THE EFFECT OF AGENT BANKING ON ACCESSIBILITY AND EFFICIENCY OF BANKING SERVICES: A CASE OF EQUITY BANK IN KISUMU CENTRAL SUB-COUNTY, KISUMU COUNTY, KENYA

BY

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DECLARATION

This project report is my original work and has not been presented for award of degree in any other university.

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DEDICATION

This research project is dedicated to my children: Yvonne and Daniel.

ABSTRACT

Financial inclusion is the ability of an individual, household, or group to access a full range of responsibly delivered, affordably priced and reasonably convenient formal financial services. A significant proportion of Kenya's population does not have this ability and therefore experience financial exclusion. Agency banking brings financial services closer to the people and has been adopted in Kenya as a means towards improving financial inclusion. The main objective of the study is to assess the effect of Agent Banking on accessibility and efficiency of banking services. The specific objectives are to establish the trends in the number of customers accessing financial services from banking agents in the study area, to determine the efficiency of agency banking in time saving when serving customers and to evaluate risks clients associate with agency banking in the study area. The study was carried out in Kaloleni location of Kisumu city from where a sample of 285 was drawn using purposive sampling. Data was collected by use of direct observation and questionnaires, which were administered to bank branch managers, appointed agents, and clients of the banking agency outlets. Secondary data was also gathered from the archives of Equity Bank. The data was then analyzed using descriptive statistics. The study established that the number of agent outlets increased by 60% at the national level. It also established that the number of clients procuring banking services at the agent outlets increased by 52% at the national level and by 33.5% in Kaloleni which indicates an increase in uptake and expansion of financial inclusion. The study established that the main services offered by bank agents in the study area were mainly cash withdrawals (24.6 %), cash deposits (43.9 %), and bill payments (22.5%).This indicates a skewed pattern in favour of some services. The study reveals that agents have increased the efficiency with which clients get banking services through quick service and opening for longer hours compared to main banks. System failure, lack of liquidity, association of agency banking with low value customers, and insecurity (fraud, fake currency, and theft) were the risks associated with agency banking in the study area. However, the study revealed the risks were statistically insignificant to accessibility of banking services at 95% confidence interval. The study concluded that banking agency has increased efficiency and accessibility of financial services in the study area. This is because services are brought closer to the people and thus saves a lot of time which would have been used to queue in banking halls or at ATMs. The study also recommended that more agent banking outlets be opened in the study area and security measures be improved by agents to increase financial inclusion. The study was of great significance in highlighting the effect of agency banking on financial inclusion.

TABLE OF CONTENTS

DECLARATION i

ACKNOWLEDGEMENT ii

DEDICATION iii

ABSTRACT iv

TABLE OF CONTENTS v

LIST OF FIGURES viii

LIST OF TABLES ix

LIST OF ABBREVIATIONS AND ACRONYMS x

DEFINITION OF TERMS xi

CHAPTER ONE 1

INTRODUCTION 1

1.1 Background of the Study 1

1.2 Problem Statement 4

1.3 Objectives 5

1.4 Research Question 5

1.5 Justification of the study 5

CHAPTER TWO 7

LITERATURE REVIEW 7

2.1 Introduction 7

2.2 Services of the Agency Banking 7

2.3 Development and Accessibility of Agency Banking 9

2.4 Efficiency in Agency Banking Services 14

2.5 Associated Risks with Agency Banking 15

2.6 Conceptual Framework 17

CHAPTER THREE 20

RESEARCH DESIGN AND METHODOLOGY 20

3.1 Introduction 20

3.2 The Study Area 20

3.3 Study Design 22

3.4 Study Population 22

3.5 Target Population 23

3.6 Sampling Design 24

3.7 Data Collection Tools 26

3.8 Reliability and Validity 26

3.9 Data Collection Procedure 26

3.10 Ethical Considerations 26

3.11 Data Analysis 27

CHAPTER FOUR 28

FINDINGS AND DISCUSSIONS 28

4.1 Introduction 28

4.2 Characteristics of Respondents 28

4.3 Clients Uptake of the Banking Services Offered by Agents 30

4.4 Efficiency of agency banking in time saving 34

4.4.1 Transaction time 35

4.4.2 Agency banking operating hours and provision of banking services 36

4.4.3 Travel Cost to Branches for Clients Exceeds Perceived Benefits 37

4.5 Risks Associated with Agent Banking 38

4.5.1 System Failure 39

4.5.2 Agencies' Conditions for Service Delivery 40

4.5.3 Lack of Liquidity 40

4.5.4 Association of agency banking services with low value accounts 41

4.5.5 Insecurity 42

CHAPTER FIVE 44

SUMMARY OF FINDINDS, CONCLUSIONS AND RECOMMENDATIONS 44

5.1 Introduction 44

5.2 Summary of Findings 44

5.3 Conclusion.. 46

5.4 Recommendation... 46

5.5 Suggestions for Further Research 47

REFERENCES.. 48

APPENDICES 52

Appendix 1: Letter of Introduction 52

Appendix 2: Questionnaire.. 53

Appendix 3: Key Informant Interview Questionnaire... 58

LIST OF FIGURES

FIGURE 2. 1: CONCEPTUAL FRAMEWORK 18

FIGURE 3. 1: KISUMU COUNTY IN THE REGIONAL CONTEXT…………… …… 21

FIGURE 3. 2: SUB LOCATIONS IN KISUMU MUNICIPALITY....................................... 21

FIGURE 4. 1: TRENDS IN NUMBER OF AGENT OUTLETS IN KENYA 31

FIGURE 4. 2: TRENDS IN CUSTOMER NUMBERS IN KENYA...................................... 32

LIST OF TABLES

TABLE 3. 1: TARGET POPULATION..23

TABLE 3. 2: SHOWING SAMPLE SIZE 25

TABLE 4. 1: RESPONSE RATE RESPONDENTS BY GENDER.......................................28

TABLE 4. 2: EDUCATION LEVEL OF RESPONDENTS 29

TABLE 4. 3: CHANGES IN NUMBER OF AGENCY BANKING CLIENTS.....................33

TABLE 4. 4: RESPONSE RATE TO SERVICES OFFERED BY BANKING AGENTS 34

TABLE 4. 5: ACCESSIBILITY AND TIMELINESS OF AGENCY BANKING.................35

TABLE 4. 6: AGENCY BANKING LONG OPENING HOURS 36

TABLE 4. 7: TRAVEL COST TO BRANCHES EXCEED PERCEIVED BENEFITS OF BANKING SERVICES 38

TABLE 4. 8: FREQUENCY SYSTEMS FAILURE...39

TABLE 4. 9: REQUIREMENT TO MAKE PURCHASES TO OBTAIN SERVICES 40

TABLE 4. 10: AGENTS NEVER HAVE ENOUGH CASH FOR WITHDRAWALS..........41

TABLE 4. 11: AGENT BANKING FOR LOW VALUE ACCOUNTS.................................42

TABLE 4. 12: CUSTOMERS SECURE WHILE USING AGENT BANKING 43

LIST OF ABBREVIATIONS AND ACRONYMS

ATM	Automated Teller Machine
CBB	Central Bank of Brazil
CBK	Central Bank of Kenya
CGAP	Consultative Group to Assist the Poor
DSTV	Digital Satellite Television
FINO	Fintech Foundation
FSD	Financial Sector Deepening
GOK	Government of Kenya
HELB	Higher Education Loans Board
I.T	Information Technology
KCB	Kenya Commercial Bank
KIHBS	Kenya Integrated Household Budget Survey
KII	Key Informant Interviews
KPLC	Kenya Power and Lighting Company
MNO	Mobile Network Operators
POS	Point of Sale Device
RBI	Reserve Bank of India
SACCO	Savings and Credit Cooperative Organization
SHG	Self Help Group
SPSS	Statistical Package for Social Sciences

DEFINITION OF TERMS

TERM	DEFINITION
Agent	An entity that has been contracted by a Banking Institution and approved by the Central Bank to provide the services of the institution on behalf of the institution in the manner specified by the CBK Guideline.
Agent Banking	Provision of banking services by an agent on behalf of the main Banking Institution as permitted under CBK guideline.
Financial Inclusion	Refers to the policy goal of reaching households of both clients and non-clients of the banks with a full range of responsibly delivered, affordably priced and reasonably convenient formal financial services.
Costs	Refers to the cost of financial services like cash withdrawal and deposit and balance inquiry through agents.
Liquidity	Availability and access to or convertibility of cash.
Security	The ability of agents to assure safety of customers' liquid cash at their disposal through use of physical security and confidentiality.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Financial inclusion is defined as the ability of an individual, household, or group to access a full range of responsibly delivered, affordably priced and reasonably convenient formal financial services (source?). Without this ability, people are often referred to as financially excluded. People that are financially excluded might not be able to access affordable credit. They are financially at risk of not accessing home insurance, and struggle to budget and manage money. They cannot plan for the unexpected and do not know how to make the most of their money (Financial Sector Deepening, 2010). Evidence shows that financial inclusion is key to reducing the economic vulnerability of households, promoting economic growth, alleviating poverty and improving the quality of peoples' lives (Christen et al , 2011).

According to Financial Sector Deepening results for 2009, Kenya has made impressive strides over the past 5 years in financial inclusion. While formal exclusion has yet to match levels in Southern Africa, the proportion of the population which is completely excluded is lower in Kenya than any other East African country. Formally included people (defined as those using a bank, Postbank or insurance product) went up from 18.9% in 2006 to 22.6% in 2009 (Financial Sector Deepening, 2010). Although this appears interesting a lot has to be done to bring more Kenyans to financial inclusion. On the same note, FinAccess in 2009 noted that 58.5% of users of formal financial services and 56% of users of other formal financial services also use informal financial services. On the other hand in 2009, rural Kenyans were less likely to use formal banking or other formal financial services, but were still more likely to use informal financial services (FinAcces, 2009). Financial inclusion data from Word bank shows that 42% of Kenyans aged 15 years and above had an account at a formal financial institution as at 2011 (World Bank, 2012). Moreover, recent evidence suggests that rising numbers of clients mask low levels of actual usage: A growing share of new accounts is dormant (Stefan 2010) and Only 50 percent of registered M-PESA clients use the service at least once a year (FinAccess, 2009).

