FACTORS INFLUENCING UPTAKE OF AGENCY BANKING STRATEGY IN KENYA

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ABSTRACT

The uptake of agent banking in Kenya was not well appreciated by the target beneficiaries who include among others the commercial banks and target customers who were expected to benefit from this technologically innovative financial inclusion strategy. In as much as it has been witnessed that there is an increase in penetration of agent banking services clients have not fully made use of the available agents at their localities to cut down on transaction costs occasioned by travelling to traditional branches and also time wasted on queuing for the services. It can also be noted that, the banks have not fully taken advantage of agent banking to explore all market segments at a low operating costs. This study therefore sought to establish factors influencing the uptake of agency banking strategy in Kenya. The key independent variables were technology infrastructure, Agency banking risks, and agents training and their effect on agency banking uptake. The research targeted all 43 licensed commercial banks in Kenya. Data was collected through questionnaire to the banks and secondary data was what other scholars have written on agent banking. A questionnaire was designed to capture the various variables of the study. The questions were structured as open and closed ended, where open ended allowed free responses and closed were restricted to the alternatives stated, Yes or No. Data was analyzed by use of descriptive and inferential statistics. The study found out that the uptake of agency banking was highly influenced by technology infrastructure, agency banking risks and agents training. The study recommended that banks should invest in proper technology infrastructure that can handle all transactions carried out by the banks, and proper training should be offered to the bank agents.

Key Words: agency banking strategy, Kenya
Introduction

A bank agent is an entity that has been contracted by a bank to carry out clients transactions on behalf of the bank with approval of the central bank of Kenya. Unlike the bank where transactions are conducted by a bank teller, in agent banking transactions which include clients’ cash deposit, clients’ cash withdraw, cash transfer, pay bills and balance enquiry are done by the owner or an employee in outlets such as grocery stores, retail shops, post offices or pharmacies (Kumar et al, 2006). Bank agents help financial institutions to divert existing customers from crowded bank branches (CBK, 2010).

On a global perspective, pioneering banks, microfinance institutions and mobile operators started to experiment with agency banking networks in various Countries around the World in the 20th century (Bill, 2012). According to Demirguc-Kunt and Klapper (2012), during the early days, banks were using mobile vans to take services to their customers especially those in rural settings. Then they moved to using the internet and e-mail services to providing services to their customers. With the innovation of mobile phones banks were forced to change their strategies to mobile phone banking (Demirguc-Kunt and Klapper, 2012). In recent years, agent banking has been adopted and implemented with varying degrees of success by a number of developing countries, particularly in Latin America (Venkatesh & Morris, 2003). According to Alliance for Financial Inclusion (2012) report, Brazil is often recognized as a global pioneer in the area of agency banking since it was an early adopter of the model and over the years has developed a mature network of agent banks covering more than 99% of the country’s municipalities.

According to Bill (2012), banks, microfinance institutions and mobile operators started to experiment with banking agent networks in various countries around the world such as Mexico in 2009, Peru in 2005, Colombia in 2006, Ecuador in 2008, Venezuela in 2009, Argentina in 2010, and Bolivia in 2006. Other countries around the world have also utilized the agent banking model to expand financial services, including Pakistan, Philippines, Kenya, South Africa, Uganda, and India. Latin America is the region with the strongest development towards banking agents (Bloodgood, 2010). Here governments are concerned about expanding financial sector infrastructure, have adjusted regulation, and are providing incentives for banks to reach new geographies and new clients segments through banking agents. According to Alliance for Financial Inclusion (2012) report, the regulation, design, and implementation of agent banking vary across countries. These differences are evident in the variety of services offered by agents, the types of businesses acting as agents, the types of financial institutions that work through agents and the business structures employed to manage them. These differences ultimately contribute to the disparities in the extent to which agent banking is actually bridging the financial inclusion gap.

