

**ASSESSING FACTORS AFFECTING AGENTS OPERATING AGENT  
BANKING IN KENYA**

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affecting agents*



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**JUNE, 2012**

**Title page**

**DECLARATION**

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

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We confirm this work was done by the candidate under our supervision as the university supervisors.

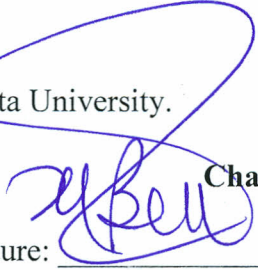
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## DEDICATION

I dedicate this project to my family, Mark and Loyd. You are great guys I appreciate. My mum Sally, my brother James and my sister Rose and all my siblings for your effort in ensuring I stay on course to complete my studies I appreciate, to you brother in law Paul thanks and God bless you all.

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## LIST OF ACRONYMS

- POS** - Point of Sale
- CBK** - Central Bank of Kenya
- MFI** - Microfinance Institutions
- FSD** - Financial Sector Deepening Trust
- ATM** - Automatic Teller Machine
- KYC** - know your customer
- CGAP**- Consultative group to assist the poor
- AFI** - Alliance For Financial Inclusion
- SACCO's** - savings and credit cooperative societies

## **OPERATIONAL DEFINITION OF TERMS**

### **Agent**

A legal entity that has been contracted by an institution and approved by the Central Bank to provide the services of the institution on behalf of the institution in the manner specified in the agent banking guideline (CBK, 2010).

### **Agent banking agents**

Are non-bank entities that act on behalf of a financial institution to provide transaction, payment, and banking services (CBK, 2010).

### **Institution**

A bank, financial institution or mortgage finance company as defined under the Banking Act (CBK, 2010).

### **Payment**

The transfer of money from one individual or legal entity to another such as cash, Cheque, Money orders (Bank notes), Credit cards, Debit cards among others.

### **Outlet**

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

### **Real time**

The electronic processing of transactional data instantaneously upon data entry or receipt of a command.

### **Factor**

Its any force, conditions, influences that act with others to bring result.

In this study, factor was taken to mean any element, force, condition or circumstance that had a casual influence towards the operation of agent banking agents.

### **Technology**

It's the knowledge of using tools and machines to do task efficiently.

It involves people using knowledge, tool and systems to make their lives easier and better.

### **Technological factor**

In this study technological factor was used to relate to card readers, mobile phones, barcode scanners, and sometimes personal computers that connected with the bank's server using a dial-up or other data connection as well as software requirements, interoperability and protocols accepted.

### **User perception factors**

In this study, user perception factors referred to social issues, such as beliefs, acceptance of agent banking devices and cultural fit with wireless applications as primary consideration for branchless banking services.

### **Governing regulations factors**

These referred to state legislative and regulatory instruments and bodies that played a part in regulating the agency banking such as Banking act, Telecommunications act; whether such regulatory framework were to be sufficient for the needs of future agency banking.

## ABSTRACT

The National Financial Access Survey of 2009 shows that 32% of Kenya's bankable population remains totally outside the orbit of financial services and many more being served by the informal financial system (CBK, 2009). The Finance Bill, 2009 sought to introduce agent banking through which institutions would be allowed to conduct banking business through third party agents duly approved by the Central Bank. The CBK had laid down guidelines on agent banking to increase the financial services outreach and to promote financial inclusion to the un-banked and under-banked population without risking the safety and soundness of the banking system. Despite the enormous role played by the agents, they were affected by various factors that acted as impediment to their smooth and effective operations. Some of these factors included; network breakdown, illiteracy of the users, digital connectivity, security concerns, inadequate float and underdeveloped infrastructure among others. The study was to be conducted to analyze the specific factors that affected the agents operations and to what extent they affected the service in general and how they could be mitigated in order to have effective and smooth agent banking. The general objective of the study was to establish the factors affecting the operations of agent banking agents in Kenya, as well as effects of technological, government regulations, user perception factors and infrastructure factors that affected the operations of agent banking agents. The findings of this study were to be used for agent banking agents, mobile telephone operators interested in increasing mobile payments usage, commercial banks and micro finance institutions.

The study was conducted within Nairobi Central Business District which is the capital city of Kenya and primary data collection method was used. The study targeted all banking agents in Nairobi city centre since they were about 34 agents who were operational within CBD. The questionnaire was used to collect data from the agents.

The data from the field was analyzed using both qualitative and quantitative techniques. Before the actual data analysis, the gathered data was validated, edited and then coded. The coded data was entered into the computer software; statistical package for social sciences. Descriptive statistics such as percentages, frequencies and cross tabulation was used where necessary to analyze data. The research findings were presented using frequency tables, percentages, cross tabulation, pie charts and bar graphs.

The study found that agent banking was gaining popularity though factors such as road network as well as system network needed to be improved to reduce system breakdown. The safety of transporting cash was rated fair as agents were not comfortable transporting large amounts of cash. Majority were not familiar with all government regulations as well as their personal view on wireless transactions affected their usage.

This study recommends that the institutions need to improve on the stability of agency network and to address the errors commonly found in the agency service transactions. To this end, proper liability sharing between the Agents, institutions and the customer should be clearly spelt out to ensure smooth operation of agent banking agents.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

The National Financial Access Survey of 2009 shows that 32% of Kenya's bankable population remains totally outside the orbit of financial services and many more being served by the informal financial system (CBK, 2009).

The Finance Bill, 2009 sought to introduce agent banking in which institutions would be allowed to conduct banking business through third party agents duly approved by the Central Bank. The Central Bank would be required to prescribe the manner of carrying out agent banking business. In preparation for the new model of conducting banking business, Bank Supervision Department carried out preparatory work with regard to the formulation of guidelines to guide agent banking. This entailed review of the knowledge base on agent banking, commissioning of a preliminary study in conjunction with the Financial Sector Deepening Trust (FSD) to provide broad policy guidance on implementation of agent banking in Kenya and undertaking a knowledge exchange tour of Brazil and Columbia in October 2009 facilitated by the Alliance for Financial Inclusion to get practical insights on agent banking (CBK, 2009).

Agents can be limited liability companies, cooperative societies, parastatals, trusts, partnerships or individuals. Agent applicants are judged based on their network (number of agents per province), services to be provided, anti-money laundering procedure, strategy and financial projections envisioned from agency business. Other factors

considered will be company registration documents, audited accounts, availability of funds, bad credit reference, reputation, unclear source of funding, or criminal prosecution – which are some of the reasons for an application to be struck out. Also a license can be withdrawn if an agent is loss making, or a sole proprietor passes on. Agent may provide services to multiple institutions since no contract between institution and agent shall be exclusive and, all agent settlements must be in real time and agents must receipt all transactions. Some of the services agents can perform include; cash deposit/withdrawals, loan repayments, bill payments, salary payments, debit cards, collection of mail.

Banking agents offer the potential to deliver financial services in rural and remote locations in a viable way. Agents enable a bank or MFI to increase POS coverage without incurring the high cost of building branches. Because a bank's agent network has low set-up and operational costs, these savings can be passed on to clients, allowing poor people access to quality, low-cost banking services.