Kenya’s current development blueprint, Vision 2030, aims to bring in more Kenyans under financial inclusion. In pursuit of this strategy, the CBK in 2009 come up with Agent Guidelines as a means of addressing financial inclusion and enable more Kenyans access banking services. 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 a direct deposit from their employer. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices, and many more. This model of banking allows Kenyans access financial services from bank-appointed agents, away from the traditional banking halls.

In 2009, the Central Bank of Kenya (CBK) commenced measures to open up banking channels to non-bank agents. An amendment to the Banking Act (passed as part of the Finance Act, 2009) allowed banks to start using agents to deliver financial services. Using small shops, petrol stations, pharmacies and other retail outputs (essentially any profit-making entity that has been in business for at least 18 months and can afford to fund a float account to facilitate payment) as agents could have a dramatic impact on improving access to financial services, especially in rural areas (FinAcces, 2009).

Under the CBK regulations, agents can offer a number of banking services, including cash deposits and withdrawals, fund transfers, bill payments, loan payments, payment of benefits and salaries, and collection of account and loan applications. However, agents are limited to cash-only transactions and cannot assess applications. The CBK regulations require that agents have secure operating systems capable of carrying out real time transactions, generating an audit trail, and protecting data confidentiality and integrity. This is all driven by technology. Transactions can be made via mobile phone, a point of sale (POS) system, or internet banking, and must be reflected immediately on the bank's side in the core banking system (Keeler, 2011).

In order to speed up the development of the agent banking regulatory framework, the CBK made use of a knowledge exchange program supported by the Alliance for Financial Inclusion (AFI). In October 2009, six representatives from the CBK, Kenya Bankers Association, and the Ministry of Finance visited Brazil and Colombia, as these countries had been identified as 'champions' of agent banking. The particular learning points gained from this knowledge exchange were subsequently applied to generate agent banking guidelines. These points included the importance of a risk-based approach to the supervision and regulation of agents, the need to focus on the demand side, the importance of public private partnerships, the importance of prioritizing and coordinating the national financial inclusion agenda, the need to discourage uncompetitive behavior by banks, for example by promoting interoperability and non-exclusivity of agents and the need to involve key stakeholders in the development of an agent banking model. In Brazil and Colombia, the banks are responsible for managing the risks associated with using agents. Both countries ensure consumer protection and financial education of customers. (Mugo, 2010).

Following the roll out of the agent banking model, commercial banks have been able to contract varied retail entities. These entities, such as security companies, courier services, pharmacies, supermarkets and post offices act as third party agents to provide cash-in cash-out transactions and other services in compliance with the laid down guidelines. As at December 2011, there were eight (8) commercial banks that had contracted 9,748 active agents facilitating over 8 million transactions valued at Ksh.43.6 billion. This represented 3 percent of the total deposit base in the banking industry (CBK, 2011).

Kenya Commercial Bank (KCB), Co-operative Bank (Co-op Bank) and Equity Bank, all financial institutions with a large retail footprint, rolled out agent banking networks. KCB expected to have 2,000 agents by the end of 2011. Equity Bank has recruited 8,000 agents, with 2,000 in operation. Co-op Bank has already seen its profits increase through partnerships with Savings and Credit Co-operative (SACCOs) that tap deposit pools in rural areas. Effectively, the agent banking model provides an extension into a market already targeted. Co-op Bank and Equity have both succeeded with business models aimed at low income customers (Kinyanjui, 2011).

1.2 Problem Statement

Several research studies have been done on agent banking. Omumi (2010) did a study on agency banking and the use of agents including postal corporation of Kenya. Musau (2013) did a study on how the utilization of agency banking has contributed to the performance and, or non performance of banks in Kenya. However, in Kenya, how the utilization of agency banking has contributed to financial inclusion is not documented. This study therefore, seeks to analyse the effect of agency banking in promoting financial inclusion in Kenya. In a survey conducted by AFI (2012), lack of data on the state of financial inclusion is recognized as another main constraint to financial inclusion, both to advance financial inclusion and to evaluate the impact of policies aimed at improving access. Kaloleni sub location is occupied by people who fall in this bracket.

1.3 Objectives

Main Objective

The main objective of the study is to assess the effect of Agent Banking on accessibility and efficiency of banking services.

Specific Objectives

i. To establish the trends in the number of customers accessing financial services from banking agents in the study area.
ii. To determine the efficiency of agency banking in time saving when serving customers.
iii. To evaluate risks clients associate with agency banking in the study area.

1.4 Research Question

The study sought to answer the following questions:

i. To what extent has the number of customers accessing the available banking services from agents in the study area changed for the last two years?
ii. How has agency banking increased efficiency in time saving for making bank transactions?
iii. What risks do clients associate with agent banking in the study area?

1.5 Justification of the study

Agency banking is a relatively new concept in the market. This study will contribute to the existing knowledge of agency banking by addressing the gaps left in the previous research on agency banking. The study will highlight the rates of adoption among customers as well as the range of services offered. By doing this it will address the concerns that may arise from financial service exclusion. This may help financial institutions redefine their marketing strategies to be in line with customer preferences and thus achieve greater financial service inclusion.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section focuses on agent banking as a channel innovation in the banking industry and how it has reached people that traditional branch based structures would have been unable to reach. The chapter will examine the theory of innovation and entrepreneurship as important concepts that drive the adoption of agent banking and the new opportunities it offers to customers which eventually affects the development of the banking industry.

An empirical review of the trends in the number of agents and customers in the banking sector as a result of agent banking, the range of financial services being offered and their effects on traditional banking transactions, the risks associated with agent banking as well as an analysis of the links between efficiency and agent banking, are important aspects through which the contribution of agent banking is examined.

2.2 Services of the Agency Banking

According to a report by Equity Bank (2011), the objective of the agency model is to offer the full range of banking services to customers without their having to visit a bank. This will provide the opportunity to access financial products and services at a location nearest to the customer thus breaking down certain barriers to financial inclusion such as cost and accessibility. Lauer Kate et al,(2011) indicates that the services that may be provided by bank agents include information transmission which consists of primarily providing the customer with account information for example, balance inquiries and bank statements. Information processing includes processing accounts, and in some cases, opening accounts and loan applications. Cash handling refers to deposits and withdrawals often limited to small values to or from a customer’s own account. Finally electronic funds transfers may involve making bill payments, disbursing government benefits, and effecting payments. Hawkins (2011) in his paper states that a banking agent should be able to originate accounts, service them, sell associated financial services, such as funeral policies and loans, and allow for cash to be deposited and withdrawn.

Grossman, (2011) in a report states that Colombia in terms of the number of transaction, collection of (utility bill payments) have made up the majority of transactions (around 1.8 million in July 2011), followed by loan payments and official government payments such as tax (over 800,000 in July 2011). There have usually been more withdrawals than deposits, the numbers of credit applications, transfers and opening of savings accounts are negligible. In terms of the value of transactions, deposits and withdrawals constitute the two highest transaction types (both were around US$ 180,000 in July 2011) followed by mandatory payments and collections.

Lee et al, (2012) in a study of low income users and non users of agent banks conducted by the Consultative Group to Assist the Poor (2006) states that 99% of respondents who used agent banking reported using the agents to make payments. Grossman, (2011) further indicates that most agents in Brazil specialize in receiving bill payments which account for approximately 75% of all agents’ transactions. Withdrawals and deposits account for 12% and are equally divided into savings and current accounts. Rural agents transact more deposits and withdrawals as a percentage of total transactions (38%) more than their urban counterparts (8%): this implies that agents are playing an important role in enhancing rural access to financial services. In 2008, agents transacted 75% of the volume (1.6billion) and 70% of the value (US$105 billion) of total bill payments. Every municipality in Brazil (of which there are 5,564) is now reached by banks: 1 in 4 municipalities are served only by agents. Brazilian agents handle around 3 billion transactions per year, which comprise just 7% of transactions flowing through the Brazilian banking system. All of the above successes have been achieved through bank based agents.

According to a report by Equity Bank (2012), the number of agents stood at 6344 and the transactions grew by 96% between 2011 and 2012. This accounted for 30% of total bank's transactions. At an Equity agent in Kenya, one can apply to open a new account, apply to reactivate a dormant account, deposit and withdraw cash into and from an Equity account, pay Kenya Power and Lighting Company (KPLC), Digital Satellite Television (DSTV), Higher Education Loans Board (HELB) and Nairobi water bills and purchase airtime from any mobile network operator. (See appendix 3 for services offered at an Equity agent).

2.3 Development and Accessibility of Agency Banking

Anderloni et al (2008), states that the term 'financial exclusion' has a broad range of both implicit and explicit definitions. Research carried out and discussions held among experts' led them to propose the following definition: Financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong. There is also a widespread recognition that financial exclusion forms part of a much wider social exclusion faced by some groups who lack access to quality essential services such as jobs, housing, education or health care. Much of the exclusion appears to arise from a failure of mainstream commercial providers to supply a range of products and services that are appropriate to the needs of all sections of society.

Grossman, (2011) states that since the adoption of the National Development Plan 2006-2010, the Colombian government has shown commitment to increasing financial access and to this end has undertaken a number of regulatory forms amongst which include the creation of a relatively open regulatory framework for financial institutions to use agents. In Colombia agents are called "non- bank correspondents". These are commercial businesses that can provide financial services on behalf of formal financial institutions. There has been tremendous growth in the number of agents offering bank based financial services in Colombia during 2011. In January there were 6,104 agents but this had grown to 13,296 by the end of July 2011. Of these 78% were operating in urban areas and 22% in rural areas.