In Kenya, agency banking is regulated by the Finance Act, 2009 that became operational in January 2010. The Central bank of Kenya published on May 3rd 2010 the guidelines under
which the agency banking model will be operated and are meant to minimize risk inherent in the agency banking system by providing a clear regulatory framework (CBK, 2010). In the last decade, there has been an explosion of different forms of remote access financial services, that is, beyond branches. These have been provided through a variety of different channels, including mobile phones, automatic teller machines (ATMs), and point-of-sale (POS) devices and banking correspondents (Podpiera, 2008). The rapid growth in ICT that is being experienced in developing economies, especially in Africa, has triggered new innovations in all sectors, one of which is finance sector (Suoranta and Mattila, 2004). In Kenya, for example, banking technology and other related technologies have grown rapidly in the last decade (Johnson & Susan, 2011). At the center of these technologies are money transfer technologies that have given rise to innovative products like Mpesa which is a mobile phone-based savings and money transfer product operated by Safaricom, one of Kenya’s premier telecommunications firm (Ayuma et al, 2013), other platforms as stated by Mulupi (2011) are M-kesho and 24/7 from Equity bank, Tangaza and Mobikash of MobiKash Afrika Limited. The platforms also offer a wide range of financial services including money transfer, mobile banking and mobile payments and push access to banking services among Kenya’s rural communities.

According to Kitaka (2001) Banking agents help financial institutions to divert existing customers from crowded branches providing a “complementary”, often more convenient channel of accessing bank services. 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. He argues that the model has suffered some teething problems which have sent some banks back to the drawing board. For instance, banks are facing problems converting agent outlets into outsourced banks. The banking agency selection criteria have also shown some weaknesses, and many banks are now reorganizing their agents in order to meet rising demand. Keen to take advantage of the cost saving and accessibility brought about by the agency banking model, a number of Kenyan financial institutions have embarked on an aggressive entry into the segment. But many are finding that agents lack capacity to handle large transactions of cash and under-spend on account of security fear.

Statement of the Problem

The aim of agency banking was to help financial institutions to offer banking services in a cost effective manner, and increase financial services outreach to promote financial inclusion to the un-banked and under-banked population (CBK, 2010). The CBK put agency banking model into operation in May 2010, and 11 banks had been approved to roll out agency networks by May 2012. As at June 2014, CBK had approved 13 commercial banks to roll out agency banking networks. There being 43 Commercial banks in Kenya, was indication that majority of the commercial banks had not engaged in agency banking. This showed that there was slow uptake of agency banking model among commercial banks in Kenya.
Agency banking has helped to raise banks profits and spread reach to financial services in Kenya, but one thing agency banking has failed to do is to decongest banking halls (Njuki, 2012). A recent study conducted by Njuki (2012), indicated that despite the agents being located conveniently at commercial outlets like shopping malls, post offices, cybercafés, eateries and supermarkets, majority of people opted to queue in banks to seek services that could easily be offered by an agent bank like cash withdrawal, cash deposit, account opening, and utility payments. This was an indication that banks are facing problems converting agent outlets into outsourced banks.

Given this situations, the research was an attempt to explore the factors influencing the uptake agency banking strategy that caused its slow uptake among commercial banks and what (Anywanzwa, 2013) referred to as the problem of converting agency outlets into outsourced banks.

**General objective**

The study’s general objective was to establish the factors influencing uptake of agency banking strategy in Kenya.

**Specific Objectives**

1. To investigate the effects of technology infrastructure on agency banking uptake.
2. To assess the effects of agency banking risks on the agency banking uptake.
3. To explore the effects of agents training on the agency banking uptake.