Banking agents process transactions with point-of-sale (POS) card readers, mobile phones, barcode scanners, and sometimes personal computers that connect with the bank's server using a dial-up or other data connection. The clerk at the retail or postal outlet collects and disburses cash and depending on local regulation, opens bank accounts for new clients and completes credit applications. The financial institution pays the agent a fee per transaction, provides and maintains the necessary equipment, trains the staff, and provides technical support (Microfinance gateway, 2010).

Banking agents have another advantage over bank branches. Poorer customers, especially those with limited reading and math skills, are often more comfortable at a local retail store rather than an intimidating bank branch. Customers often know the merchant, and so are less hesitant to ask for help with a transaction.

Vision 2030 is premised on a safe, efficient and inclusive financial system where savings and investment rates will more than double. The financial sector is expected to play a pivotal role in mobilizing the substantial resources required to finance the envisaged flagship projects. We must therefore explore and implement innovative models that will deepen Kenya's financial sector to support savings and investment growth. The Central Bank of Kenya continues to support innovations that will broaden financial inclusion for the majority of Kenyans. In doing so, there is need to focus on safeguards to ensure that the integrity and safety of the financial sector is not threatened. But above all, the cost of financial services should decline to encourage financial inclusion and reach at all corners of the country (CBK, 2009).

Reaching poor people in rural areas often is prohibitively expensive for financial service providers. Transaction numbers and volumes are usually insufficient to cover the cost of a branch. One solution that is working in Kenya through M-pesa services provider safaricom is that it has contracted local supermarkets and pharmacies to manage operations at the village level. Today, these M-pesa agents have helped to extend financial services to every municipality in the country. Mobile money banking solutions, Banks have tried to minimize the prevalence of queues, usually longest at month ends

rather than mid-month, by offering alternative channels such as mobile banking and ATM facilities. A few years ago, the push was to develop Internet based banking, but that seems to have been set aside by the industry to focus on (mobile) phone-based avenues this has necessitated the introduction of agent banking in Kenya.

However, the Central Bank of Kenya has put regulations on which the following organization that cannot be agents for agent banking; Faith based, non-profit, non government organizations are not eligible to engage in agency banking. Agents may not use such names as 'bank', 'finance' in their brands, agents may not charge customers for services directly, agents may not transact when system is not operating. The agents who are currently operational mostly are taking cash deposits, cheque deposits as well as opening accounts. Checking balances and withdrawals is yet to be rolled out.

## **1.2 Problem Statement**

Almost 2 out of 3 adults in developing countries do not have access to basic financial services. This lack of access is especially prevalent among low-income people who may not be formally employed, may live far from a bank, or do not have a safe place to store their money. Often they are unable to borrow money without paying exorbitant rates to local moneylenders (World bank, 2010).

The survey carried out in 2009 by National Finance Access Survey showed that about 32% of majority of Kenyans are unable to access financial services and are being served by informal financial systems. The CBK has laid down guidelines on agent banking to increase the financial services outreach and to promote financial inclusion to the un-

banked and under-banked population without risking the safety and soundness of the banking system.

Vision 2030 envisages an inclusive financial system with space for different players to serve the majority of Kenyans. They will develop their market niches in line with their relative comparative advantages and strengths. In this scenario, the Agent Banking framework will play a complementary role for all players in the market (CBK, 2009).

The central bank guidelines have focused on regulation of the institutions and agents who will be operating the service. Despite the enormous role played by the agents, they are affected by various factors that act as impediment to their smooth and effective operations. Some of these factors include; network breakdown, illiteracy of the users, digital connectivity, security concerns, inadequate float and underdeveloped infrastructure among others. These have constrained the widespread, adoption and the success of agent banking. Despite these factors no study has been done to establish the extent of these factors affecting the operation of agent banking agents as the innovation it's in its infancy stages. This poses a gap which this study seeks to address through research.

## **1.3 Research Objectives**

### **1.3.1 General objective**

The general objective of the study is to establish the factors affecting agents operating agent banking in Kenya.

### **1.3.2 Specific objectives**

- I. To establish the effects of technological factors on the operations of agent banking agents.
- II. To assess how governing regulations affects the operations of agent banking agents.
- III. To establish the extent to which user perception factors affects the operations of agent banking agents.
- IV. To establish the extent to which state of infrastructure affects the operations of agent banking agents.

### **1.4 Research Questions**

- I. How do technological factors affect the operations of agent banking agents?
- II. How do government regulations factors affect the operations of agent banking agents?
- III. To what extent do user perception factors affect the operations of agent banking agents?
- IV. How does the state of infrastructure affect the operations of agent banking agents?

### **1.5 Significance of the Study**

The findings of this study will be useful for agent banking agents, mobile telephone operators interested in increasing mobile payments usage, commercial banks and micro finance institutions.

Serious efforts are being made to operationalize agent banking to all parts of the country to the unbanked population. These efforts are aimed at providing financial services to all Kenyans at an affordable fee and reliable provider.

This study will be useful to the government through central bank as it has delegated the work of feasibility study of the project to the banking institutions. The study will be useful to the policy makers and government to design proper rules and regulation to govern the service to avoid abuse and exploitation of the end users of the service.

Understanding the factors that affect the operations of agent banking agents who are special category of the users who will be crucial in setting up policy framework for the agent banking service regulation.

### **1.6 Scope of the Study**

The study was conducted for Nairobi which is the capital city of Kenya. The study targeted all agent banking agents in the city who transact agent banking on behalf of Equity bank of Kenya and Kenya Commercial Bank. The other commercial banks operating agency such as cooperative bank of Kenya were not studied because their main agents are SACCO societies which were more established and may not have similar challenges as individual agents. It only examined the factors that are affecting the operations of agent banking.

## 1.7 Limitations of the Study

The study conducted was in the infancy stages in Kenya and most of the literature available was borrowed heavily from other countries such as Brazil and Latin America. The data from these foreign countries was blend with M-Pesa information as an example of agency banking that has been practiced in Kenya. There was limited data available on agency banking in general.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter presents a review of the related literature on the subject under study presented by various researchers, scholars, analysts and authors. The review has covered the various issues on the factors affecting the operations of agent banking in Kenya. The materials are drawn from several sources which are closely related to the theme and the objectives of the study.

#### 2.2 Introduction of Agent Banking

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

Mobile phones are proving to be a powerful tool for the delivery of basic financial services to lower income households throughout the world. In just a few years, millions of new mobile phone subscribers are now transferring money, sending international remittances and even saving through mobile phone networks. The term "mobile money" is used broadly to mean agency banking as most of transactions is carried out using mobile phone devices.

Globally, these retailers and post offices are increasingly utilized as important distribution channels for financial institutions. The points of service range from post offices 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 (AFI, 2010).

