AN ANALYSIS OF THE UTILIZATION OF AGENCY BANKING ON PERFORMANCE OF SELECTED BANKS IN NAIROBI COUNTY, KENYA

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DECLARATION

This project is my original work and has not been presented for a degree or any other award in any other University.

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DEDICATION

This research project is lovingly dedicated to my husband Rogers and daughter Nafuna for their support and encouragement. Without their love and support this proposal would not have been made possible.

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ABSTRACT

Agency banking roll-out in Kenya was meant to address the low financial inclusion in Kenya. As per the 2009 National financial access survey, 32% Kenya's bankable population is still totally out of the financial services orbit. Difficulties in accessing financial services main drivers are; long distance to banking channels and relative high costs of accessing financial services. In a bid to bridge the financial access divide and improve its access among the most vulnerable sections of the society, the Kenya government through the central bank amended the finance Act 2009 to facilitate use of third parties by banks to provide banking services. Agency banking has proved to be a cost saving network as compared to the physical brick and mortal banking branches. Keen to take the agency banking advantages, Kenyan financial institutions since 2010 have embarked on an aggressive entry into this segment. However, how Kenyan banks have utilized agency banking on their performance is not known. The purpose of this study was to assess the utilization of agency banking on the performance of Kenyan banks. The specific objectives of the study were; to assess how policies and procedures governing agency banking affects the banks performance, determine the effects of agency costs on the banks performance, to assess how agency liquidity problems affect banks performance as well as the security risks involved in agency banking. The study adopted a descriptive research design .The study targeted banks that offer agency banking services in Kenya. The number of banks offering agency banking were four. The population of the study was forty branch managers of selected branches in Nairobi. Both quantitative and qualitative data was collected by use of questionnaire with both open and closed ended questions. Data was analysed and presented using descriptive statistical tools including frequencies, percentages, mean and standard deviation. In addition, advanced statistical technique (inferential statistics) was also used. SPSS (Statistical package for social sciences) model was also used in data analysis. The generated results were presented through tabulations, charts and graphs. Content analysis was used to analyse qualitative data obtained from open ended questions. The results were presented in a continuous prose form. The study showed that liquidity availability in the outlets affected banks performance in addition to leading to frustrated customers. The study also found out that some of the agency regulations included board of directors and executive management, accountability and quality control. The study also found out that agency infrastructure cost and security was a major influence to banks performance. The study therefore recommends that, banks should give more attention to security and find better ways of vetting their agents to ensure that large cash transaction are handled effectively. The study also recommends that agents should be more financially included to handle many transactions, like converting cheques into cash, deal with foreign currency exchange among others.

OPERATIONAL DEFINATION OF TERMS

Bank agent: A retail or postal outlet contracted by financial institution to offer services on its behalf to its customers.

Agency banking: The Provision of banking services by a third – party agency to customers on behalf of a licensed, prudentially - regulated financial institution, such as a bank or other deposit taking.

Commercial Banks: A financial institute that provides services such as accepting deposits, giving loans, mortgage and basic investments.

Liquidity: Availability of, access to or convertibility into cash.

Performance: To understand how well a bank is doing in accomplishing its goals.

Bank regulation: A form of government regulation which subjects banks to certain requirements and restrictions.

Security : The ability of agency banker to assure safety of customers liquid cash at their disposal – through use of security guards, cash safe or insurance.

ACRONYMS AND ABBREVIATIONS

ATM : Automated Teller Machine

BBIS : Branchless Banking Institutions

CBK : Central Bank of Kenya

CGAP : Consultative Group to Assist the Poor

EBL : Equity Bank Limited

KBA : Kenya Bankers Association

MNO : Mobile Network Operations

NFSA : National Financial Access Survey

PCs : Personal Computer

POS : Point of sale

SPSS : Statistical package for Social science

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CHAPTER ONE
INTRODUCTION

1.1 Background information

1.1.1 Historical background of banking networks

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 mortal 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).

1.1.2 Role of banks in an economy

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).

1.1.3 Role of agency banking in an economy.

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).

1.1.4 Importance of agency banking in an economy

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.

1.1.5 Status of agency banking in the world

In Brazil in 2008, agents transacted 75% of the volume (agents made 1.6 billion transactions) and 70% of the value (agents transacted a total of US $ 105 billion) of total bill payments (Banco in CGAP, 2010). Again in Brazil, rural agents transact more deposits and withdrawls as a percentage of total transactions (38%) than their urban counterparts (8%) (CGAP, 2010). Also in Brazil, although permitted to offer several types of services less than 30% agents actually handle bank accounts. Most specialise in receiving bill payments, which account for approximately 75% of all agency transactions. Withdrawls and deposits account for 12.6% and are nearly equally divided into savings and current accounts. Only 0.16% of transactions are account opening and 7.3% are government transfers (CGAP, 2010 C). In Peru, agents carry out approximately 3-8 million transactions per month. Also in Peru in 2010, less than 50% of the total financial system transactions were conducted through traditional bank branches; ATMS and POS terminals accounted for 36% of total transactions (SBS and CGAP, 2010).

In Colombia from August 2010 to July 2011, collections of utility bill payments through agency banking made up the majority of transactions averaging $1.8 million in July2011, followed by mandatory payments, such as loan repayment and official government payments, such as tax accounting for over $ 800,000 in July 2011. Although there were reported more withdrawals than deposits, the number of these two transaction types were typically and consistently close. Yet, the number of credit applications, money transfer and opening of savings accounts were negligible.

