indeed, the question of what application-level security means in the context of branchless banking does not seem to be well-understood yet, neither in the academic literature nor in practice (Collins2010).

An important shortcoming typical of informal financial services is lack of reliability and continuity in the long run. Formal providers have clear incentives to offer more reliable and safer services. Technology-enabled mechanisms may help achieve that goal. Evidence from the four country studies suggests that technical failures (e.g., equipment malfunctioning and other errors occurring during a transaction) are not a major issue in branchless banking. Similarly, research on consumer experience in Brazil shows that less than 5 percent of users have made a mistake and paid the wrong bill at an agent, sent money to the wrong account, or noticed that a payment or a deposit was never processed or received (Collins 2010).

Less than 0.1 percent of M-pesa clients in Kenya report having lost money when sending money it to someone else, and most customers say they believe their money is safe with M-pesa (Collins 2010).

Lack of cash at cash points does not appear to be a widespread problem at this time, according to our in-country studies. Moreover, it appears that low-income clients may be willing to tolerate occasional liquidity shortfalls in exchange for continuity of service in the long run and the convenience of an extensive network.

Physical security is another common concern of regulators. In Brazil, for example, agents must deposit the cash received from clients in a bank branch no more than every other business day.

This intended to limit cash accumulation that can lead to robbery by third parties or even by the agent itself. The Mexican regulator, by requiring every agent transaction to be made against the agent's account at the contracting bank, does not reduce the risk of third-party robbery but eliminates the risk of agents misappropriating the accumulated cash, since the cash is in fact the agent's own. The simplest measure to reduce cash accumulation and its related risks may be requiring providers to set daily and monthly transaction limits for each agent and client. Regulators should avoid setting physical security standards similar to those imposed on bank branches, however, since this could have severe consequences for the viability of the service and hence access (Stephens & Kevin, 1998).

Continuity in the long run is highly valued by financial services users. Threats to continuity can arise from problems with the business models that reduce customer confidence (e.g., inadequate technological platforms) and from forces outside the scope of financial regulators In Brazil, for example, labour unions are using the courts to demand pay equality with bank employees for agents.

A draft law intends to subject agents to the same physical security requirements applicable to bank branches. In addition, the Brazilian sanitary agency has proposed to prohibit pharmacies (one of the most important types of agents in the country) to sign agent agreements. If successful, these measures could seriously undermine the business case for using agents and