In a discussion paper Lee, (2012) states that regulations related to agent banking in Brazil were originally developed in 1979, but agent banking did not really take off until 1999-2000, when the Central Bank of Brazil's (CBB) regulations were relaxed to allow a wider variety of services to be offered by agents, notably receiving account opening applications, performing deposits and withdrawals and effecting bill payments. By the end of 2000 the total number of agents had reached 64,000. In 2008 and 2011 the regulations were revised and there are now over 160,000 agents. In comparison to other countries in this study, a relatively large proportion of the Brazilian population is "banked" (43%). This can partly be attributed to the fact that Brazil has the largest agent network in the world and is widely cited as a country where banking agents have been successfully used to expand financial access. These agents can be found in all municipalities of Brazil and although permitted to offer several types of services, fewer than 30% of agents actually handle bank accounts.

Grossman, (2011) states that financial inclusion was a big issue in Peru, where in 2007, only 27% of the adult population had a bank account. Agent banking regulations in Peru were first developed in 2005, and are known as “cajeros corresposales” which can be legal entities or individuals that offer certain permitted services under an agreement with and on behalf of a licensed financial institution. The agent network in Peru is growing rapidly: there were 1,689 agents in 2006 and 9,204 agents by December 2010. These agents carried out approximately 3.8 million transactions per month (45 million transactions in a year). These outlets are mainly concentrated in urban areas and their main role was to reduce congestion in bank branches, by moving low value transactions away from costly branches. They were seen as a relatively cheap way of diversifying geographically and were used as a way of reaching clients who had access to banks, rather than as a way of reaching poorer clients with no access.

The same report further indicates that the Reserve Bank of India (RBI) issued a circular in 2006 called (Financial inclusion by Extension of Banking Services- Use of Business Facilitators and Correspondents) which for the first time ever allowed banks to use agents to deliver financial services outside bank branches. An estimated 400 million Indians (52% of the adult population) have no access to banking services, and many others are under- or poorly banked. Agent banking has had limited impact to date on financial inclusion in India. The main factor hindering the growth of agent banking in India has been the highly restrictive nature of the regulations. There are however several key drivers supporting the development of agent banking in India. The government for instance appears to be committed to increasing access to finance and the RBI recognizes the potential and risks posed by branchless banking models. In March 2011 there were 58,351 agents in India in total, of which 94 % (54,698) were in rural areas. In order to curb this slow growth, Fintech Foundation (FINO), a technology firm and one of the first pioneers of agent banking in India, has opened ten million accounts on behalf of banks, the post office and government agencies. With 10,000 agents FINO is the world's largest agent manager. An average of 8.4 deposits and 3.1 withdrawals were carried out by individual FINO agents each day in 2010. With 10,000 agents nationwide we can assume that approximately 84, 000 and 31,000 withdrawals are carried out each day.

The report goes on to state that the Central Bank of Kenya (CBK) recognizes the financial inclusion challenges which the country faces. These include the cost of financial services and the distance to bank branches in remote areas. In contrast to the South American countries studied, Kenya has experience with both bank based and non bank based agent banking models. With this Parliament gave approval for banking legislations to be amended to enable the use of agents in June 2009 and the regulations for agent banking were published by the CBK in May in 2010 (Guidelines on Agent Banking - CBK 2010). Financial inclusion is a big challenge in Kenya: only 22% of the adult population has a bank account. There are however more than 45,500 agents offering financial services. In terms of branchless banking Kenya is probably best known for non bank based models, specifically those launched by Mobile Network Operators (MNO). M-PESA was the first and is the most famous of this model. This service was launched in 2007 and by April 2011 had more than 14 million users and 27,988 agent outlets. Kenya's regulators at CBK have been much lauded for their open and flexible approach to regulating agent banking.

It further states that the growth of Equity bank and its transformation from a building society to a bank has had major impact on the financial market in Kenya, both in terms of its actual direct outreach and through the demonstration effect this has also had in the markets locally, and internationally. Equity bank has deliberately targeted low income clients, including through its agent network, and its growth has reflected a shift to a client- and market- driven approach rather than a product driven approach. This has had a wider impact on the market structure as other banks have attempted to replicate Equity's approach. This has occurred through innovation especially the introduction of transaction accounts with no ledger fees and demonstration effects.

In a publication Equity News, (2011) the then Deputy Prime Minister and Minister for Finance Uhuru Kenyatta noted that agency banking platform would compliment conventional banking in reaching the low end market segment. At the official launch of Equity agency banking he said, "I would like to take this opportunity to congratulate Equity Bank and the over 2000 agents present today. This platform is one example of innovative services aimed at broadening financial access and deepening financial inclusion".

In a report by Equity Bank (2012), Dr. James Mwangi the Chief Executive Officer of the bank revealed that the number of depositors had grew by 16% increasing by 1.1million to 7.8million customers from 6.7million driven by agency banking and mobile banking. The number of bank agents grew to 5,496 substantially reducing the cost of accessing bank services while delivery enormous convenience to its clients as well as reducing operational costs for the bank. A report of Equity bank and The Hunger Safety Net Programme (HSNP) in Kenya (2011), states that the innovative banking model had registered remarkable success across the country. In North Eastern Kenya, through a partnership with the Hunger Safety Net Program (HSNP), cash to marginalized population is paid through select agents. This approach, while benefitting aid recipients, had opened additional business opportunities for the agents, who now have diversified into other services and products to cater for increasing demand buoyed by renewed purchasing power of clients.

2.4 Efficiency in Agency Banking Services.

In her paper Veniard, (2010) found that agent banking systems are up to three times cheaper to operate than branches. She gave two reasons for the cost saving, firstly the banks reduced need to invest in new infrastructure, and secondly, acquisition cost are lower for mobile enabled agents. By using mobile phones instead of payment cards, she states that customers can be acquired at less than 70% of the cost of a branch.

Jansen (2010) states that retail agents are highly cost effective because they leverage existing infrastructure and reduce distance to and transaction costs for clients, yet allow for face to face interaction. By aggregating client transactions, an agent economizes on transaction costs as some cash-in/cash-out flows cancel at the agent level. Depending on the bank's channel strategy, agents can increase convenience for existing clients, or facilitate expansion into untapped market segments. Success of agents is premised on several assumptions, including travel cost to branches for clients which exceeds perceived benefits of banking services. Clients in areas not served by banks will respond to banking service supply. Agent costs are low enough for branches to become profitable and this has enabled banks to save significantly on the cost of setting up and maintaining branches.

The preceding review has sought to give an overview of the literature on agent banking. It has discussed over what constitutes agent banking, its distinct features and how it has been adopted in several countries. Through the review a number of gaps were identified, most banking sectors are not keen to target low income customers and have little experience with agent management in terms of liquidity and mitigating the risk of fraud. Banks fear that selecting, equipping and training agents will require too much time, money and equipment.

Banks offer limited marketing support to their agents and the systems connecting banks and agents often fail. Monitoring agents in remote areas is also a challenge.

Finally banks use of agents as a way to reduce congestion in branches and shift low value accounts to a less costly channel has led to little expansion of the agent network in rural areas. As a result there is still a general lack of awareness/understanding of agent banking and the services that agents can offer.

2.5 Associated Risks with Agency Banking

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. 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 (Stephens and Kevin, 1998).

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).

Kinyanjui (2011), reports that Kenyan financial institutions have embarked on an aggressive entry into the segment keen to take advantage of the cost-saving and accessibility brought about by the agency banking model, but many are finding that agents lack capacity to handle large transactions of cash and under-spend on security measures. Identifying agents who are capable of handling cash transactions efficiently has been a challenge for the institutions, with consumers reporting that cash is often scarce even as rising fears of security mount at the outlets. Flaming, McKay and Pickens (2011), reports that as a branchless banking service grows, agents attract increasing interest from criminals. In Brazil, 93 percent of agents interviewed by CGAP report that being an agent increases the risk of being robbed, and 25 percent say they have been robbed at least once during the past three years losing on average more than US$500 of their own money.

While bank staff maintain a higher level of training, and are directly supervised, real time IT systems with adequate controls are the key risk management device in both cases. Agents must also manage their existing physical security risks to sufficient standard to protect their stock and cash just the same way banks do. Short term insurance is widely available and already bought by banks to cover various risks, including loss of cash in branch or in transit due to robbery and loss of money through fraud. The banks' short term insurance also covers direct monetary loss arising from failure of electronic information systems to capture transactions in real time and accurately and loss resulting from fire, theft or damage to physical property (Regulation and Supervision of Bank Channels: Policy Options for Kenya, 2012).

Tarazi (2010), observes that where damages are not easily quantified and agent behavior not easily monitored – resulting in an unknown risk that principal service providers are not well equipped to mitigate, for example, violations of data privacy. In this case, damages could be indirect and punitive – and therefore quite high. And yet, a principal service provider is ill equipped to stop such agent behavior. Some would argue that this problem is easily solved – keep the principal institution liable and it will take recourse against its own agent for any damages it is forced to pay as a result of such agent's misconduct. That could work where agents are large well capitalized retail chains. But to reach the very poor, agents are often the simple, modest corner shops – the ones whose independent behavior is most difficult to control and whose ability to "pay back" a principal for paid damages is most limited. A principal is unlikely to take comfort that in the idea that it can sue the sole proprietor of a modest fruit stand to recover unknown liabilities.

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. Institutions should therefore, at all times monitor the safety, security and efficiency of the equipment being used to prevent any tampering or manipulation by any

2.6 Conceptual Framework

The conceptual framework defines the interrelationship that exists between the independent and dependent variables. The following factors appear to influence the emerging and fast growing agent banking, which is quickly becoming recognized as a viable strategy in many countries for extending formal financial services into poor and rural areas. This relationship has been indicated in Figure 2.1 below.