In India, an average of 8.4 deposits and 3.1 withdrawals were carried out by individuals FINO (a technology firm and one of the first pioneers of agency banking in India) agents each day in 2010. With 10,000 agents Nationwide this translates to approximately 84000

deposit and 31800 withdrawals each day. With an average deposit size of USD 3.5 and withdrawals size of USD 7.39 per agency this translates to USD 301,000 worth of deposits and USD 221,000 of withdrawals processed each day (CGAP, 2010f).

In Kenya, Combined total transactions through mobile network operators (MNO) amounted to Kshs 2.45 billion (US $ 24 million) per day (CBK, 2011). Again in Kenya so far Equity bank, Post bank, Co-operative bank and Kenya commercial bank have launched forays into the agency banking segment, with some already claiming that identifying agencies that are able to provide cash to customers is becoming an industry challenge. Recent data from CBK reveals that over 10,000 agencies have been licensed, with Equity claiming 50% market share (CBK 2011). It is against this background that the researcher will conduct a study on how policy, regulation and procedures, cost, liquidity, security and other risk factors attributed to agency banking affect the performance of the banks in Kenya. This study therefore seeks to assess the effect of agency banking on the performance of banks in Kenya.

1.2 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 and/ or non 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.

1.3 Objectives of the study

General objective

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

Specific Objectives

The specific objectives of the study were:-

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.

1.4 Research Questions

The study sort to answer the following questions;

i. What are the effects of agency liquidity on the performance of banks?

ii. What are the effects of agency costs on the performance of banks?

iii. What are effects of agency security on the performance of banks?

iv. What are the effects of agency regulation on the performance of banks?

1.5 Significance of the study

Many financial institutions in Kenya (Equity bank, Post bank, KCB and Cooperative bank) have turned to branchless banking methods such as agency banking in their efforts to increase their competitive advantage over their rivals. Agency banking in Kenya is in the early stages as it has been there since 2010 and with a limited number of provides that are operational. Despite the fact that agency banking is in existence, the service has not yet been exploited fully and this demands attention. This therefore justifies the relevance of this study in providing guidance in agency banking.

1.5.1 Benefits to Kenyan banks

This study was to inform Kenyan Commercial banks on the actual contribution of agency banking to their performance and/or non performance with a view of sustaining the gains thus made and addressing any weaknesses that may be observed.

The banks will also be able to lobby for appropriate policy formulation and strategies that will fully exploit agency banking opportunities that are feasible in Kenya.

1.5.2 Increased financial inclusion

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

1.5.3 The Government

The study was to inform the central bank of Kenya on the areas in the guidelines that require to be reviewed. In addition the central bank of Kenya bank supervisors were informed on

areas of focus during the audit based on the risks. It will also increase financial outreach and to promote financial inclusion to the unbanked and under banked population. Hence, helping the Government to move towards achieving the financial pillar, one of the vision 2030 pillars.

1.5.4 Further research

Other researchers and academicians can use the result of the study for training and further research, as the study will lay platform on which research on the topic can be undertaken.

1.6 Scope of the study

The purpose of the study was to assess the utilization of agency banking on the performance of banks in Kenya. The target population is all the 43 banks in Kenya and a sample size of 4 selected banks which have successfully rolled out agency banking (see table 3.1).

1.7 Limitations of the study

1.7.1 Limited information

Agency banking roll- out is less three old in Kenya and therefore there is little information available. The study borrowed largely from foreign countries such as Brazil and Latin America where the central bank Of Kenya governor Professor Njuguna Ndungu send the banks staff for bench making before the roll-out.

1.7.2 Target population

The study used only those banks which have rolled out agency banking .There are only four banks out of the 43 Commercial banks in Kenya which have embraced agency banking. The study therefore targeted the branch managers of those banks only.

1.7.3 Time limitation

There are many banks in Kenya, with many branches all over the country. It was not possible for the researcher to cover the whole country hence the reason for sampling the branches in Nairobi only.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presented the literature review on the utilization of agency banking on the performance of banks in Kenya. It summarized the information from other researchers who have studied the field. The review covered both the theoretical and empirical reviews of the existing literature. The theoretical review helps in understanding of the current body of knowledge on the research topic while the empirical review help in understanding what other related studies have found and suggested. The reviews were used to develop conceptual frame work.

2.2 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 in 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 extents 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).

2.2.1 Porter theory of competitive advantage.

Michael porter proposed theory in 1985.competitive advantage theory suggests that states and businesses and businesses should pursue policies that create high quality goods to sell at high prices in the market. Porter emphasizes productivity growth as the focus of national strategies (Porter, 2004). Competitive advantage stresses on maximizing economies of scales in goods and services that garner premium prices. Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. These attributes can include access to natural resources, such as high grade over or inexpensive powers, or access to highly trained and skilled personnel human resource.

On that note therefore, banks in Kenya have employed the use of agent banking. The banking industry in Kenya has been characterized by stiff competition between the banks with each competing for market leadership.

It is advantageous for any bank when it is a market leader because it has significant financial and perpetual benefits which then lead to consistently and focus on quality, it also enhances the use of the full range of banking tools to solidify performance and leads to ownership of core benefits with a balance of national and economic massages. (Aryeeteve & Cludry 1998).

The secret of gaining competitive advantage among the banking service provider is by building themselves as brand and target to retain brand loyalty and enhance brand presence where it is limited and this has been achieved by the use of agents banking in the unbanked locations in Kenya. Branding helps banks to distinguish and differentiate themselves from competitors (Miller, M, and C 2003). Brand loyalty gives the brand stability of future sales and less costly to retain it.