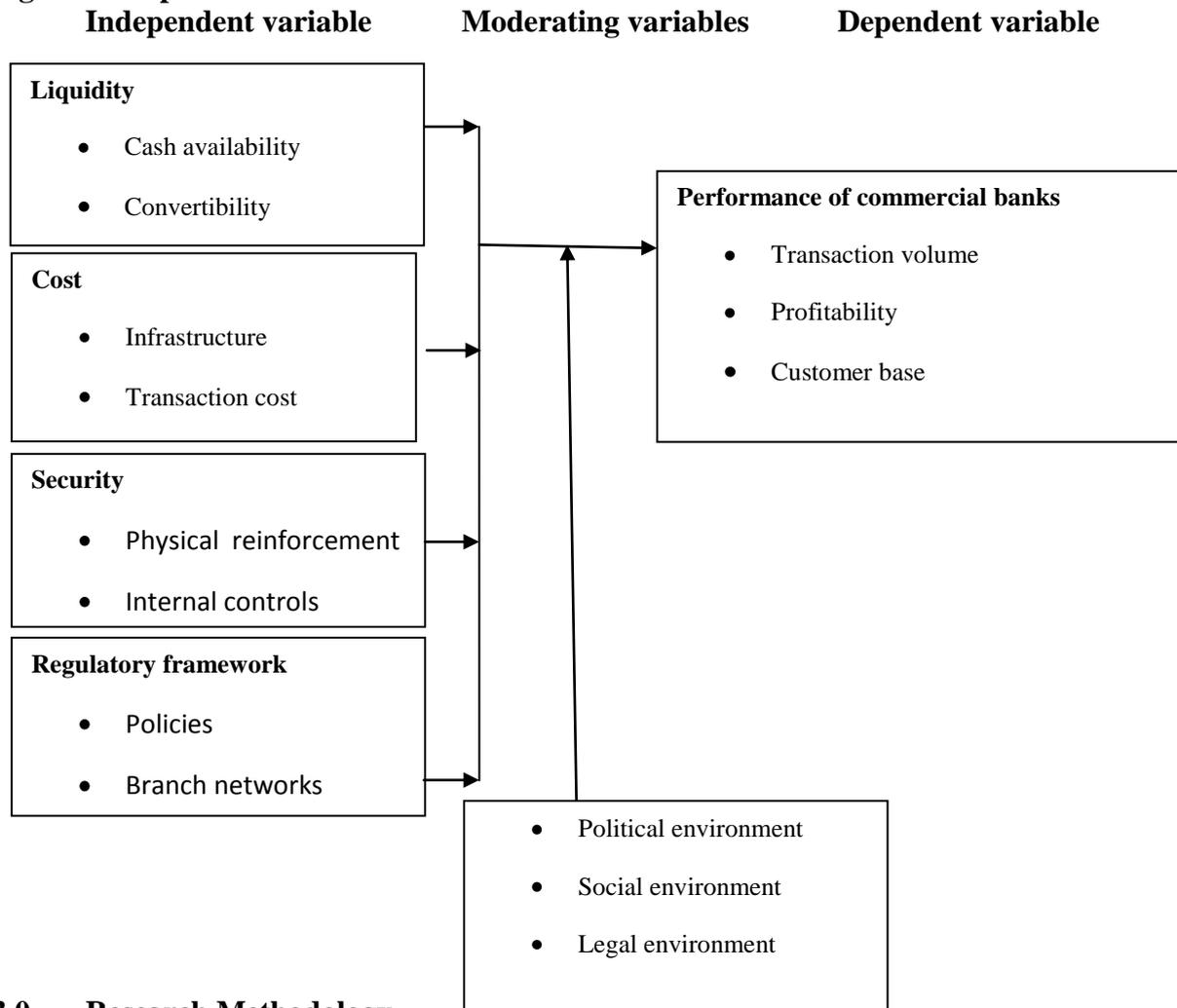
leave millions of customers without a convenient channel to conduct financial transactions (Mas, 2008).

One of the biggest challenges in rolling out banking agencies is the establishment and the effectiveness of the agent network. Agents are the touch- points where the subscribers of the service can get money into and out of the system. (Agents are often also referred to as cash-in and cash-out points). In instances where a subscriber arrives at an agent with the need to withdraw a large amount it does happen that the agent do not have enough cash to satisfy the cash-out request.

This leads to frustration and is one of the reasons why take-up of these systems are slower than what is expected. This problem is referred to as the agent liquidity problem- how to ensure that the agent has sufficient cash available to satisfy the need of the system (Central Bank of Brazil, 2007). This problem is often approached in a way where the system keeps track of the actual cash available in the drawer of each agent in order to guide subscribers where they can withdraw big amounts. This approach is overtly complex and often fails because of the informal nature of agents business.

2.3 Conceptual framework

This framework attempted to examine and explain factors that affect and hence influence provision of agency banking service in Kenya. These factors include the regulatory framework in the banking industry, the cost of agency transactions, security and liquidity. These factors influenced the banks on either to offer or not to offer agency service. While the independent factors are internal to business there are external or intervening variables such as political environment, legal environment, social economic environment and other natural conditions of the country. The study determined the effects of independent variables on the dependent variable in order to access the effect of agency banking on banks performance in Kenya.

Fig 1: Conceptual frame work

3.0 Research Methodology

3.1 Research design

The study employed a descriptive research design. A descriptive study is used to describe or define, often by creating a profile of a group of problems, people or events, through the collection of data and tabulation of the frequencies on research variables or their interaction (Cooper and Schindler, 2003). Descriptive research design was chosen because it enabled the researcher to generalize the findings to a large population. The descriptive research approach was appropriate due to the fact it allowed analysis and relation of variables.