Local regulation determines if financial institutions are allowed to work through retail outlets. Regulators generally determine what kind of, if any, financial institutions are permitted to contract banking agents, what products can be offered at the retail outlets, how financial institutions have to handle cash transport, Know Your Customer requirements, consumer protection, and other operational areas. There may also be an opportunity to quickly catalyze and capitalize a mobile money system. Agent banking has frequently benefited through a “push” by government. In these cases, the government works with commercial banks by reducing taxation on licenses, and regulations to encourage cheap products and services by banks through agents.

Most services in the categories are transaction-based. The non-transaction-based services of an informational nature are however essential for conducting transactions - for instance, balance inquiries might be needed before committing a money remittance. The accounting and brokerage services are therefore offered invariably in combination with information services. Information services, on the other hand, may be offered as an independent module. Mobile phone banking may also be used to help in business situations.

### **2.3 The pioneers of agent banking**

Pioneering banks, microfinance institutions, and mobile operators started to experiment with banking agent networks in various countries around the world such as Brazil, Peru, Colombia, Kenya, Mexico, Pakistan, the Philippines, and South Africa (AFI, 2010).

Brazil is probably the most developed market where banking agents have significantly increased financial system infrastructure. Seventy-four institutions are currently managing around 105,000 points of sale in Brazil that reach all 5,561 municipalities. Within only 5 years, the banking agent network facilitated 12.4m new bank accounts and today the network comprises 56 percent of all points of sale in the Brazilian financial system. Financial institutions in other Latin-American markets such as Peru, Colombia, and Mexico have started to learn from the Brazilian experience, adjusted their regulation, and established their own banking agent networks. Pioneers in other regions can be found in Kenya, Mongolia, South Africa, and the Philippines (Wikipedia, 2010).

### **2.4 Rationale for banking agents**

Banking agents 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 poor clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of a branch. In such environments banking agents that piggy bag 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 marble branch (Wikipedia, 2010).

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 over their mobile phone, clients will have to visit a branch, automated teller machine (ATM), or banking agent. 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 agents to enable clients to effectively use the service.

## **2.5 Factors affecting the operations of Agent banking agents**

### **2.5.1 Technological factors**

Technology is the technical means people use to improve their surroundings. It is also knowledge of using tools and machines to do tasks efficiently. We use technology to control the world in which we live. Technology involves people using knowledge, tools, and systems to make their lives easier and better. Technology involves application of knowledge, tools and skills to solve problems and extend human capacity (Mberia, 2009).

This means that technology is invented to make work easier and more effective. Any device invented and given the name technology means it makes work easier and more easily accomplished. Technology can be ancient technology or modern technology.

Agency banking is a modern technology which uses recently invented gadgets such as mobile phones to operate.

Branchless banking (aka mobile banking) requires the outsourcing of cash transfers to these distributed networks of agents such as small shops. Technology application requires knowledge on card readers, mobile phones, barcode scanners, and sometimes personal computers that connect with the bank's server using a dial-up or other data connection as well as software requirements, inter-operability and protocols accepted. This determines the viability of the service by the agent. Technology involves people using knowledge, tools, and systems to make their lives easier and better.

Technological factor in this study will be used to relate to mobile devices; software requires, inter-operability and protocols accepted and communications infrastructure (optimization and efficiency of bandwidth, communications interface, interference from other communications technologies).

Most mobile phones have an embedded chip that can be used to store value or provide secure authorization and identification that does not rely on a card reader, PC and modem combination or a POS terminal. However, are consumers' ready to embrace this new method of payment? What technological barriers affect the operation of agent banking agents? And are the consumers willing to embrace the new technology in the market? (Mberia, 2009)

### **2.5.2 Governing regulations factors**

The governing regulations factors refer to factors that are external to the mobile payment business environment, and thus outside management control. These include a legislative and regulatory instruments and bodies that play a part in regulating the mobile commerce

industries, including the state acts such as telecommunications Act and banking Act (Mberia, 2009).

Changes in people's social and cultural environment easily affect their consumption habits, buying behavior, and thus their need for new payment systems. Cultural factors that influence what payment services are offered and how they are adopted include industry strengths, home-banking affinity of consumers, or strong mobile phone inclination (Krueger and Bohle, 2001).

Agent banking service sits at the intersection of a number of important policy issues. Each issue is complex in its own right, and is often associated with a different regulatory domain: as many as five regulators (bank supervisor, payment regulator, telecommunications regulator, competition regulator, anti money laundering authority and Know Your Customer policy) may be involved in crafting policy and regulations which affects this sector (Rawson, 2005).

This complex overlap of issues creates the very risk of coordination failure across regulators. This failure may be one of the biggest impediments to the growth of agent banking. The feasibility report on agent banking in Kenya is yet to be released by the central bank of Kenya. This report is expected to be an important document in running the agency banking and central as requested banks to carry out their own feasibility studies and hand in reports to central bank these reports are expected to be a basis on agency.

### 2.5.3 User perception factors

These refer to social issues, such as acceptance of mobile devices and cultural fit with wireless applications, as primary considerations for the wireless market. Perceived risk, cost, compatibility (degree to which the innovation is consistent with users' existing values, previous experiences and needs) and perceived usefulness of a wireless application all affecting behavior intention (Mberia, 2009).

An individual may be uncomfortable banking his money to an agent who may have heard this customer saying he/she has no money, or afraid that his money may not be actually deposited in the account.

In some instances agents will be able to access balances on the account, some individuals may be uncomfortable to check their balances on the account since the agent knows him/her.

An agent who believes he/she receives special care or benefits from a certain mobile provider would not have willingness to switch to another service provider. If he/she believes that a great amount of time and cost have been incurred to obtain the special care and trust and these time and cost may be lost if one stops/switches to a different service provider, they would be reluctant.

This means that though the central bank of Kenya has stated clearly that no one single institution may own a certain agent there may arise a time when unhealthy competition is applied to those agents in strategic locations in order to make them switch to the competitor.

## 2.5.4 Infrastructure Based Factors

Information technology (IT) infrastructure investment and management have become strategically important to mobile service providers facing the constant changing business and technology environments (Massey, Wheeler and Keen, 2000).

In 2001, Forrester Research identified three major issues that prevented mobile payments from taking off; lack of consumer trust, partnerships struggling over the terms of their collaboration and a lack of standardized user friendly infrastructure (Wireless World Forum, 2002). Hence there is need to focus on key areas such as combination of simplicity and usability of the services, cost effectiveness, market knowledge and understanding, teaming up with the right partners, security and inter-operability (North stream 2002).

However, not all agents are prospering. CGAP surveyed 19 agents representing 150 locations in Kenya and found cases in which the model is not profitable. One agent said he lost money on the service because he could maintain only a US\$250 float, and had to pay US\$1.77 for a bus to the nearest bank. That more than ate up the US\$1.01 in commission he earned (CGAP, 2010).

Physical infrastructure and under development of Telecommunications network and electricity as well as poor roads are not available throughout the country, which negatively affects the development and adoption of agent banking services.