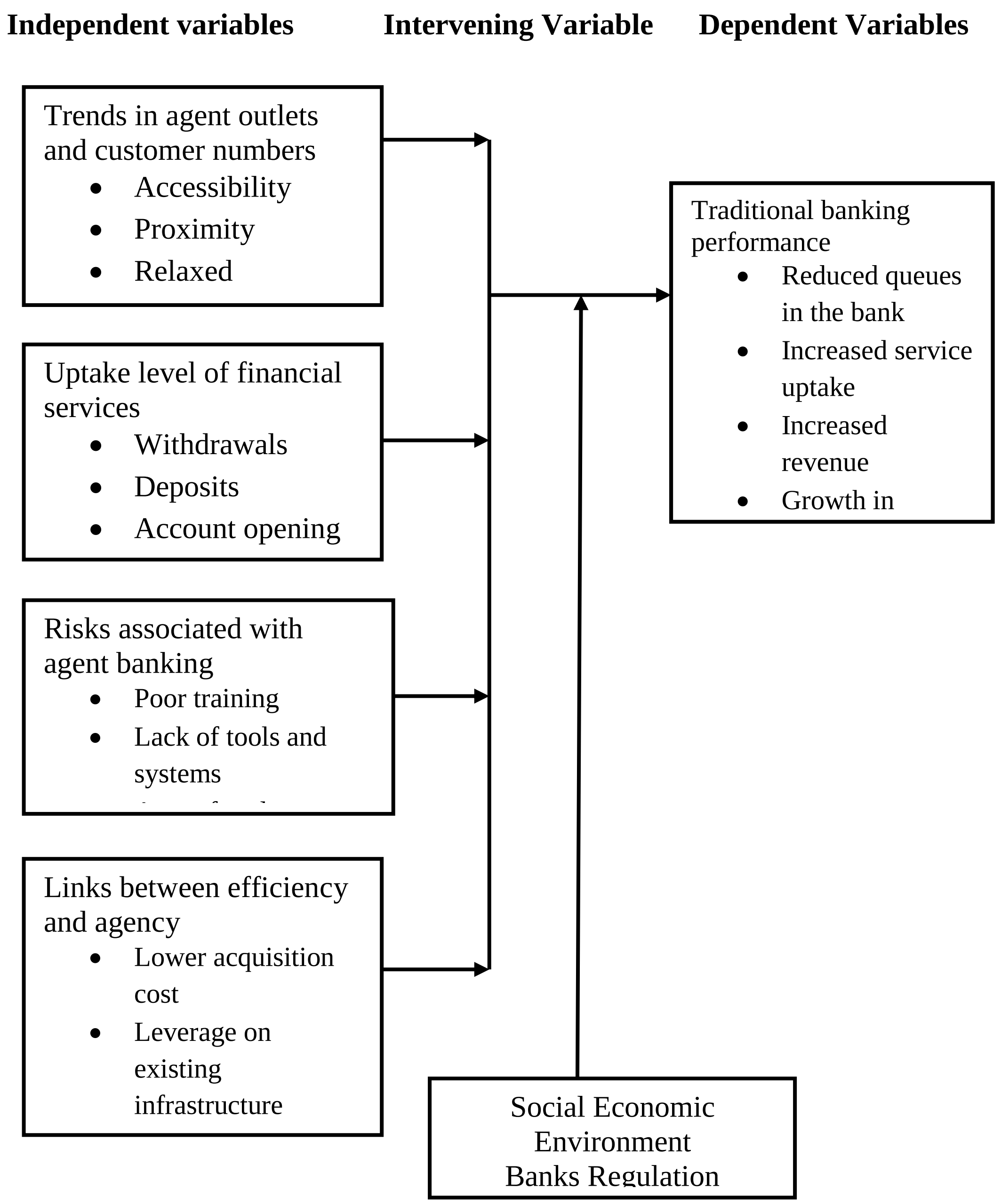

Figure 2. 1: Conceptual framework

In the trends in agent outlets and customer numbers grid, secondary data collected and, experience favors the prediction that the availability of agent outlets within a few kilometer radius of a neighborhood leads to an increase of financial access. In the uptake level of financial services grid preliminary data indicate that customers are able to make at least withdrawals, deposits, account openings, bill payments, and bank balance inquiry at an agent outlet. The extent to which agent owners are able to mitigate the risks associated with agent banking will determine the direction of the banking performances. In the efficiency grid, preliminary data indicate that the agent owners, customers and banks are all beneficiaries to this variable. Agent owners are able to leverage on existing infrastructure and reduce distance to and transaction cost for customers. On the other hand they have enabled banks to save significantly on cost of setting up and maintaining branches. Banking performance is the dependent variable in the study and can be linked to agent banking in that; agent banking presents a business opportunity that focuses on delivering financial services in areas beyond the reach of the current traditional branch network. The extent to which banks are able to adopt this approach is perceived to have an influence on whether or not bank performance increase or decrease.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter discusses the research design and methodology of the study. It explains the process of sample design, selection of the study population, sampling methods, sampling techniques and procedures, data collection methods, data collection techniques and instruments.

3.2 The Study Area

This study focused on Kisumu Central Sub-County. The Government of Kenya (GOK) (2009) shows that this Sub-County covers a total area of 2,086 km^2 with a population of about 968,909 and a density of 465km^2 and is divided into 6 districts. The urban population takes a share of about 52.2% of the total population in the county. Poverty level based on the Kenya Integrated Household Budget Survey (KIHBS) is still very high and is currently standing at 47.8%. Shauri Moyo Ward in Kaloleni sub location is located in Western Kenya (see figure 2.3 on sub locations in Kisumu municipality). Street lights have been installed and almost all houses have electricity connection. There are communal water points that provide most residents access to piped water. The area has schools which also act as community centers. Income levels are quite low. A number of petty traders sell food stuffs, while others engage in assorted informal sector activities such as water vendors, carpenters, fitting mechanics, and bicycle taxis operators. The minority who work in the formal sector are confined to the lower cadres of employment. Self employment continues to provide the main source of sustenance. Proximity to Kibuye market and the Jua Kali centres have been critical factors in the development of employment for these residents.