3.2 Target population

The study targeted all banks that offer agency banking services in Kenya. The number of commercial banks offering agency banking are four. The population of the study was forty branch managers of the selected banks.

The target population is the specific population about which information is desired. According to (Ngechu, 2004), a population is a well defined set of people, services, elements, event, and group of things or households that are being investigated. (See table 3.1)

3.3 Sampling design

According to Gay (1992) Sampling is the process of selecting a number of individuals for a study in such a way that the individuals represent the larger group from which they were

selected. Only four out of the 43 Commercial banks in Kenya were embraced agency banking. These are Equity bank, KCB, Co-operative bank and post bank. Since these constitute approximately 10% of all the banks, they were all included in the study.

At the banks level the study used purposive sampling. According to Mugenda and Mugenda (2003) purposive sampling allows a researcher to use cases that have the required information with respect to the objectives of the study. Therefore the study only involved the branch managers of those banks which offer agency banking. The branch Managers were sampled using proportional sampling in the ratio of Equity bank: Co-operative bank: KCB: Post bank (19: 12: 6: 3). Since agency banking uses the same procedures and guidelines, a sample size of 40 branch Managers across all the four banks was appropriate.

3.4 Data collection tools and instruments

The study collected primary data using interview with pre-prepared questions. The interview was chosen as an instrument for the study due to its practicability and applicability to the research problem and the size of the population.

It was also cost effective and gave adequate time to the researcher to in depth questions and clarifications tailored to the research (Mugenda and Mugenda, 2003). Secondary data was collected from published financial reports and other available documents and journals from the CBK and banks in Kenya.

3.5 Data analysis

Data collected was analysed using descriptive statistics. The descriptive statistical tools such as frequencies, percentages, mean and standard deviation helped the researcher to describe the data. In addition advanced statistical techniques (inferential statistics) were also used. Regression analysis was used to determine the relationship between the independent and dependent variables. SPSS (statistical package for social sciences) was also used to analyze the data. The researcher used content analysis to analyze qualitative data.

4.0 Findings and discussions

The findings indicated that liquidity availability affects performance of bank to a very great extent. The study sought to find out how often respondents experienced liquidity challenge in their business. From the findings, 55% who were the majority indicated that they experience liquidity challenge often, 20% indicated that they very often experience liquidity challenge, 15% indicated that they never experience liquidity challenge and 10% indicated that they rarely experience liquidity challenge. Lack of liquidity indeed leads to customer frustrations to a very great extent as shown by a mean score of 4.0162, lack of liquidity indeed leads to loss of customer to a very great extent as shown by a mean score of 3.9235, lack of liquidity indeed leads to reduced profitability and productivity to a very great extent as shown by a mean score of 3.8647. Most of the respondents indicated that, they wish to increase their presence in limited geographical distance, so that one agent can act as a rescue for the other in case of liquidity problem. They also indicated that the problems are seasonal tending to be major during end month and weekends and hence plans were underway for most of them to address the problem.

On objective two, the findings indicated that cost affect performance to a very great extent of 46%. The study sought to establish the level to which banks invest on the given cost instruments. From the study, majority of the respondents indicated that strengthening financial infrastructure for electronic transactions was to a very great extent as shown by a

mean score of 4.1333; mobile (phone) banking was to a moderate extent as shown by a mean score of 3.1492 correspondent/agent banking was to a moderate extent as shown by a mean score of 3.1111, cost of building/operating branches was to a moderate extent as shown by a mean score of 2.8016, product cost structure was to a moderate extent as shown by a mean score of 2.6738. Therefore, it was found to be true that infrastructure cost, transaction cost marketing costs, insurance costs and other operational costs affect bank performance to a great extent. The regression model provides a positive support for cost as one of the determinants of agency performance. The t-statistic for the coefficient of cost is 1.827 which enabled the study to accept that cost has a positive and statistically significant impact on banks performance. The coefficient of cost on performance is 0.225 which is a positive measure observed to be significant at 0.001 level of significance .