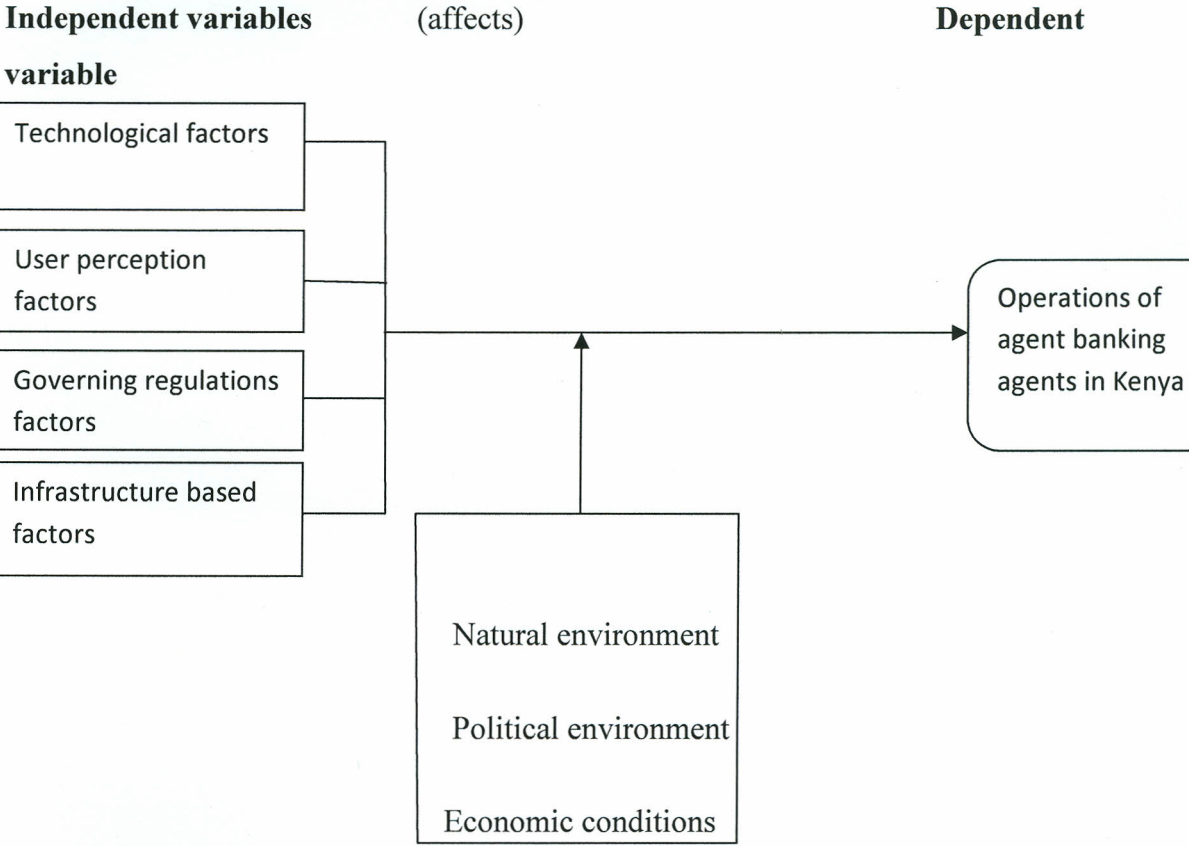
Some agents reported having trouble keeping a sufficient float to maintain service continuity. This is particularly a problem for rural agents, who face a preponderance of



## 2.6 Conceptual framework

According to Mugenda et al (2003), a conceptual framework helps the reader to quickly see the proposed relationships between the variables in the study and show the same graphically. In this study the technological, userperception based, government based and infrastructure factors are the independent variables while agent banking is the dependent variable. There are intervening variables that are between dependent and independent variables. These are political situation, economic conditions, natural and environmental conditions..

**Figure 2.2: Conceptual framework model**



The intervening variables either affect positively or negatively agency banking since each as a direct impact on its operation.

1.1 Introduction

Agency banking is a financial service provided by a bank through its agents in rural areas. It is a type of banking that allows people in rural areas to access financial services without having to visit a bank branch. The agents are trained staff who provide services such as deposits, withdrawals, and transfers. This type of banking is important for rural areas because it provides access to financial services for people who live in remote areas.

1.2 Research objectives

The study adopted a descriptive research design to explore the factors that influence agency banking. The study was carried out in Kenya, where agency banking is being rolled out. The study aimed to identify the factors that influence agency banking and to determine the impact of these factors on the success of agency banking.

A descriptive study can be used to explore the current state of a phenomenon at a particular point in time. The main purpose of a descriptive study is to provide a detailed description of the state of a phenomenon. This type of study is useful for identifying trends and patterns in a population. The study was carried out in Kenya, where agency banking is being rolled out. The study aimed to identify the factors that influence agency banking and to determine the impact of these factors on the success of agency banking.

1.3 Study population

The target population was a group of 100 participants who were selected from a commercial bank in Nairobi town centre. The bank was chosen because it was one of the first banks to introduce agency banking in Kenya. The participants were selected from the bank's staff and customers. The study was carried out in Kenya, where agency banking is being rolled out. The study aimed to identify the factors that influence agency banking and to determine the impact of these factors on the success of agency banking. The study was carried out in Kenya, where agency banking is being rolled out. The study aimed to identify the factors that influence agency banking and to determine the impact of these factors on the success of agency banking. The study was carried out in Kenya, where agency banking is being rolled out. The study aimed to identify the factors that influence agency banking and to determine the impact of these factors on the success of agency banking.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter describes the research design used, data collection instruments, measurement and analysis, target population, sampling techniques and data analysis methods used.

#### 3.2 Research design

This study adopted a descriptive research design which was conducted in Nairobi where agent banking was being rolled out. Mugenda and Mugenda (2003) suggest that a descriptive study can be used to explain or explore status of two or more variables at a given point in time. The major purpose of descriptive design is a description of the state of affairs as it exists at present.

#### 3.3 Target population

The target population was all agents of Equity bank of Kenya and Kenya Commercial Bank in Nairobi town centre who were operating the service as they were few; the service was at its infancy stages. There were about seventeen agents for Equity bank of Kenya and seventeen agents for Kenya Commercial Bank limited. These two commercial banks have individual agents operating agent banking. The Co-operative bank agents were omitted because they had well established procedures.

### **3.4 Sampling design**

The purposive and census method was used in the sampling design. Purposive method was used to select KCB and Equity bank Agents while Census method was used since the numbers of agents offering the service were thirty four in number, thirty were surveyed and four were used for pilot study. A census is the procedure of systematically acquiring and recording information about the members of a given population. A listing of all agents of KCB and Equity banks was obtained from the banks headquarters.

### **3.5 Data collection instruments**

The study utilized primary data collection methods. The data was collected through administration of questionnaires. A questionnaire was designed to capture the various variables of the study.

The questionnaire had open and closed questions covering issues on the factors affecting the operation of agent banking. The open ended questions permitted free responses from the respondents, without providing or suggesting any structure for the replies. The closed questions enabled responses of the respondents to be limited to stated alternatives.