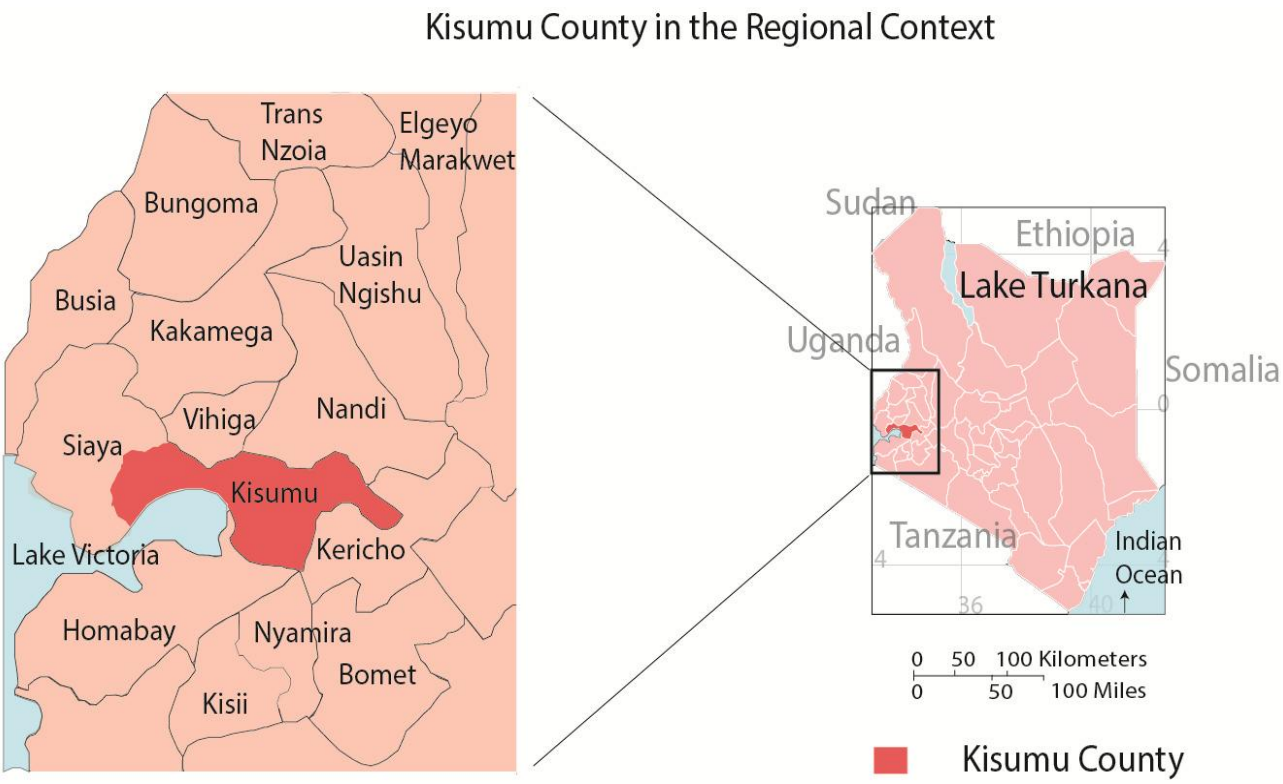

Figure 3. 1: Kisumu County in the Regional Context

Source; Author

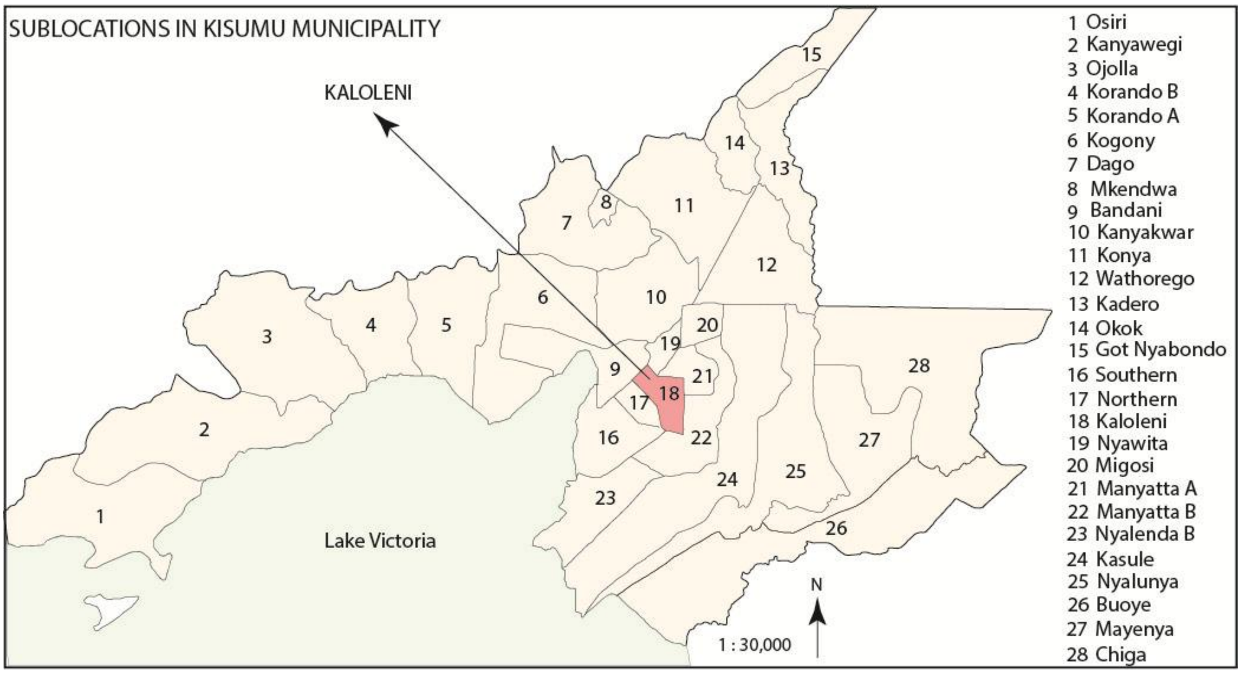

Figure 3. 2: Sub locations in Kisumu Municipality

Source: Kenya Government of (2010) Kisumu City Concept Plan. Physical Planning Department

3.3 Study Design

Research design is the general plan of how the researcher will go about answering research questions. It specifies the sources from which the researcher intends to collect data, the measurements to make and the how the data is analysed (Saunders, Lewis and Thornhill, 2009). The purpose of this study being to investigate the effectiveness of agent banking services in commercial banks, it sought to describe the phenomena as it exists in the study area. Therefore, descriptive research design was used as it is deemed to be the most appropriate. Various authors recommend the use of descriptive design contending that, to produce information that is of interest to policy makers even in business, descriptive design is helpful (Orodho, 2004).This involved collection of information by administering questionnaires and interviewing a sample of individuals.

3.4 Study Population

The study targeted Equity Bank staff, bank agents, and all clients of Equity Bank agents that offer agency banking services in Kisumu Central Sub-County. The study targeted bank managers at Ang'awa and Mega Plaza Branches of Equity Bank, and the appointed agents of the bank operating in Kisumu Central Sub-County. Equity Bank has a total of 11 appointed agents in the study area with a total of 1,731 registered clients.

There was a separate questionnaire for the key informants (agents and managers) and respondents who were registered Equity Bank clients at the agent outlets in Kisumu Central Sub-County. Branch managers of the two bank branches and the agents were purposively selected for the study. By virtue of their administration, they were considered to have a grip of the operations of agent banking. The study involved a complete census of all the appointed bank agents in Kisumu Central Sub-County. Analysis of the whole population is desirable in this case since the target population is relatively small and concentrated in one region. Waksberg (1999) recommend the use of population studies as it gives data in great detail for small domains and especially for local areas, which samples fail to provide. Orodho (2004) also contends that population studies or a census is more representative as it gives everyone an equal chance.

3.5 Target Population

Purposive sampling technique was applied in the study. It is a non probability technique selected based on the knowledge of the population and purpose of the study. The sampling frame was drawn from Equity Bank staff, bank agents, and clients of bank agents in Kisumu Central Sub-County. A census survey was done so that agency outlets in Kisumu Central Sub-County targeted in the study were 11, and were picked from the areas of Polyview 3, Arina 1, Ondiek 2 and Kibuye 5. Equity bank targeted in the study included 3 managers and 3 marketing executives.

Table 3. 1: Target Population

Category of Respondent	**Population Frequency (N)**	**Percentage (%)**
Bank managers	6	0.3
Agents	11	0.7
Clients of Bank Agencies	1731	99
Total	**1748**	**100**

Source: Primary data

3.6 Sampling Design

A sample of 278 clients of the bank agents, 2 bank managers, and 5 agents across the study area were chosen for the study using a purposive sampling technique. The client respondents were randomly selected from the bank transaction register available at the bank agency outlets. The sample frame of the study was the entire bank management staff and clients found in the database and register of Equity Bank.

Determining the appropriate sample size is important in any research undertaking. Thus, sample size depended on the population, the level of confidence and the maximum deviation from true population that could be tolerated in the study. Depending on this, there were various sample size estimation methods. The Cochran equation was used to determine the required sample size with the population of above 1,748 and sample size of above 30 computed as from the Cochran equation (Cochran, 2003) shown below:

$$n_o = \frac{Z^2pq}{e^2}$$

Where,

n_0 = the sample size,

Z^2 = the abscissa of the normal curve that cuts off an area α at the tails (1- α equals the desired confidence level 95%)

e = the desired level of precision,

p = the estimated proportion of an attribute that is present in the population,

q = the 1-p.

The computation of the study sample size is presented in the equation shown below:

$$n_o = \frac{Z^2pq}{e^2} = \frac{1.96^2(0.5)(0.5)}{0.005^2}$$

$$n_o = 281$$

Corrected Sample Size- Finite Population is given by:

$$\text{New ss} = \frac{ss}{(1+(\frac{ss-1}{Pop})}$$

Sample size – finite population

$$\text{New ss} = \frac{281}{(1+(\frac{281-1}{1728})} = 278$$

Sample Size = 278

Table 3. 2: Showing Sample Size

Category of Respondent	Population Frequency (N)	Sample Size
Bank managers	6	2
Agents	11	5
Clients of Bank Agencies	1731	278
Total	**1748**	**285**

Source: Primary data

3.7 Data Collection Tools

Primary and secondary data collection tools were used in the study. Primary data was obtained by use of questionnaires, interviews, observations. Questionnaires were used, selected and set according to the objectives of the study. Semi structured questionnaires was preferred because they can be used to reach many people, save time and are thus cost effective. These were used to collect data on agent banking and bank performance. An interview guide was also conducted to collect information on key stakeholders from Equity Bank.

3.8 Reliability and Validity

For the purposes of reliability and validity, a pretesting was carried out on 15 colleagues who were not involved in the actual study. The results were evaluated and adjusted accordingly to capture the required data for the study.

3.9 Data Collection Procedure

Data collection procedure began upon approval of the proposal by the supervisor. An introduction letter was attached to the questionnaires for consent to collect data from the respondents. The researcher issued the questionnaires to the respondents who provided the answers.

3.10 Ethical Considerations

Ethics are norms of standards of behavior that guide moral choices about our behavior and our relationships with others. The goal of ethics in research is to ensure that no one is harmed or suffers adverse consequences from research activities. The researcher assured confidentiality to the respondents and affirmed that the study was conducted for academic purposes only and all sources of information acknowledged.

3.11 Data Analysis

The data was subject to editing whose main purpose was to guarantee that data are accurate, consistent with other information, uniformly entered, complete and arranged to simplify tabulation. A field edit was conducted to detect the obvious inaccuracies and omissions in the data. The data was then tabulated by a computer program upon which summary statistics, which are measures of central tendency (mean, median and mode), were used to present survey findings. This was done with the help of Statistical Package for Social Sciences (SPSS).The output of the analysis was presented in tables and charts and interpretations made based on the research objectives.

CHAPTER FOUR

FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter discusses the study findings on the client's uptake level for the different services offered by agents. The study sought to determine the efficiency of agency banking in time saving when serving customers and to find out the risks associated with agent banking.

4.2 Characteristics of Respondents

The study background presented the results on response rate, respondents' demographic background**.** The study sampled 285 respondents composed of 53% males and 47% females. All the targeted respondents filled and returned the questionnaires representing a response rate of 100%.

Table 4. 1: Response Rate Respondents by Gender

Gender	Frequency	Percentage %
Male	151	53.0
Female	134	47.0
Total	**285**	**100**

Source: Primary data

4.2.1 Education

The majority of the respondents (48.4%) had secondary school level of education, while 36.5% had primary level, 12.3% college and 2.8% university level as shown in table 4.2. The education level of the respondents implies that they have had some formal education and thus could be able to read and write as well as grasp and understand concepts in relations to the use of agent banking.

Table 4. 2: Education Level of Respondents

Education	**Frequency**	**Percentage %**
Primary	104	36.5
Secondary	138	48.4
College	35	12.3
University	8	2.8
Total	**285**	**100.0**

Source: Primary data

Anderloni Luisa et al (2008) in an article, state that there is a strong link between financial exclusion and level of education received and also with income. So the less well –educated people were and the lower their household income, the more likely they were to be excluded from all forms of financial services. Johnson and Arnold, (2009) also state that Education is still strongly associated with the pattern of access; educated people are still significantly less likely to be excluded than those without formal education, with the influence of secondary education being greater than that of primary.