2.2.2 Innovation theory.

The world is witnessing today profound transformations and acceleration as a result of the tremendous development of information technology and the steady growth of volume of information, which has led to the emergence of new types of transactions and activities in various fields (Joseph et al 2005). The banking sector has been one of the first sections that have adopted many electronic applications to improve performance and gain a competitive advantage strategy. In light of the extensive use of information and communication technologies, the financial services industry and banking has provided new systems and applications that maximizes the use of modern technology and are now available. Therefore it has become necessary for banks to change the concept of traditional banking service to remote banking services because of the rapid growth of electronic banking services by customers and increased competition among banks to reduce costs, raise efficiency and attract more customers. Hence the bank agents have thrived and are currently estimated to have 33% penetration. The number of banks opening branches has decreased and is attributed to affordable agent banking and lowers service charges (Makori.J.G.2003).

Innovation in banking should be directed to at improving the infrastructure that fosters efficient financial services and international trade.

In this study, innovation theory will be used to show how modern payment systems have transformed the technology of banking and facilitated charges in the strategy and structure of financial services organizations. Design, implementation and dissemination of payments systems and costs have come down according to bank case studies. (Michael and Bloodgood 2010). Currently agent banking is an integral part of modern banking in many countries and the market is still growing.

2.3 Empirical review

2.3.1 Kenyan banking industry

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 baking 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 ban king system increased by 38.61%, or Kshs 5.08 billion, from 13.15 billion in December 2005 to Kshs.18.22 billion December2006. 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 December2006 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).

2.3.2 Agency banking

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.

2.3.3 Branchless banking regulation

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.

2.3.4 Security

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 and 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).

2.3.5 Liquidity

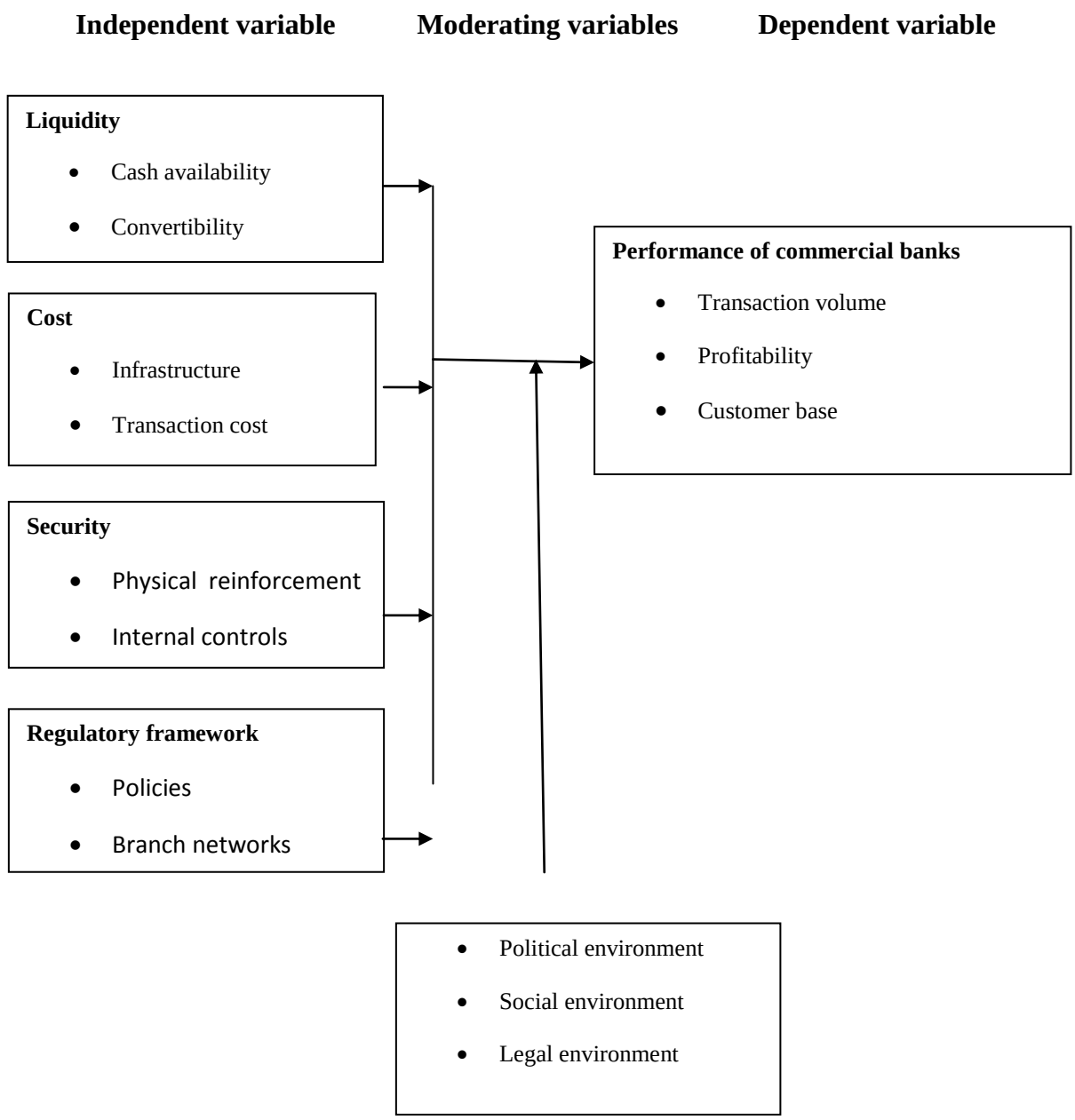
One of the biggest challenges in rolling out banking agencies is the establishment and the effectiveness of the agent network. Agents are the touch- points where the subscribers of the service can get money into and out of the system. (Agents are often also referred to as cash-in and cash-out points). 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.