### **3.6 Piloting**

#### **3.6.1 Pilot Study**

In piloting, four randomly selected agents were selected outside the sample agents for the study. The researcher administered the study instruments to the randomly selected respondents. The purpose of the pilot was to test the instruments, to check whether there was enough coverage in terms of the range of information required, test whether there were identifiable ambiguities in the structure of the questions in order to make

improvements and reveal flaws in the questions and inadequacies in coding systems. Pilot data collected was analyzed and the results used to modify the instruments before the main study. This led to evaluation and improvement of the instruments.

### **3.6.2 Validity**

A research instrument is said to be valid if it measures what it is supposed to measure. According to Mulura (1990), the validity of an instrument is measured by its repeated reviews by experts and field tests. The draft questionnaires were given to lecturers in the department to appraise the items suitability in obtaining information according to research objectives. The instruments were then tested to ascertain their validity and suitability in collecting the required data.

### **3.6.3 Reliability**

Mugenda and Mugenda (2003) explained that reliability is a measure of degree to which a research instrument yields consistent results or data after accepted trials. The test-retest technique of measuring reliability of the research instruments was used to eliminate biases in order to fit within the required goals. The instruments were tested in the pilot agents and then retested after two weeks in the same agents. Responses from the pilot study were used to modify the research instruments in wording and format where necessary.

### **3.7 Data Collection Techniques**

The researcher collected primary data through field research. An introductory letter from Kenyatta University and permission to carry out research in the target business was obtained to enable researcher to administer questionnaires to the target respondents who are agency banking agents, located in the Nairobi town centre.

### **3.8 Data Analysis**

The data from the field was analyzed using both qualitative and quantitative techniques. Before the actual data analysis, the gathered data was validated, edited and then coded. The coded data was entered into the computer software; statistical package for social sciences. Descriptive statistics such as percentages, frequencies and standard deviations were used to analyze data. The research findings were presented using frequency tables, percentages, cross tabulation, pie charts and bar graphs (Best and Kahn, 1992)

## CHAPTER FOUR

### PRESENTATION AND DISCUSSIONS

#### 4.1. Introduction

This chapter specifically presents the analysis and the results of the field data gathered from the agent banking Agents in Nairobi region. The purpose of this study was to establish the factors affecting the operations of agent banking Agents in Kenya. Among the factors investigated included: technological factors, government regulations factors, user perception factors and the state of infrastructure. The study gathered responses from a total of 30 agent banking agents within the city centre. These formed the basis of the findings presented in this chapter. Statistical Package for Social Sciences (SPSS) was used as a tool to analyze the data. Among the data analysis techniques adopted included; descriptive statistics method such as frequencies and percentages were used. The findings were presented in form of frequency distribution tables, percentages, pie charts and bar graphs.

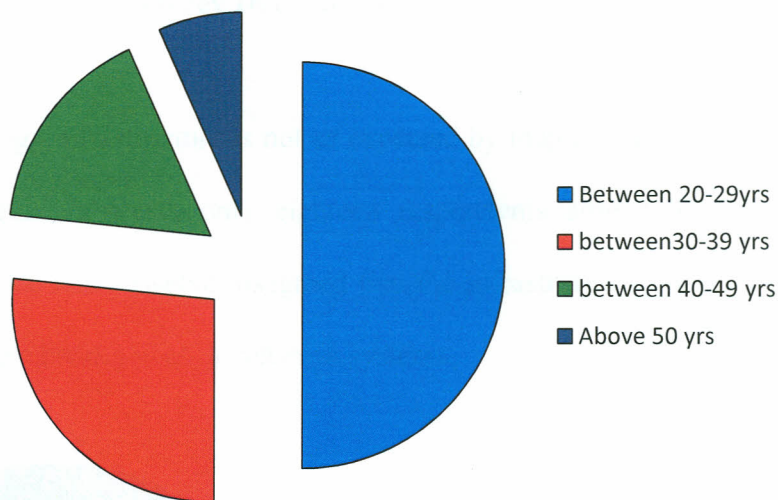
#### 4.2 Demographic Information

Table 4.1 below shows the demographic characteristics of the respondents interviewed during the field study. The table shows that 60% of the respondents were female while 40% were male. In addition, the study established that most of the respondents (70%) had been in agent banking business for a period between 7-12 months. This is shown in table 4.1. This shows that despite the fact that agent banking has been operational for a short duration of time, it is gaining a lot of popularity in the country and it's giving employment to young people who have completed tertiary education.

**Table 4.1: Background Information**

<b>Characteristics</b>	<b>Frequency (n)</b>	<b>Percentages (%)</b>
Female	18	60.0
Male	12	40.0
Operation below 6 months	10	33.3
Operation between 7-12 months	20	66.7
Secondary education	8	26.7
Tertiary college education	21	70.0
Post graduate education	1	3.3
<b>Overall Total (N)</b>	<b>30</b>	<b>100.0</b>

(Survey Data, 2011)



(Survey Data, 2011)

**Figure 4.3 Age of the respondents operating agency banking.**

The pie chart above shows the age category of the respondents who are operating agent banking. The age between 20-29 years form the majority of respondents accounting to 50% while those above 50 years are 6.667%. There were no respondents aged below 20 years.

#### 4.4 Accessories for Agent Banking Business

The study further assessed the availability and the adequacy of the mobile devices needed for agency transactions. The findings show that majority of the respondents (93.333%) had all the needed mobile devices for agent banking although they felt that more devices could be provided to enhance uptime and network access.

**Table 4.2: Mobile Devices**

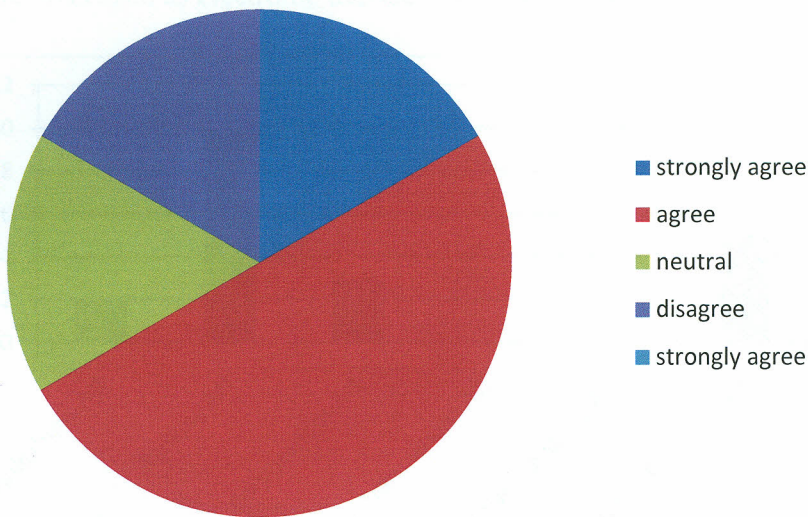
Availability of needed mobile devices for M-Pesa transactions

Yes		No	
Counts (n)	%	Count(n)	%
28	93.333%	2	6.667%

### (Survey Data, 2011)

#### 4.4 Technological factors

The information technology infrastructure is not as expected by majority of respondents. For the thirty respondents surveyed, only eighteen respondents agreed that the IT infrastructure was adequate while twelve disagreed that the infrastructure was adequate and hence it led to frequent breakdowns on network systems.