Majority of the respondents (48.4%) had gone through secondary school level, 36.5% through primary level, 12.3% through college, while 2.8% were at university level. The education level of the respondents' implies that they have had some formal education and thus could be able to read and write as well as grasp and understand concepts in relations to the use of agent banking. Anderloni Luisa et al (2008) in an article, state that there is a strong link between financial exclusion and level of education received and also with income. So the less well –educated people were and the lower their household income, the more likely they were to be excluded from all forms of financial services. Johnson and Arnold, (2009) also state that Education is still strongly associated with the pattern of access; educated people are still significantly less likely to be excluded than those without formal education, with the influence of secondary education being greater than that of primary.

4.3 Clients Uptake of the Banking Services Offered by Agents

This section addresses the first specific objective on the uptake level for the different services offered by agents. This is the question being answered here. What is the uptake level for the different services offered by agents? And these are the parameters, trends in number of agents and customers and the uptake level of services. When this was measured this is what was found out. Figure 4.1 and 4.2 shows the trends in numbers of agent outlets and customers at the national level between 2011 and 2012.

From the findings as shown in figure 4.1 it means that the trends in the number of Equity bank agent outlets has been increasing steadily, from 875 agents in January 2011 to 3234 by December 2011 a percentage increase of 73%. In January 2012 the number of agents was 3339 and rose to 6344 by December 2012 a percentage increase of 47%, giving an overall increase of 60%.This could mean that many were adopting and accepting the agent banking technology. The numbers of customers accessing these outlets (as shown in figure 4.2) shows tremendous growth from 417,194 in January 2011 to 1,281,816 by December 2011 a percentage increase of 67% and from 1,366,360 in January 2012 to 2,165,659 by December 2012 an increase of 37%, giving an overall increase of 52%. This steady increase could mean that agent banking is contributing significantly to financial inclusion coverage in the area and it is anticipated that it will exceed in the coming years.

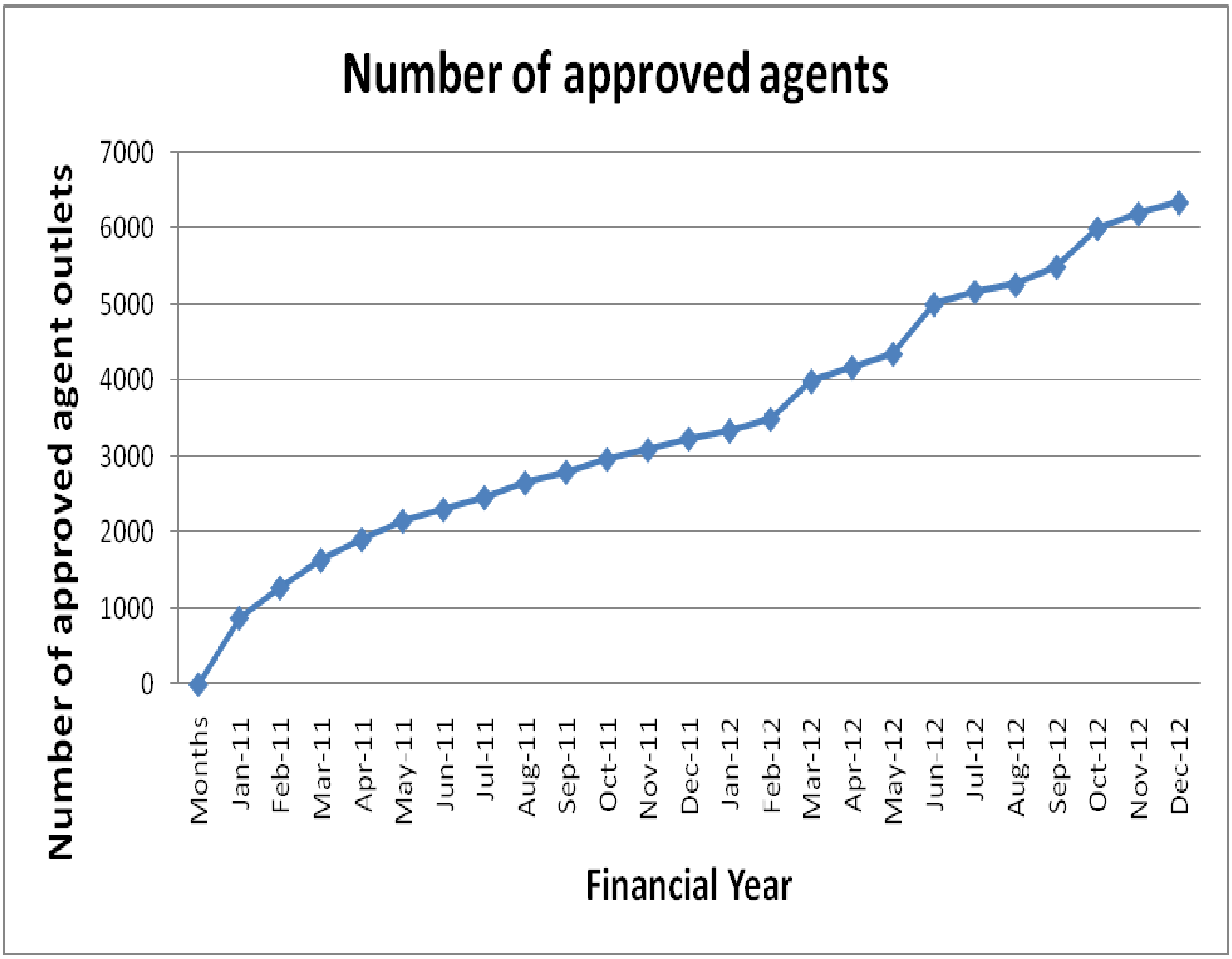

Figure 4. 1: Trends in number of agent outlets in Kenya

In Kaloleni the study area the numbers of customers accessing these outlets has grown tremendously in the last three years from 8,250 in January 2011 to 17,950 in the year 2012 a percentage increase of 54%. The client numbers grew from, 27,575 in 2013 to 31,731 clients in the year 2014 a percentage increase of 13%, giving an overall increase of 33.5%. This means that agent banking is contributing significantly to the provision of financial and payment services to bank clients within the study area. The gradual increase in the number of

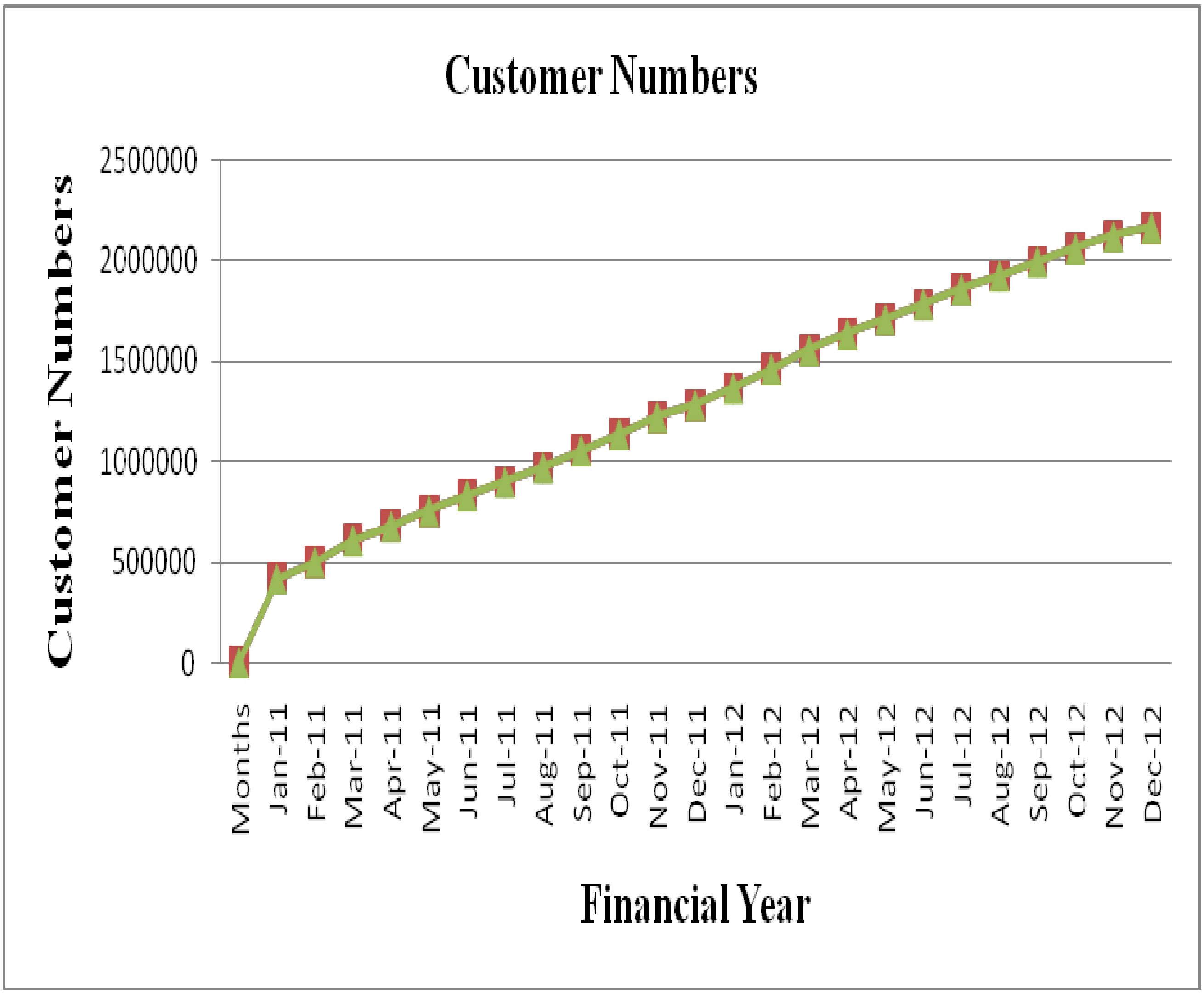

Figure 4. 2: Trends in customer numbers in Kenya

customer indicates demand and that banking agents continually get more customers in the study area. It is therefore evident that as the outlets increase, more customers have a wider selection of banking service providers to choose from and hence an increase in the uptake level of the services offered. A Summary of the number of clients accessing banking services from the agents in the study area is shown in Table 4.3.