2.4 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.

Conceptual frame work



Source: Researcher (2013)

Figure 2.1 Conceptual Framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presented the methodology that was used to carry out the study. This included the study design, target population, data collection tools used, data collection techniques, data analysis and presentation.

3.2 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.

3.3 Locale of the study

This study was carried out at banks that offer agency banking services to their customers in Nairobi, Kenya. This was due to the fact that most banks have their headquarters in Nairobi and much information could be gathered.

3.4 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)

3.5 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.

The table 3.1 below shows the representation of the banks and their branches.

Bank	**Branches country wide**	**Branches in Nairobi**
Equity Bank	135	38
Co-operative Bank	97	23
KCB	222	12
Post Bank	102	6
Total	556	97
Source : Kenya socialist democratic Allianve (KSDA) 2011		

Table 3.1

3.6 Data collection tools and techniques

The study collected primary data using a questionnaire with both open and closed ended questions. The close ended questions were considered appropriate since they conserve time and they are easy to fill as well as easy to analyse as they are in an immediate usable form. While the open ended questions were used as they encourage the respondent to give in-depth response without feeling held back. The questionnaire 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 respondent to fill in and return to the researcher (Mugenda and Mugenda, 2003). Secondary data was collected from published financial reports and other available documents and journals from the CBK and other banks in Kenya.

3.7 Pilot – testing

The accuracy of data collected largely depended on the data collection instruments in terms of validity and reliability (Mugenda and Mugenda 2003). Validity is the degree to which results obtained from the analysis of data actually represents the phenomenon understanding as noted by Robinson (2002).

Expert opinion was used as well as having objective questions included in the questionnaire as emphasized by Cooper and Schindler (2003). Reliability on the other hand refers to a measure of the degree to which research instruments yield consistent results (Mugenda and Mugenda 2003). In this study liability was ensured by pre-testing the questionnaire with a selected sample. After analysis a cronbach alpha of 0.5 % and above will be accepted. The pre-testing will assist to enhance clarity of the questionnaire.

3.8 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) was 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.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presented the research findings in a study on the analysis of the utilization of agency banking on performance by selected banks in Nairobi, county, Kenya. The analysis was focused on answering the research questions. The data was gathered exclusively from questionnaire as the research instrument. The response rate was fairly good because out of 40 questionnaires distributed, 21 were returned answered giving a response rate of 52.5%.

4.2 Social demographic characteristics of the respondents.

This was a general analysis on the demographic data obtained from the respondents which included:- Job category, work duration in the bank, gender, age, nature of business, education level, number of years bank has offered agency banking and service offered.

4.2.1 Job category

The study sought to find out the job category of the respondents. From the findings, 48% of the respondents who were the majority indicated that they were in middle management, 37% of the respondents indicated that they were in top management, 15% of the respondents indicated that they were low level management.

Table 4.1

JOB CATEGORY	**FREQUENCY**	**PERCENTAGE**
High Management	8	37%
Middle Level	10	48%
Low level	3	15%
Total	**21**	**100%**

4.2.2 Work duration

The respondents were asked to how long they have worked with the bank. From the findings, 43% of the respondents who were the majority indicated that they have worked for 6-10 year, 21% indicated that they have worked for 11-15 years, 17% indicated that they have worked for over 20 years, 14% indicated that they have worked for 16 – 20 years and 55 have worked below 5 Years.

Table 4.2

WORK DURATION	FREQUENCY	PERCENTAGE
Over 20 years	4	17%
16 – 20 years	3	14%
11 – 15 years	4	21%
6 – 10	9	43%
Below 5 years	1	5%
Total	**21**	**100%**

4.2.3 Distribution of the respondents in terms of gender and educational level.

The table 4.3 shows the distribution of the respondent in terms of gender, education level and occupation. From the findings 76% of the respondents who were the majority were men while 24% of the respondents were female. The study sought to establish the level of education of the respondents. From the findings, 81 % of the respondents who were the majority indicated that they were University graduates, 19% were college graduates and none of them were either primary or secondary level.

Table 4.3

EDUCATION BACKGROUND	MALE		FEMALE		TOTAL	
	N	%	N	%	N	%
University	12	61%	5	20%	17	81%
College	3	15%	1	4%	4	19%
Secondary	0	0%	0	0%	0	0%
Primary	0	0%	0	0%	0	0%
Total	**15**	**76%**	**6**	**24%**	**21**	**100%**

Source: researcher 2013

4.2.4 Age distribution of the respondent

The study sought to establish the age distribution of the respondents. From the findings; 35% indicated they were between 36 – 40 years, 29 % were between 40 – 50 years, 24 % were between 30 – 35 years, 6% between 26 – 30 years, 6% were above 50 years and none below 20 years and between 12 – 25 years.

Table 4.4

AGE OF RESPONDENT	FREQUENCY	PERCENTAGE
Above 50 yrs	1	6%
40 - 50 yrs	6	29%
36 – 40 yrs	8	35%
30 – 35 yrs	5	24%
26 – 30 Yrs	1	6%
21 – 25 Yrs	0	0%
Below 20 Yrs	0	0%
Total	**21**	**100%**

4.2.5 Duration of Agency banking

The study sought to find out for how long has the bank been offering agency banking. From the findings , 65% of the respondents who were the majority indicated that the bank have been offering agency banking for above 12 months, 17% have been offering agency banking for 3- 9 months, 12% have been offering for 9 – 12 months, and 6% have been offering agency banking for less than 3 months.