**Figure 4.2 Internet access**

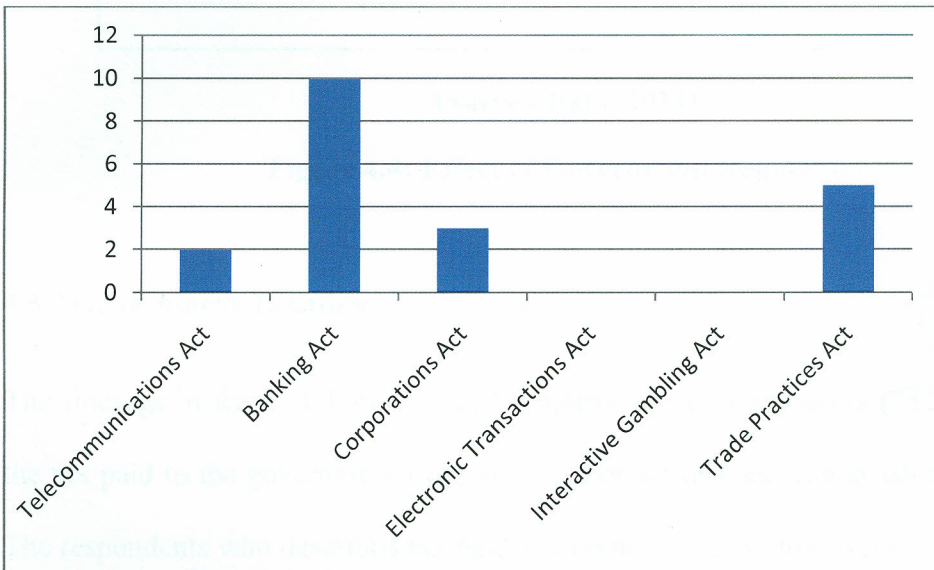
(Survey data, 2011)

50% agreed that the supply of internet was adequate while 16.667% disagreed that internet access was adequate. Majority attributed the lack of adequate internet to vandalism of cables but they stated that the internet providers are moving a step further to curb the vandalism.

## 4.5 Agent Banking Regulations

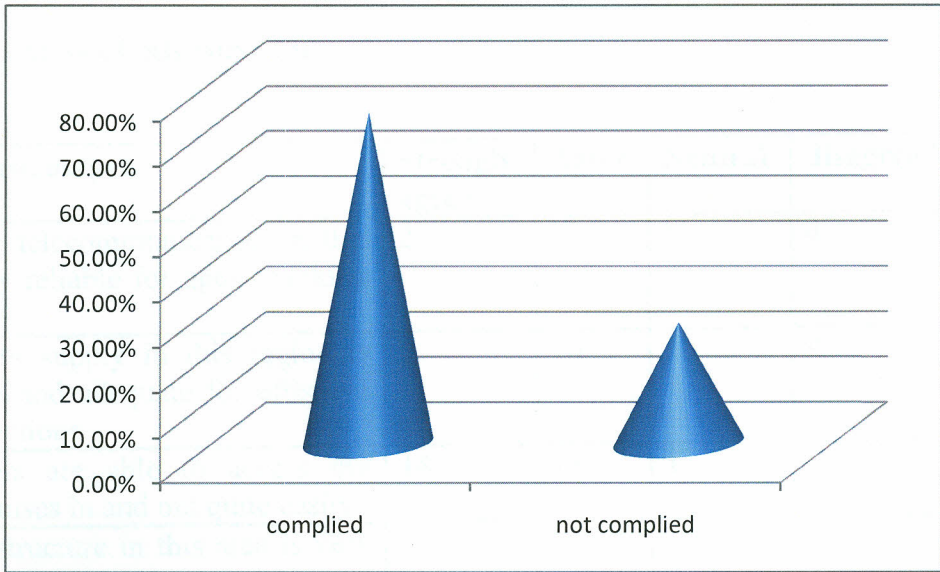
### 4.5.1 Effects of Existing Government Legislation

There are a number of state set legislative and regulatory Acts that regulates the agency banking industry. This study sought to establish whether the agents were conversant with the contents of the various set legislative Acts that control agency banking and Money transfer services in the country. The findings show that most of the respondents were mainly conversant with the Banking Act but were not conversant with other set legislative Acts such as electronic transactions and interactive gambling act as shown.



(Survey Data, 2011)

**Figure 4.2: Conversant with the existing Acts (N=30)**



(Survey Data, 2011)

**Figure 4.4: Effect of Government Regulation**

#### 4.5.2 Government Taxation

The findings in figure 4.3 showed that majority of the respondents (73.33%) described the tax paid to the government from agency transactions and commissions as excessive. The respondents who described tax paid and commissions as not excessive accounted for 26.67%. This shows that most tax paid to the government by Agents was excessive hence a need for a review to encourage business growth.

The respondents also felt that anti-money laundering policy was not clear to them and they would want more information provided to them regularly. Majority had complied with the regulations set by the institutions and the CBK.

## 4.6 State of Infrastructure

**Table 4.3 State of infrastructure**

<b>State of infrastructure</b>	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>disagree</b>	<b>Strongly disagree</b>
The existing telecommunication in this region is very reliable for agent banking transactions	2	16	5	4	2
The electricity supply in this region is very Reliable and adequate for effective agency transactions	8	16	1	4	-
My customers are able to access my business premises in and out quite easily	14	13	1	-	-
The IT infrastructure in this area is very adequate for agent banking transactions	9	9	6	5	1
This area is well supplied with efficient internet access	4	15	5	5	-
The available mobile network is adequate for effective agent banking transactions	5	9	5	6	4

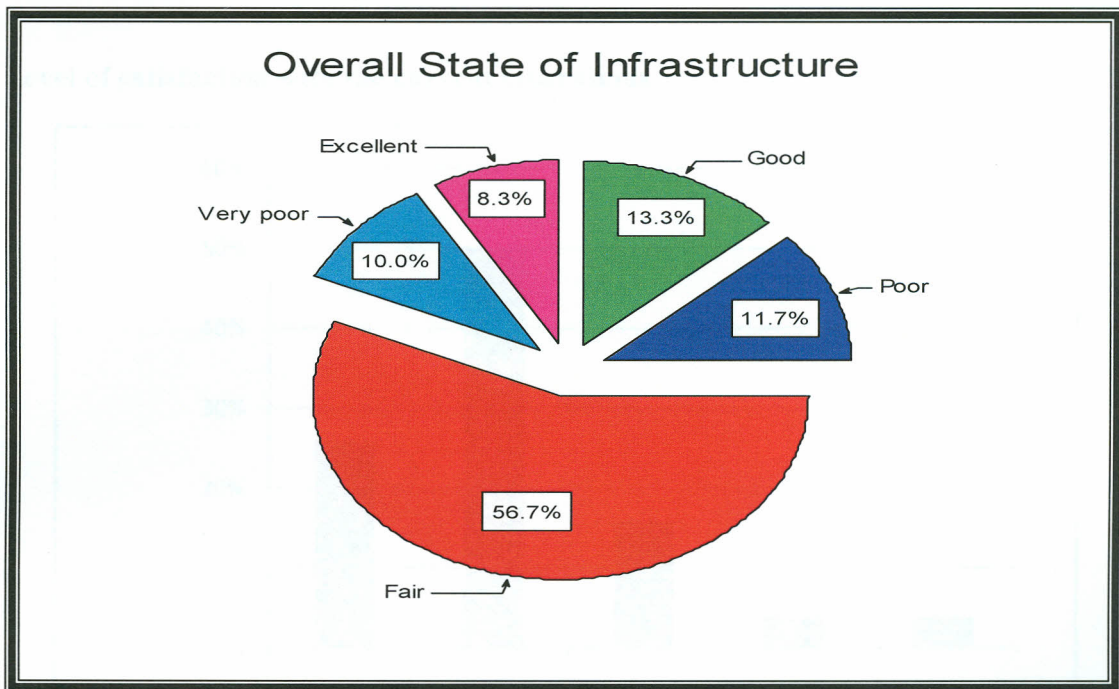
According to the table above, majority of the respondents felt that the institutions had provided for them with the necessary accessories for effective transactions, the electricity supply in the region was reliable for agency banking. They stated that there was more room for improvement in order to reduce the breakdown of networks and more posters for advertisements and marketing.