On objective three, the regression model provides a positive support for security as one of the determinants of agency performance. The t-statistic for the coefficient of security is 1.933 which enabled the study to accept that security has a positive and statistically significant impact on banks performance. The coefficient of security on performance is 0.397 which is a positive measure observed to be significant at 0.001 level of significant (Table 4.16)

On objective four, the study sought to find out the extent to which bank regulatory framework affects performance . From the study, respondents indicated that regulators have deployed detailed rules on the operations of agency banking to a very great extent as shown by a mean score of 3.8941, Regulators have the capability to monitor the market for potential consumer protection concerns to a very great extent as shown by a mean score of 3.8647, regulators can monitor the market great extent for potential consumer protection concerns to a very great extent as shown by a mean score of 3.7765

The regression model provides a positive support for regulation as one of the determinants of agency performance. The t-statistic for the coefficient of regulation is 2.555 which enabled the study to accept that regulation has a positive and statistically significant impact on banks performance. The coefficient of regulation on performance is 0.342 which is a positive measure observed to be significant at 0.001 level of significant. The model illustrates that when all variables are held at zero (constant) the value of performance of banks would be 0.339. However, holding other factors constant, a Unit increase in security would lead to a 0.397 increase in performance, a unit increase in liquidity leads to 0.182 increase in performance, a unit increase in regulation leads to 0.342 increase in performance and a unit increase in cost would lead to a 0.225 increase in performance of banks. There was a positive significance relation between performance and security $P=(0.027)$, liquidity $P=(0.061)$, regulation $P=(0.052)$ and) cost $P=(0.038)$. The regression indicated that performance of banks varied with security, liquidity, regulation and cost with a cumulative variation of 56.1%. This implies that security, liquidity, regulation and cost combined affect about 56% of banks performance. This effect was observed to a significant at 0.001 level of significance.

5.0 Conclusions

Honohan (2007) stated that where a subscriber arrives at an agent with the need to withdraw a large amount it does happen that the agent do not have enough cash to satisfy the cash out request in line with his study, this study concluded that liquidity availability in agency outlets affects performance of banks. The study findings show that banks strive to diversify geographically. They set up agent outlets in areas less frequented by disasters so as to cope with liquidity problems. Cohen at al (2008) had similar findings and indicated that liquidity problems leads to customers frustrations which is one of the reasons why agency banking roll out is slow to take up.

The study revealed that agency security is a major contributor to performance. The banks do understand application level security in agency banking. This corresponds with Collins (2010) since the study found that agency banking regulation and supervision was to a very great extent. Board of directors and executive management, accountability and quality control were also attributes to regulations. The respondents indicated that the alignment of policy goals, regulators have developed detailed rules on operations of agency banking in Kenya to a very great extent.

Recommendations

Agency banking has enabled cost saving and accessibility of financial services by banks and customers as well. Banks have made huge savings on operational costs and infrastructure costs by using banking agents. Customers are able to access the basic banking services as opposed to the traditional banking. However, despite these achievements, cash availability and security are most critical factors in agency banking and they influence the performance of banks. Its therefore recommended that banks should adopt a risk – based approach to the supervision and regulation of agency banking. Enough security measures should be put in place.

Agency banking as a branchless banking model has enabled banks to reach the unbanked population, its therefore critical that banks should allow agents to be more financially inclusive than just offering the cash transfer services, agents should be able to convert cheques into cash, deal with foreign currency exchange among other services. The selection criteria of agents should be restructured so as to favour heavy cash operations in order to meet the demand of cash availability as well as handling large cash transactions.

Suggestions for further research

The study looked at the utilization of agency banking on performance by selected banks in Nairobi County, Kenya. The study recommends another study to be done in other areas of Kenya to establish whether the findings can be generalized. The agency sector in Kenya is also very wide and comprises of other agencies including mobile telecommunication agencies which differ in their way of management and have different settings and regulations all together, hence a further study should be carried out to investigate the factors which influence other agencies performance in other sectors apart from the banking sector.

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