Table 4.5

DURATION OF AGENCY BANKING	**FREQUENCY**	**PERCENTAGE**
Above 12 month	13	65%
9 – 12 months	3	12%
3 – 9 months	4	17%
Less than 3 months	1	6%
Total	**21**	**100%**

4.2.6 Services offered in agency banking.

The study sought to establish the services that are offered in agency banking and from the findings 35 % of the respondents indicated that they offered payment of bills, 24% they offered loan payments, 17% offered cash deposits , 12% offered balance enquiry and 12% that they offered cash withdrawals.

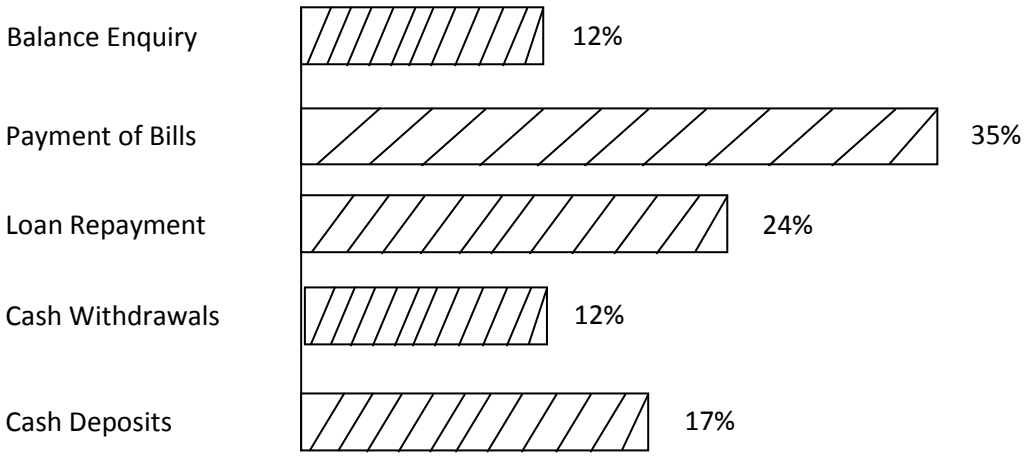


Figure 4.1 Services offered in Agency Banking

4.3 Agency liquidity on performance.

4.3.1 Effects of agency liquidity availability on performance

Table 4.6 effects of liquidity availability on performance

	Frequency	**Percentage**
To a very great extent	8	40%
To a great extent	5	26%
To a moderate extent	6	27%
To a low extent	2	7%
To no extent at all	0	0%
Total	**21**	**100%**

From the above findings 40% who were the majority indicated that liquidity availability affects performance of bank to a very great extent, 28% indicate the effect was to a great extent and 7% indicated that the effect was to a low extent and none of the respondents indicated that it was to No extent.

4.3.2 Frequency of liquidity challenging to agent.

Table 4.7 Frequency of liquidity challenge.

	FREQUENCY	**PERCENTAGE**
Very often	4	20%
Often	12	55%
Rarely	2	10%
Never	3	15%
Total	**21**	**100%**

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.

4.3.3 Effects of liquidity availability.

Table 4.8 effects of liquidity availability

	Mean Std deviation
Lack of liquidity leads to frustration and is one of the reasons why take-up of these system is low	4.0162 1.07670
Lack of liquidity leads to loss of customers	3.9235 0.86830
Lack of liquidity leads to reduced profits and productivity	3.8647 1.30752

From the above findings, majority of the respondents indicated that 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.

4.3.4 How the respondents planned to cope with liquidity issues.

The study sought to find out how the respondents were planning to cope with liquidity issues. From the findings, 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.

4.3.5 Significance of agency liquidity on performance of banks

The regression model provides a positive support for liquidity as a major determinant in agency performance. The t-statistic for the coefficient of liquidity is 1.437, which enabled the study to accept that liquidity has a positive and statistically significant impact on banks performance. The coefficient of liquidity on performance is 0.182 which is a positive measure observed to be significant at 0.001 level of significance (Table 4.16)

4.4 Effects of agency cost on performance

4.4.1 Effects of agency costs on performance

Table 4.9 effects of agency costs on performance

	Frequency	**Percentage**
To a very great extent	10	46%
To a great extent	6	27%
To a moderate extent	4	21%
To a low extent	1	6%
To no extent at all	0	%
Total	21	100%

From the above findings 46% of the respondents who were the majority indicated that cost affect performance to a very great extent, 27% to a great extent, 21% a moderate extent while 6% was to a low extent and none of the respondents indicated that it was to no extent.

4.4.2 Banks agency investment

Table 4.10 level of banks agency investment

Statement	**Mean**	**Std deviation**
Strengthening financial infrastructure for electronic transactions	4.1333	5.71163
Mobile (phone) banking	3.1492	1.85524
Correspondent agent banking	3.1111	1.51555
Cost of building/ operating branches	2.8016	1.66743
Product cost structure	2.6738	1.65412

The study sought to establish the level to which banks invest on the given 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.