### 4.7.1 Transportation of Cash

The respondents were asked to state whether they had a problem of transporting large amounts of hard cash to their business premises. They were comfortable with the cash they were handling as at now but stated that improvement had to be made in future when they expect to increase the liquid cash they will be holding in the business premises for large transactions.

#### 4.7.2 Overall Rating of the State of Infrastructure

The respondents were expected to rate the overall state of infrastructure in the region.



**Figure 4.4: Rating of the State of Infrastructure**

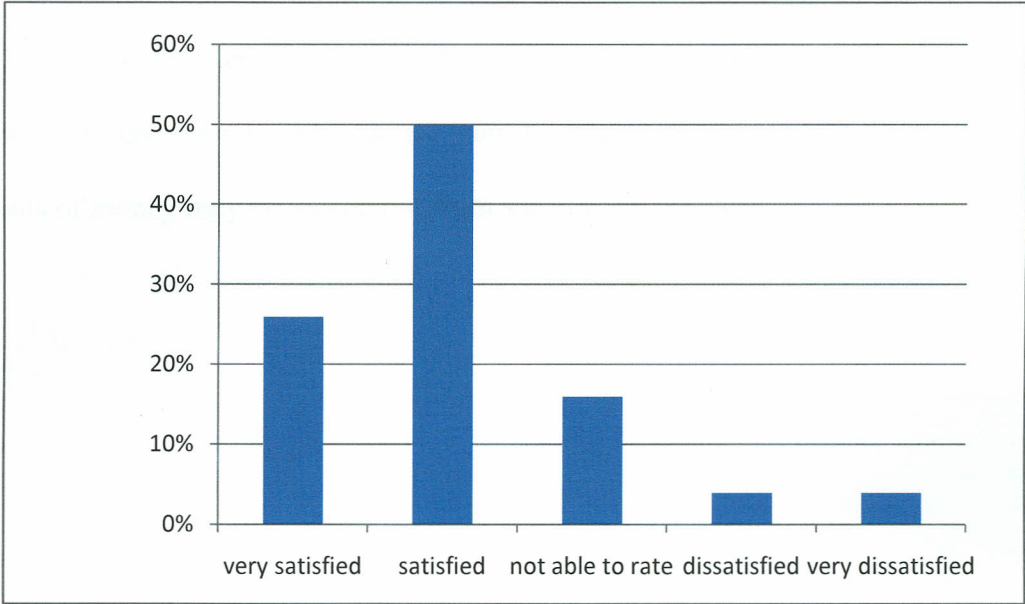
**(Survey Data, 2011)**

The findings in figure 4.4 show that more than half of the respondents (56.7%) rated the overall state of infrastructure as fair. Very good, excellent, good and poor responses accounted for 10%, 8.3%, 13.3% and 11.7% respectively as shown in figure 4.4. This shows a neutral position by the respondent hence the need for improvement on the state of infrastructure in the region to enhance the efficiency of agent banking.

#### 4.8 Level of Satisfaction of agent banking Agents

The respondents however rated the extent to which they were satisfied with their current level of operation as Agents. 50% of the respondents were satisfied with their level of operation while below 5% were dissatisfied with their level of operation.

**Level of satisfaction with the current Operations**



**Figure 4.6: Level of Satisfaction with the Current Operations**  
**(Survey Data, 2011)**

The findings presented in figure 4.6 show that majority of the respondents were satisfied with their current level of operation as accounted for by 76% cumulative responses. Those who were not satisfied with their level of operation accounted for 24 cumulative responses. This shows that most of the Agents of agent banking were satisfied with their level of operations.

These findings are in agreement with a research conducted by Mberia 2009, who stated that the level of infrastructure need to be improved in order for the agents to have smooth operations by reducing cost that is increased by poor road network and system breakdown that strains relationships of the agents with their customers.

The findings are also in agreement with those of Nyambura, 2010, who stated that agency banking could form a source of employment for the youths as it's easy to operate though the findings in this research shows that the cost of starting agency and taxation are exploitative hence youths who would want to start the business and do not have large amounts of money may be locked out from starting the business.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

The purpose of this study was to establish the factors affecting the operations of agent banking Agents in Kenya. The issues contained in this chapter includes; summary of the findings, conclusions and recommendations.

#### 5.2 Summary of the Findings

This study aimed at establishing the factors that affected the operations of Agents operating agent banking in Kenya. Among the factors covered included; technological factors, government regulations factors, user perception factors and the state of infrastructure. The findings presented in the previous chapter show that the study gathered responses from both male who were twelve respondents which constituted (40%) and female who were eighteen who constituted (60%) of the respondents. Most of the Agents operated their businesses as registered small and medium sized enterprises (SMEs) located within the Central Business District. In addition, the study established that most of the Agents (66.7%) had been in agency business for less than a year. This shows that despite the fact that agency banking service has been operational for a short duration of time, it is gaining a lot of popularity in the country and hence it's rapid adoption and spread. In addition majority of respondents have completed tertiary level of education and their age was between 20-29 years hence this showed that it was becoming a source of income for the youth.

The study investigated the various factors that affected the operations of agent banking Agents in Kenya. The factors investigated in the study included; Technological factors, government regulations factors, user perception factors and state of infrastructure.

The findings showed that two independent variables namely; technological factors and user perception factors had effect on the agency banking. Based on these findings it was concluded that the operations of agency banking agents was significantly affected by technological factors and user perception factors hence the need to devise strategies aimed at addressing these factors. The government regulations affected agents though indirectly as many were not familiar with regulations that affected agency banking; this was due to agents who operated agency as an additional business since they have already existing businesses such as shops or M-Pesa businesses. The state of infrastructure affects directly agents; this research found out that the state of infrastructure needed to be improved in order to reduce cost. Finally the findings show that majority of the agent banking Agents were satisfied with their current level of operation.