Agency banking offers a wide range of services such as cash deposits, cash withdrawals, insurance, cheque clearance, bill payments, loans, account opening, account balance inquiry.

When questionnaires were administered in the study area table 4.4 shows how people responded. They positively identified cash deposits, withdrawals and bill payments as the most utilized services at the agents' outlets. Cash deposit was the most demanded service (43.9%), followed by cash withdrawal (24.6%), and bill payment (22.5%). This means that these are the things that are popular with the people.

Table 4. 3: Changes in Number of agency banking clients

Location	**Number of Agency Banking Clients Per Year**			
	2011	2012	2013	2014
Kibuye	4500	11050	18300	18800
Polyview	2250	3300	4700	6150
Ondiek	1500	3600	3900	5100
Arina	0	0	675	1681
Total	8250	17950	27575	31731

Source: Equity Bank of Kenya (2015)

The study finding on the financial services offered by the bank agents in the study area is concomitant with the results of a research study conducted by Kumar in 2012. According to Kumar (2012), services most utilized at a banking agents are mainly cash deposits, withdrawals, and bill payments. Although the law requires all agents in most countries to offer a variety of banking services, usually quite similar to those performed at traditional bank branches, bank agents only concentrate on cash deposits, withdrawals, and bill payments.

For instance, Grossman (2011) states that in Colombia, collection of (utility bill payments) made up the majority of transactions (around 1.8 million in July 2011). This was followed by loan payments and official government payments such as tax (over 800,000 in July 2011). In terms of the value of transactions, deposits and withdrawals constitute the two highest transaction types (both were around US$ 180,000 in July 2011) followed by mandatory payments and collections. This means that agent banking were offering the frequently sought after services found in traditional banking branches and that there is more inclusion because of increase in numbers and customers

Table 4. 4: Response Rate to Services Offered by Banking Agents

	Frequency	**Percentage%**
Cash deposit	125	43.9
Cheque clearance	2	0.7
Cash withdrawal	70	24.6
Insurance	17	6.0
Bill payment	64	22.5
Loan	7	2.5
Total	285	100.0

Source: Primary Data

4.4 Efficiency of agency banking in time saving

The second objective for this study was to determine the efficiency of agency banking in terms of transaction time, operating hours and travel time. The responses were analyzed and summarized as presented in this section.

4.4.1 Transaction time

The study sought to measure time clients spent at the agent during the transactions. The respondents within the study area were asked to give their response about timeliness of the banking agencies. Does agency banking have a cost saving nature in regards to time? The response was analyzed and summarized as presented in Table 4.5.

Table 4. 5: Accessibility and Timeliness of Agency Banking

	Frequency	Percentage %
Strongly agree	30	10.5
Agree	229	80.4
Neutral	13	4.6
Disagree	13	4.6
Total	285	100.0

Source: Primary data

Table 4.5 shows that 90.9% of the respondents agreed that the agency banking was saving on time during transactions. The study finding agrees with Obutora and Mugambi (2013) who argued that days are long gone when customers would queue in the banking halls waiting to pay their utility bills, school fees or any other financial transactions. They now do this at their convenience by using Agents outlets.

Lyman, et al (2008) states that agency banking has enabled bank customer to access the banking services within the comfort of their neighborhood and has dramatically reduced the cost of delivering financial services to unreached people. Agency banking can address the two main problems of access to finances; the cost of rollout (physical presence) and the cost of handling the 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

4.4.2 Agency banking operating hours and provision of banking services

The study also sought to determine how agency banking has increased opening hours to increase provision for banking services within the study area. The respondents were required to indicate if the agents provide banking services in the study area through long operating hours. The responses were presented in Table 4.6.

Table 4. 6: Agency Banking Long Opening Hours

	Frequency of responses	Percentage%
Yes	261	91.6
No	24	8.4
Total	285	100.0

Source: Primary data

According to the research, 91% of the respondents agreed that the banking agents avail banking services through longer operating hours as opposed to the banks, with most of them opening from 7.00am to 6.00pm everyday including public holidays. This has enabled customers to get banking facilities very early in the morning and also late in the evening, and when the main branches are already closed. This could mean that agency banking is delivering convenience in form of extended hours of banking and thus influencing financial inclusion in the form of accessibility.

According to the bank supervision annual report (2011), adoption of agency banking has enhanced provision of banking services for long hours. The financial sector reform and development blueprint, vision 2030 indicated that, access to financial services continued to be enhanced, spurred by increased innovation in the delivery of financial products and services throughout the country. These developments have been a catalyst to fulfilling the goals of building an all inclusive and efficient financial system. Agency banking provides the opportunity for customers to get financial products and services at a location nearest to the customer, this breaking down certain barriers to financial inclusion such as cost and accessibility. Despite the use of the agency banking for the banks to bring financial services closer to their customers it has been currently said that the long queues of people seeking services in banks especially in equity bank have reduced at low rate, hence the researcher's need to study the role of agency banking in expanding access to the financial services.

4.4.3 Travel Cost to Branches for Clients Exceeds Perceived Benefits

Does the travel cost to branches for clients exceed perceived benefits? Majority of the respondents 76.5% disagreed with the assertion as shown in table 4.7. This could mean that agent banking had not completely replaced traditional banking branches transactions. Others were neutral on the assertion, an indication that in as far as agent banking was getting many customers, some preferred to choose traditional banking institutions based on other considerations other than costs.

Kumar, (2012) in his literature indicates that the heavy cost of servicing low value accounts and providing physical banking infrastructure to unbanked areas was a major impediment to financial inclusion in the past. He further says that the branch model was heavy on the pockets of poor customers, who had to spend time and money to travel long distances to the nearest branch.

Table 4. 7: Travel cost to branches exceed perceived benefits of banking services

	Frequency	Percentage %
Strongly Agree	7	2.5
Agree	15	5.3
Neutral	35	12.3
Disagree	218	76.5
Strongly Disagree	10	3.5
Total	285	100.0

Source primary data

However Susan and Steve, (2009) in their literature indicate that there is no relationship between the costs of travelling there and use. According to their survey 75% of the population reported living less than an hour away from the bank. Hence for the majority, distance is not a key factor in determining their access, and this only becomes significantly associated with access for those beyond this point.

4.5 Risks Associated with Agent Banking

The third specific objective was to find out the risks associated with agent banking. The objective was to measure the number of complaints and perceived risks with agent banking.

The risks associated with agent banking may lead to a slower adoption of agent banking. Some of these risks include failure of network systems, requirement by agents for customers to buy goods/services before obtaining financial services, enough cash flow, agent banks perceived as being substitutes for customers with low value accounts, security and safety data entry errors, excessive or unauthorized fees, loss of customers records, agent failure to forward customer complaints to the banks, valid agent thefts. When questionnaires were administered in the study areas this is how people responded.

4.5.1 System Failure

Majority of the respondents 69.5% agreed that agent banking is often faced by failure of network systems as shown in table 4.8. The occasional failure of the network system makes it hard for the customers, as well as the traditional banking branches, to wholly depend on agent banking for their routine banking operations.

Table 4. 8: Frequency Systems Failure

	Frequency	Percentage%
Strongly Agree	17	6.0
Agree	198	69.5
Neutral	50	17.5
Disagree	19	6.7
Strongly disagree	1	0.4
Total	285	100.0

Source: Primary data

In support of the study findings, Kate et al, (2011) in her literature indicates that utility disruption or software or hardware failures can cause a lack of service availability and information loss. Apart from investing in robust, effective and efficient systems, there is need for banks and other financial institutions to carry out a periodic review of agent's network. This will enable agent empowerment and support their activities seamlessly.

4.5.2 Agencies' Conditions for Service Delivery

It was agreeable among majority of the respondents 58.6% that bank agents do not require customers to purchase certain goods and services to obtain financial services. Customers, therefore, easily access the banking agencies freely without any hindrances, thus impacting positively on agent banking in terms of customer turnover and financial inclusion.

Table 4. 9: Requirement to Make Purchases to Obtain Services

	Frequency	Percentage%
Strongly agree	9	3.2
Agree	12	4.2
Neutral	53	18.6
Disagree	167	58.6
Strongly disagree	44	15.4
Total	285	100.0

Source: Primary data

4.5.3 Lack of Liquidity

Majority of the respondents (78.1%) disagreed with the assertion that bank agents never have enough cash to fund customer's withdrawal requests. The study shows that bank agents have a good cash flow management system, and have built an acceptability and confidence in the customers. As shown in table 4.10 below.

In the assertion “agent banking is usually perceived to be a substitute for customers with low value accounts‟, majority of the respondents 64.2% agreed with the assertion. The finding point out that agency banking is synonymous with customers with low income levels in the study area. Much as agent banking enables low income earners to access banking services easily in their various neighborhoods, this notion discourages some from consuming services of the agency banking.

Table 4. 10: Agents Never Have Enough Cash for Withdrawals

	Frequency	**Percentage %**
Strongly Agree	5	1.8
Agree	41	14.4
Neutral	45	15.8
Disagree	178	62.5
Strongly Disagree	16	5.6
Total	**285**	**100.0**

Source: Primary data

4.5.4 Association of agency banking services with low value accounts

Kumar, (2012) in his literature indicates that the heavy cost of servicing low value accounts and providing physical banking infrastructure to areas with no banking services was a major 39impediment to banking institutions in the past. Veniard, (2010) in her literature also says that one of the primary impediments to providing financial services to the poor through branches and other bank based channels is the high costs inherent in these traditional banking methods. The amount of money expended by financial service providers to serve a poor customer with a small balance and conducting small transactions is simply too great to make such accounts viable. In addition, when financial service providers do not have branches that are close to the customer, the customer is less likely to use and transact with their service.