4.4.3 Areas of cost influence on performance of banks

Table 4.11Agency cost influence on performance of banks

	Mean	Std deviation
Influence cost	3.8805	5.70177
Transaction cost	2.7393	1.53797

From the findings, respondents indicated that infrastructure cost was to a very great as shown by a mean score of 3.8805 and transaction cost was to a moderate extent as shown by a mean score of 2.7393.

4.4.4 Other agency costs incurred by Banks.

The study sought to find out some other costs that banks incur in agency banking. From the findings, respondents indicated that there was marketing costs, insurance costs and other operational costs.

4.4.5 Significance of agency cost on performance of banks.

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 (Table 4.16)

4.5 Agency security on performance of banks.

4.5.1 Agency security application

The study sought to establish the application level security in the context of agency banking. From the findings 96% of respondent who were the majority agreed that their bank understand security application levels for agency banking, while 4% of the respondents indicated that their banks did not understand security application level of agency banking.

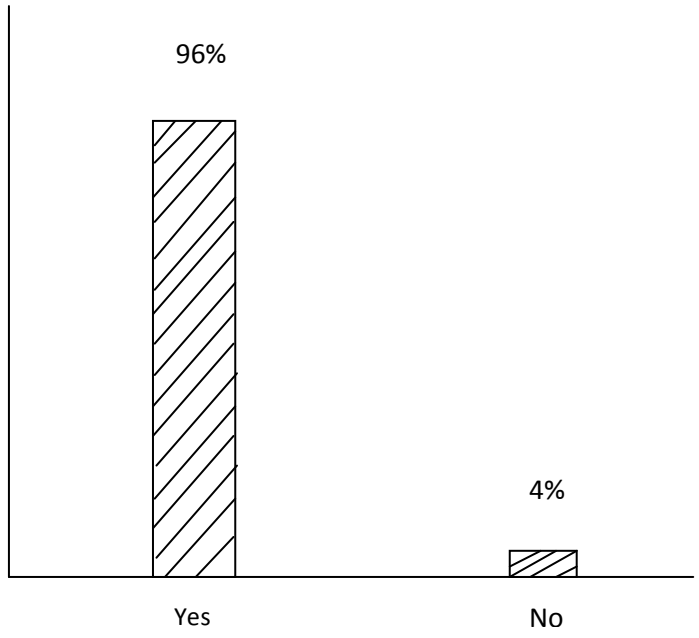


Figure 4.2 application level securities of agency banking

4.5.2 Security services that protect client information

Table 4.12 Security services that protect client Information

	Frequency	**Percentage**
Very strong	9	41%
Strong	6	28%
Moderate	5	24%
Weak	1	7%
Very weak	0	0%
Total	**21**	**100%**

From the findings, 41% of the respondents who were the majority indicated that security services were very strong, 28% indicated that they were strong, 24% indicated that they were moderate and 6% indicated that they were weak while none of them indicated that they were very weak.

4.5.3 Significance of agency security on performance of banks.

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)

4.5.3 Regulation governing agency Banking

Table 4.13 Regulation Governing Agency banking

	Mean	**Std deviation**
What 3rd parties can work as agents with CBK approval.	3.8805	1.70177
The approval needed from the bank before conducting an outlet/agent.	2.8541	1.61279
The kind of services that agent outlets can offer.	2.7393	1.53797
The requirement that real time transactions be carried out at all times.	2.6902	1.51865

From the findings, respondents indicated that what 3rd parties can work as agents with CBK approval was to a very great extent as shown by a mean score of 3.8805, the approval needed from the bank before contracting an outlet/agent was to a moderate extent as shown by a mean score of 2.8541, the kind of services that agent outlets can offer was to a moderate extent as shown by a mean score of 2.7393, the requirement that real time transactions be carried out at all times was to a low extent as shown by a mean score of 2.6902.

4.5.4 Bank Regulators

Table 4.14 bank Regulators

	Mean	**Std deviation**
Regulators have developed detailed rules on the operations of agency banking	3.8941	1.22221
Regulators have prioritized screening of agency banking providers at every level	3.8647	1.63857
Regulators have the capacity to monitor the market for potential consumer protection concerns.	3.7765	1.34853

The study sought to find out the extent to which respondents agree with statements that relate to bank regulators in policy goals. 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

4.5.5 Significance of agency regulation on performance of banks.

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 (Table 4.16)

4.6 Performance of Banks

Table 4.15 Banks performance

		Mean	Std deviation
Transaction volume	Increasing the turn around in transactions	3.6882	1.25778
	Change of measures of transactions	4.2471	0.92548
Profitability	Payment of low commission to the agents	4.1294	0.81712
	Improving the quality of service	3.8647	1.30752
Customer base	Increasing customer base	3.7765	1.46450
	Customer segmentation	3.6882	1.42842

From the table it is observed that change of transaction measure in transactions to a very great extent affected performance of banks as evidenced by a mean score of 4.2471, improving turn around in transactions was to a very great extent as shown by a mean score of 3.6882, improving the quality of service was to a very great extent as shown by a mean score of 3.8647, increasing customer base was to a very great extent as shown by a mean score of 3.7765 and customer segmentation was to a moderate extent as shown by a mean score of 3.6882 and also increasing the turn around a transaction was to moderate extent of 3.6882.