## **5.2 Conclusions**

The purpose of this study was to establish the factors affecting the operations of agent banking Agents in Kenya. It can be concluded that, there are many alternative ways of banking which includes internet and mobile banking hence there is need to have a high satisfying customer service for agents in order to have customers and grow their profits as this is a source of employment for agents. This can be improved by having a continuous uptime of internet so as not to disappoint customers in their operation. The internet uptime is determined by the network provided by the institutions. In the analysis the

study established that technological factors and user perception factors were the most significant factors that affected the operations of the agent banking Agents. The technological aspect of agency included system's expandability, its efficiency and security in handling each transaction, its compatibility with other payment system, and its level of complexity of consumers to the system. Above all, security is an utmost technical concern. It is therefore expected that any effective agency service must satisfy the following: Integrity, non-repudiation, authorization, convertibility, efficiency, interoperability and traceability and link ability receiving, secure transactions and payments of money to and from; and secure facility maintenance and network management. On the other hand, user perception factors have to do with social issues, such as acceptance of mobile devices and cultural fit with wireless applications, as primary consideration for the wireless markets. Perceived risk, cost, compatibility (degree to which the innovation is consistent with users' existing values, previous experiences and needs), and perceived usefulness of a wireless application all affecting behavioral intention, strongly relating to actual use. Social aspect imply that besides addition to satisfying the needs associated with the technological aspects, agent banking still needs to address social needs before it can win the trust and acceptance by both the customers and the Agents themselves. The social needs include: user friendliness, mobility, applicability, reliability, and usability.

The agent banking Agents were found to have adequate mobile devices needed for agency transactions however most of them had to pay for them after they were provided by the institutions which increased their operation cost. In addition, most of the agent banking Agents were manly conversant with the banking Act. Other state set legislative

Acts that control agency banking and money transfer services were not familiar to the Agents. Additionally the commissions paid by the institution to the agents was found to be little and discouraging to the business growth hence a need for a review.

### **5.3 Recommendations**

This study recommends that the institutions need to improve on the stability of agency network and addresses the errors commonly found in the agency service transactions. To this end proper liability sharing between the Agents, institution and the customer should be clearly spelt-out to ensure smooth operation of agent banking agents. This study found out that error in transaction often strained Agents and customer relationship since there was no clarity in liability sharing between institutions, Agent and customers in case of loss of payments. The institutions need also to address the cost associated with agency start up as well as the start up requirement since these were found prohibitory to agency business.

This study further recommends that the policy makers and government ministry especially the Ministry of Communication need to embark on effective operationalization and awareness creation of the various States set legislative Acts to enhance compliance by the business community. This study established that most of the agencies Agents were not familiar with most of the state set legislative acts that control agency banking as well as money transfers.

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## APPENDICES

### Appendix I: Questionnaire Cover Letter

**Dear Respondent,**

I am a MBA student at Kenyatta University and am conducting a study on the factors affecting agents operating agent banking in Kenya. I therefore request you to answer the attached questionnaire to the best of your knowledge to facilitate in the completion of this study. I assure you that the information provided shall be treated as strictly confidential and at no instance will your name be mentioned in this research.

a) Male

b) Female

2. Location of the Agent (a/c)

a) Nairobi

a) Below 10 years

b) 10 – 19 years

c) 20 – 29 years

d) 30 – 39 years

e) Above 40 years

3. How long have you been agent for the bank?

a) 3 months

b) 6 months

c) 9 months

d) 1 year

e) Above one year

## Appendix II: Questionnaire for Agency Banking Agents

Serial no.: .....

The questionnaire is meant to collect information on the factors affecting operations of agent banking in Kenya. Kindly answer the questions by writing a brief statement or ticking in the boxes provided as will be applicable. The information provided will be treated with confidentiality and your name will not be mentioned in this research.

### Section one: Demographic information

1. Gender of the respondent?

- a) Male .....
- b) Female .....

2. Location of the Agent banking agent

- a) Central Business District ..... street -----

3. Indicate your age category

- a) Below 20 years .....
- b) 20 – 29 years .....
- c) 30 – 39 years .....
- d) 40 – 49 years .....
- e) Above 50 years .....

4. How long have you been agent banking agent

- a) 3 months .....
- b) 6 months .....
- c) 9 months .....
- d) 1 year .....
- e) Above one year .....

5. What is your highest education level

- a) Primary .....
- b) Secondary .....
- c) Tertiary college .....
- d) Post graduate .....
- e) Others (specify) .....

6. Which institution(s) are you an agent of

.....

.....

.....

.....

**Section two: Factors affecting the operations of agent banking agents**

7. Please indicate the extent to which you agree or disagree with the following statements as affecting your operations as an agent banking agent. 1- strongly agree, 2- agree, 3- neutral, 4 – disagree 5 – strongly disagree.

Statement	1	2	3	4	5
A My interaction with agent banking primarily relate to potential misuse of or unauthorized access to users sensitive information.					
B I find that error in transaction often straining my customer relationship.					
C I find that there is no clarity in liability sharing with the institution and customers in case of loss of payment or fraud					
D Technical problems such as network failure, operation of the system has landed me in trouble with customers					

**Environmental Based Factors**

8. Are you conversant with the state legislations

a) Yes .....

b) No .....

9. If yes above, which acts are you conversant with

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

10. Is your business affected by Government regulatory issues?

a) Yes .....

b) No .....

**Individual Based Factors**

11. Please indicate the extent to which you agree or disagree with the following statements as affecting your operations as an agent banking agent. 1-strongly agree, 2-agree, 3 – neutral, 4-disagree, and 5 – strongly disagree.

	Statements	1	2	3	4	5
A	I find it hard to handle some clients complains					
B	Lack of trust by customers about their account status as affected by operation of agent banking					
C	My interaction with m payment has exposed me to potential risks of robbery					
D	I find balancing business independence and partnership with the institution difficult					

**State of infrastructure**

12. How would you describe the reliability of existing telecommunication in this region?

- a) Very reliable            .....
- b) Reliable                    .....
- c) Unreliable                .....
- d) Very unreliable        .....

13. Do you have a problem of transporting large amounts of hard cash to your business premises?

- a) Yes                         .....
- b) No                         .....

14. How would you rate the adequacy of IT infrastructure in this area

- a) Very adequate         .....
- b) Adequate                .....
- c) Inadequate             .....
- d) Very inadequate      .....

15. How would you describe the overall state of infrastructure in this area

- a) Excellent                .....
- b) Good                     .....
- c) Fair                      .....
- d) Poor                      .....
- e) Very poor                .....

**E) Operations of the agent banking**

16. How would you describe your effectiveness in operations since you started this agent banking?

- a) Very effective            .....
- b) Effective                 .....

c) Ineffective .....

d) Very ineffective .....

17. What would you attribute to the rating stated above?

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18. Apart from the factors discussed above, what other factors affect your operation as an agent banking agent?

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19. What recommendation would you make to aid in addressing the various barriers and challenges facing the agent banking agents in this country?

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THANK YOU FOR YOUR RESPONSES.