Table 4. 11: Agent Banking for Low Value Accounts

	Frequency	**Percentage %**
Strongly Agree	10	3.5
Agree	183	64.2
Neutral	18	6.3
Disagree	69	24.2
Strongly Disagree	5	1.8
Total	**285**	**100.0**

Source: Primary data

4.5.5 Insecurity

Majority of the respondents (57.2%) agreed to the assertion that „customers feel secure while using agent banking. This is shown in table 4.12. Those that disagreed were 26% while others were neutral on the assertion, an indication that some customers may prefer to use traditional banking in fear of their security.

Table 4. 12: Customers secure While Using Agent Banking

	Frequency	**Percentage %**
Strongly Agree	14	4.9
Agree	149	52.3
Neutral	48	16.8
Disagree	72	25.3
Strongly Disagree	2	0.7
Total	**285**	**100.0**

Source: Primary data

When compared to other countries like Peru, Colombia and Brazil, the hindering factors to agency banking was mainly regulatory frameworks and liquidity management. The above mentioned risks could mean that agent operations may need regular supervision from time to time. Many policy makers also require that banks keep an updated database of active agents by name, location and permitted activities.

CHAPTER FIVE

SUMMARY OF FINDINDS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The purpose of this chapter is to round off the study with summary of study, conclusion and recommendations on the effects of agency banking on accessibility and efficiency of banking services in Kisumu Central Sub-County, Kisumu. The conclusions are made from the analysis of the data generated by the study and the literature review.

5.2 Summary of Findings

The study was to assess the effect of agency banking on accessibility and efficiency of banking services in Kisumu Central Sub-County, Kisumu. The first objective sought to find out the uptake level of the banking services offered by agents. It is apparent from the findings that the trends in the number of Equity bank agent outlets had an increase of 60% between January 2011 and December 2012. The customer numbers had an increase of 52% within the same period.

In Kaloleni the study area the numbers of customers accessing these outlets had an overall increase of 33.5% between January 2011 and December 2014. Respondents positively identified cash deposits, withdrawals and bill payments as the most utilized services at the agents' outlets. Cash deposit was the most demanded service (43.9%), followed by cash withdrawal (24.6%), and bill payment (22.5%). Other least sought services offered by the bank agents in the study area included loans, cheque clearance, and insurance.

The second objective for this study was to determine the efficiency of agency banking in terms of transaction time, operating hours and travel time. The findings show that 90.9% of the respondents agreed that the agency banking was saving on time during transactions. Based on the study findings 91% of the respondents agreed that, banking agents provides banking services to clients by operating for longer hours. The outlets also remain open during the public holidays to the convenience of clients seeking for banking services. In relation to travel time 76.5% of the respondents disagreed with the assertion that travel cost to branches for clients exceeded perceived benefits of banking.

The third objective was to find out the risks associated with agent banking. The objective was to measure the number of complaints and perceived risks with agent banking. The study revealed that 69.5% agreed that agent banking is often faced by failure of network systems. The prolonged system downtime inconvenience clients of the agency banking.

It was agreeable among majority of the respondents 58.6% that bank agents do not require customers to purchase certain goods and services to obtain financial services. Majority of the respondents 78.1% disagreed with the assertion that‟ bank agents never have enough cash to fund customers‟ withdrawal requests, an indication that bank agents have a good cash flow management system, and have built an acceptability and confidence in the customers.

Majority of the respondents agreed to the assertion that, agent banking is usually perceived to be a substitute for customers with low value accounts. The research study shows that 57.2% customers feel secure while using agent banking even though isolated cases of fake currency, valid agent theft, unauthorized excessive service charges, and loss of client property, data entry error, and deliberate failure of the agent to forward client’s complaints to the bank were reported by respondents.

5.3 Conclusion

Agency banking has met its objectives which were to find out the uptake level of the banking services offered by agents, to determine the efficiency of agency banking in terms of transaction time, operating hours and travel time and, to find out the risks associated with agent banking. People have taken it up and are confirming that they are taking less time during transactions. The few security concerns reported by the respondent clients should not be taken as failure of the model. The insecurity hurdles associated with the agency banking is because the mode of services is a new phenomenon in Kenya having started in 2010. The Agent banking model is a success as regards financial inclusion.

5.4 Recommendation

The study made the following recommendations to improve accessibility and efficiency of the agency banking.

1. Commercial banks who have adopted the agent banking model should limit operational costs on agent banking to avoid the cost of services to the customer going up. Other financial institutions apart from banks should also venture in agent banking operations. This could broaden the range and coverage of financial services.

2. The Bank supervisory agencies should closely monitor and regulate the operations of their approved banking agents. Regular reporting on agent transactions, incidences of fraud and theft, and customer complaints should be observed by both the agents and bank officials.

3. Apart from periodic review of agent network system, banks should invest in robust systems for the purpose of improving the level of confidence and adoption among customers.

4. Banks should train agents and employees working in agency banking outlets in order to improve their performance, this need to be continuous and as the need arises. In order to increase their overall customer profitability, banks may need to reconsider investing in marketing to sell additional financial products to agent customers.

5.5 Suggestions for Further Research

The current study evaluated the effect of agent banking in promoting financial inclusion in Kisumu Central Sub-County, Kenya. However, the study was limited to Kisumu Town which is a small area as compared to geographical coverage of Kenya. The researcher therefore recommends duplication of the current study in a larger area, perhaps the entire Kisumu County.

Future research should also analyse the cost benefit analysis of implementing agency banking as this will help identify areas where financial institutions can reduce cost, and improve the agency banking process.

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APPENDICES

Appendix 1: Letter of Introduction

Questionnaire

<u>RE: LETTER OF TRANSMITTAL</u>

Dear respondent,

This interview is aimed at gathering primary data on agent banking in Kenya's banking institutions. You are kindly requested to fill in the questions depending on the instructions given. The information you provide will be treated with utmost confidentiality and will be used for the purpose of accomplishing academic goals. Do not include your name anywhere in the questionnaire. Note that there are no wrong or right answers.

Appendix 2: Questionnaire

Part A: Background information

Demographics	
Gender	Male ☐ Female ☐
How old are you	18-25 ☐ 26-35 ☐ 35-40 ☐ Above 40 ☐ Record actual age ☐
What is your highest level of education	Primary ☐ Secondary ☐ Tertiary institution ☐
Marital status	Single ☐ Married ☐
Number of dependants	Record number ☐
What is your occupation	Business ☐ Employed ☐ Agriculture ☐ Others(specify) ☐

PART B: Increasing agent outlets and customer base.

6. Please indicate the number of Equity bank agents found in this locality.

a. 5-10

b. 10-15

c. 15-20

d. Over 20

7. Do you think agent banking is replacing traditional banking branches?

a. Yes

b. No

Kindly explain

………………………………………….

8. If you were to go to the nearest bank, how would you get there?

a. Walk all the way ☐

b. Use own motor vehicle ☐

c. Use own motor cycle ☐

d. Use own bicycle ☐

e. Use public transport: bus ☐ taxi ☐ motor cycle ☐ bicycle ☐

f. Others ☐

9. How long would it take you to get there?

a. 10-30 minutes ☐ 5 or more hours ☐

b. 30-1 hour ☐

c. About 2 hours ☐

d. About 3 hours ☐

e. About 4 hours ☐

10. How much would it cost to get there by public transport?

a. Less than ksh50/= ☐

b. About Ksh 51 -100/= ☐

c. About Ksh 101- 200/= ☐

d. About Ksh 201- 500/= ☐

e. Don't know ☐

Products and services linked to agent banking	
Which financial services/products can you get at the banking agent? Cash deposit ☐ Cheque clearance ☐ Cash withdrawal ☐	Insurance ☐ Bill payments ☐ Account opening ☐ Loan ☐ Others(specify) ______

The following statements indicate the risks associated with agent banking and the links between efficiency and agent banking. Please indicate the extent of agreement with the statements using: 1-Strongly agree(SA), 2- Agree (A), 3- Neutral(N),4-Disagree(D),5-Strongly disagree (SD)

Statement	1-SA	2-A	3-N	4-D	5-SD
Risk associated with agent banking					
Agent banking is often faced by failure of network systems					
Bank agents require customers to purchase certain goods and services to obtain financial services					
Bank agents never have enough cash to fund customers withdrawal requests					
Agent banking is more perceived to be a substitute for customers with low value accounts					
Bank agents lack appropriate tools and systems.					
Customers feel secure while using agent banking					
Links between efficiency and agent banking					
Bank agents are easily accessible, timeliness and have a cost saving nature.					
Many customers adopt agent banking based on cost considerations					
Travel cost to branches for clients exceeds perceived benefits of banking services.					

10. Which of the following have you experienced at a banking agent outlet?

a. Agent theft

b. Excessive or Unauthorized fees

c. Loss of customers' assets and records

d. Data entry errors

e. Agent failure to forward customers complaints to the bank

f. System failures

g. Customers' confidential information leaks

h. Others

Appendix 3: Key Informant Interview Questionnaire

Part A: Background information

1. How long have you worked in this bank?

a) 1-5 years

b) 5-10years

c) 10-15years

d) Over 15years

2. Indicate your category of work in this banking institution

a) Top management

b) Middle level management

c) Lower level management

d) Marketing executive

Part B: Increasing agent outlets and customer base.

3. Please indicate the number of agencies that your bank has initiated in a bid to address financial inclusion

a) 5-10

b) 10-15

c) 15-20

d) Over 20

4. Do you think agent banking is replacing traditional banking branches?

a) Yes

b) No

Kindly explain…………………………………………………………………………………….

…………………………………………………………………………………………………

…………………………………………………………………………………………………

……………………………………………………………………..

5. The agent networks are selected on the basis of proximity to urban ,rural and remote areas

Yes

No

Kindly

eexplain………………………………………………………………………………..