4.7 Regression Analysis

Table 4.16 model summary

Model	R	R Square	Adjusted R Square	Std.Error of the Estimate
1	0.873	0.616	0.561	0.73523

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig**
		B	Std. Error	Beta		
1	(Constant)	0.339	0.449	-	0.933	0.535
	Security	0.397	0.254	0.205	1.933	0.027
	Liquidity	0.182	0.156	0.136	1.437	0.061
	Regulation	0.342	0.166	0. 296	2.555	0.052
	Cost	0.225	0.139	0.135	1.827	0.038

$Y = 0.339 + 0.397x_1 + 0.182x_2 + 0.342x_3 + 0.225x_4$

Where by Y is performance of banks

X_1 is security

X_2 is Liquidity

X_3 is Regulations

X_4 is Cost

Predictors; (constant), Security, liquidity/ regulations, cost.

Dependant variable: performance of banks.

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.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter gives a summary of the findings outlined in chapter 4, the conclusion and recommendations of the study on the analysis of the utilization of agency banking on performance of selected banks in Nairobi County, Kenya.

5.2 Summary of the findings

5.2.1 Summary of the study

This research was designed to analyse the utilization of agency banking on performance of selected banks in Nairobi County, Kenya. The target population was all banks that offer agency banking services in Kenya. The specific objectives were: To assess the effects of agency liquidity on performance, to determine the effects of agency costs on performance, to evaluate the agency security on performance and to evaluate the effects of agency regulation on the performance of banks in Kenya. A descriptive design was used to collect both qualitative and quantitative data. The study participants were intervened using pre-tested questionnaire with closed and open-ended questions. Data was coded, cleared and entered using statistical package for social sciences (SPSS). Data was then analysed and results presented using tables and graphs.

5.2.2 Background and Demographic characteristics of the respondents.

There are 45 banks in Kenya and only four have rolled out agency banking successfully. They form 10% and hence all of them were sampled. A total sample of 40 branch Managers participated in the study. Table 4.1, 4.2, 4.3 and 4.4 shows the distribution of the respondents

in terms of job category, work duration, gender, educational level and age. 15 (70%) of the participants were Male and 6 (24%) being female. Most of the respondents had higher educational level with the highest being University graduation and college graduates.

5.2.3 Liquidity and performance of banks in Kenya

The study found out that liquidity availability in outlets affected performance to a very great extent and most agents experienced liquidity challenges. Lack of liquidity leads to frustration of customers and it is one of the reasons for slow agency roll out to a very great extent. In order to mitigate the liquidity problems most of the respondents indicated that they strive to diversify geographically as well as ensuring agents have capacity to handle large transactions.

5.2.4 Effects of agency costs on performance of banks

The study found out that majority of the respondents indicated that agency costs affect the performance of banks to a very great extent. In order to minimize the costs, majority of the respondents were in agreement to strengthening their financial infrastructure for electronic transactions. The study also found out that infrastructure cost was a major influence to performance. Other costs revealed by the study included: Marketing cost, security cost and insurance cost. The study also found out that banks have reduced the need for new investment in infrastructure and new branches. This has lead to lower costs for mobile transactions as the agents were cheaper than branches.

5.2.5 Effects of agency security on performance of banks.

Most of the respondents agreed that improved regulation and supervision of agency banking was to a very great extent. The study found out that majority of the respondents understood application level security in the context of agency banking. It also came out clearly that banks need to audit their security measures by agencies to protect customer and also transaction confidentiality.

5.2.6 Effects of agency regulations on performance of banks.

The study found out that agency regulations affected performance of banks which included board of directors and executive management, accountability and quality control. Also the respondents indicated that 3rd parties working as agents with approval by CBK affected performance to a very great extent. The study also found out that in alignment of policy goals, regulators have developed detailed rules on the operations of agency banking to a very great extent. Changes in transaction measures also affected performance.

5.3 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.

5.4 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.

5.5 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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APPENDICES

Appendix I: Questionnaire

Part A: BIO DATA

1. Bank.....

2. Branch.....

3. State your job category

   High management [ ] middle management [ ] Low level management [ ]

4. How long have you worked with this bank?

   Below 5 years [ ] 6-10 years [ ] 16-20 years [ ] over 20 years [ ]

5. Gender

   Male [ ] Female [ ]

6. Age

   Below 20years [ ] 21-25 years [ ] 40-50 years [ ] Above 50 years [ ]

7. Level of education

   Primary [ ] Secondary [ ]

   College [ ] University [ ] other specific.....

8. How long has this bank been offering agency banking?

   Less than 3 months [ ] 3 to 9 months [ ]

   9 to 12 months [ ] Above 12 months [ ]

9. What services does this bank offer in agency banking?

   a. Cash deposits [ ] Cash withdrawals [ ]

   b. Loan repayments [ ] Payment of bills [ ]

   c. Balance enquiry [ ]

Part B: LIQUIDITY ON PERFORMANCE

10. In your opinion how often do agents experience liquidity challenges as they offer agency banking service?

    Very often [ ] Often [ ] Rarely [ ] Never [ ]

11. To what extent then does liquidity availability in agency outlets affect the performance of your bank?

    To a very great extent [ ] To a great extent [ ]

    To a moderate extent [ ] To a low extent [ ]

    To no extent at all [ ]

12. To what extent to you agree with the following effects of liquidity availability? Use a scale of 1-5 where; 5 very great extent, 4 Great extent, 3 Moderate extent, 2 Little extent, 1 No extent.

	5	**4**	**3**	**2**	**1**
Lack of liquid cash at agent outlets leads to frustration and is one of the reasons why take-up of this model is low					
Lack of liquidity by agency bankers leads to loss of customers					
Lack of liquidity by agency bankers leads to reduced profits and productivity per day					

13. How do you plan as a bank to cope with liquidity issues facing agency banking?

    .....

    .....

Part C: EFFECTS OF COST ON PERFORMANCE

14. To what extent does operational cost by banking affect the performance of your bank?

To a very great extent [ ] To a great extent [ ]

To a moderate extent [ ] To a low extent [ ]

To no extent at all [ ]

15. To what level does your bank invest on the following? Use a scale of 1-5 where; 5 very great extent, 4 Great extent, Moderate extent, 2 Little extent, No extent.

	5	**4**	**3**	**2**	**1**
Mobile (phone)banking					
Correspondent/agent banking					
Strengthening financial infrastructure for electronic transactions					
Product cost structure					
Cost of building/ operating branches					

16 To what extent do the following facts of agency banking influence the performance of your bank/ Use a scale of 1-5 where; 5 Very extent, 4Great extent, 3Moderate extent, 2 little extent, 1 No extent.

	5	**4**	**3**	**2**	**1**
Transaction cost					
Infrastructure cost					

17. Apart from the ones named above which other costs does your bank incur in agency banking?.....

.....

Part D: SECURITY ON PERFORMANCE

18. Does your bank insist on application- level security in the context of agency banking ?

Yes [ ] No [ ]

19. To what extent does this apply?

Very weak [ ] Weak [ ] Moderate [ ]

Strong [ ] Very strong [ ]

20. How can you rate the security services that protect client information in the services?

Very weak [ ] Weak [ ] Moderate [ ]

Strong [ ] Very strong [ ]

21. The following statements relate to internal control security in the banking sector. Please rate the extent to which these apply to agency banking with your bank? Use a scale of 1-5 where; 5 Very great extent, 4 great extent, 3 Moderate extent, 2 Little extent, 1 No extent.

	5	**4**	**3**	**2**	**1**
Client protection regulation					
Improved regulation and supervision of agency banking					
Prudential regulation and supervision(in general)					
Collateral and secured transactions reforms					
Self – regulation					
Inadequate regulatory framework for agency banking					
Inadequate client protection					
Weak legal infrastructure					
Regulation that lacks technology					
Financial regulatory priorities					
Lack of interest by providers and policy makers					

Part E: REGULATIONS ON PERFORMANCE

22. To what extent do the following regulations governing agency banking affect the performance of your bank? Use a scale of 1-5 where ; 5 Very great extent, 4great extent, 3 Moderate extent,2 Little extent, No extent.

	5	**4**	**3**	**2**	**1**
What 3rd parties can work as agents with CBK approval.					
The approvals needed from the bank before contracting an outlet/agent.					
Prudential regulation and supervision (in general).					
Collateral and secured transactions reforms.					
Self – regulation.					
Inadequate regulatory framework for agency banking					

23. To what extent do you agree with the following statements that relate to the bank regulators in the alignment of policies on agency banking? Use a scale of 1-5 where ; 5 Very great extent, 4great extent, 3 Moderate extent,2 Little extent, No extent.

	5	**4**	**3**	**2**	**1**
Regulators have developed detailed rules on the operations of agency banking.					
Regulators have prioritized screening of agency banking providers at entry level.					
Regulators have the capacity to monitor the market for potential concerns.					

Part F: PERFORMANCE OF COMMERCIAL BANKS

24. It has been argued that agency banking has had an impact on the performance of commercial banks. Kindly rate the extent to which use of agency banking has impacted on the performance of your bank using the indicated performance measures. Use a scale of 1-5 where ; 5 Very great extent, 4great extent, 3 Moderate extent,2 Little extent, No extent.

		5	**4**	**3**	**2**	**1**
Customer base	Increasing customer base					
	Customer segmentation					
Transaction volume	Lower transactional cost					
	Closer proximity by customers					
Profitability	Increased coverage with low-cost solutions					
	Increased market share					
	Improved branch productivity by reducing congestion					

Part G: OPERATIONS OF THE AGENCY BANKING

25. To what extend do you agree with the following statements that relate the operations of agency banking. Use a scale of 1-5 where; 5 very great extend, 4 great extend, 3 moderate extend, 2 little extend and 1 No extend.

Statement	5	4	3	2	1
Lack of trust by customer about their client status affects agency banking					
Some clients complaints cannot be handled by agents					
There is no clarity in liability sharing with the bank and customers in case of loss of payment or fraud.					
Its difficult for agents to balance business independence and partnership with the bank.					

26. Apart from the factors above, what other factors affect agency banking operations

.....

.....

.....

Appendix II: Research Budget

ACTIVITY	QUALITY	UNIT COST	TOTAL COST
Proposal writing	6 copies of 40 pgs	20/=@page	4,800
Spiral binding	6 copies	70/=@page	420
Transport cost to library	3 days per week	300/=@day	3,600
Data collection instruments	50 copies of 10 pgs	20/=@page	10,000
Researcher and two assistance	15 days	500/=@day	22,500
Data entry and analysis	100pgs	40/=@page	4,000
Project typing	1 copy of 120 pgs	20/=@page	2,400
Photocopying of final project	6 copies of 120 pgs	2/=@page	1,440
Binding of final project	6 copies	300/=@page	1,800
Total			**50,960**

Appendix III: Time Schedule

ACTIVITIES	**TIME**
Proposal writing	4 Weeks
Defending proposal and corrections	Jan-Feb 2013
Data collection	3 Weeks
Data analysis and Report writing	3 weeks
Report submission	May 2013

Appendix IV: Banks that offer Agency banking

a. Cooperative Bank

b. Equity Bank

c. Kenya Commercial Bank

d. Post Bank