**Theoretical Framework**

**Porters Theory of Competitive advantage**

Michael porter (1985) proposed the competitive advantage theory which states that businesses should pursue policies that create high quality goods to sell at high prices in the market. Porter emphasizes that Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors (Porter, 2004). This model is therefore applicable to the current situation in the Kenyan banking sector. The banking industry in Kenya has been characterized by stiff competition between the banks with each competing for market leadership. This has lead to numerous innovations aimed at obtaining a competitive edge over competitors. Agency banking is one such innovation. Banks in Kenya have employed the use of agent banking as a competitive advantage strategy.
Economic Development Theory

Schumpeter, (1911), proclaimed in his classical analysis of capitalist society that economics was a natural self-regulating mechanism when undisturbed by “social and other meddlers”; Schumpeter argued that competition among market participants leads to a desire to seek out new ways to improve technology, new ways to do business and other types of advantages that would increase profit margins and directly impact the entrepreneur’s standard of living (Glancey and McQuaid, 2000). To Schumpeter (1911), innovation encompasses any new way of doing something so that value is created. Innovation can also mean a new product or service, but can also include a new way of delivering an existing product or service so that it is cheaper or more convenient for the user (Wickman, 2006). Bank and mobile service providers saw an opportunity in the unbanked rural population and went on to exploit this opportunity by creating agencies down to the village level. This gave the banks, mobile service providers and the SME sector a chance to create new possibilities, the chance to offer the market a fresher, more affordable pie (Venter and Rwigema, 2004).

Diffusion of Innovation Theory

Diffusion of innovation theory developed by Rogers (1962) is one of the oldest social science theories. It originated in communication to explain how overtime, an idea or product gains momentum and diffuses through a specific population. The end result of diffusion is that people, as part of a social system, adopt a new idea, behavior or product. According to Rogers (1962), the key to adoption is that the person must perceive the idea, behavior, or product as new or innovative. Some people are more apt to adopt an innovation than others. Rogers (1962) classified people into five established adopter categories: Innovators: These are the people who want to be the first to try the new innovation. Early adopters: They are the people who represent opinion leaders, and are already aware of the need to change and so are very comfortable adopting new ideas. Early majority: These are people who typically need to see evidence that the innovation works before they are willing to adopt it. Late majority: These are people skeptical of change and will only adopt an innovation after it has been tried by the majority. Laggards: These people are bound by tradition and are very conservative; they are very skeptical to change and are the hardest group to bring on board.

The world is witnessing today profound transformations and acceleration as a result of the tremendous development of information technology and the steady growth of volume of the banking sector has been one of the first sections that have adopted many electronic applications to improve performance and gain a competitive advantage strategy (Ayuma, 2013). In light of the extensive use of information and communication technologies, the financial services industry and banking has provided new systems and applications that maximizes the use of modern technology and are now available. Therefore it has become necessary for banks to change the
concept of traditional banking service to remote banking services because of the rapid growth of electronic banking services by customers and increased competition among banks to reduce costs, raise efficiency and attract more customers.

When agency banking model was introduced in Kenya in May 2010, it launched to a somewhat cold reception with only a handful of banks registering for approval by the CBK (Ayuma, 2013). The early adopters of this model were Equity bank, cooperative bank, and Kenya commercial banks (CBK, 2012). Other banks that have agency banking could fall in either early majority, or late majority, but one thing is for sure is that majority of commercial banks fall under the category of laggards; this is because of the 43 commercial banks, only 13 banks have been approved to carry out agency banking; showing that 30 commercial banks had not yet adopted the model as at December 2013 (CBK (2013).

In this study, diffusion of innovation theory was used to discuss the factors influencing uptake of agency banking strategy.

**Agency Banking as a Financial Inclusion Strategy**

Financial inclusion is the process of ensuring access of financial services and timely and adequate credit by vulnerable groups such as weaker sections and low income groups at an affordable cost (Bill, 2012). According to International Development Advisory Services (2012), financial inclusion has risen steadily in development circles over the last 10 years to become a key policy objective for donors and governments. The world over and especially in the developing countries, governments are working on various strategies and regulatory frameworks to ensure they reach all those excluded. Every government’s dream is to have efficient and inclusive financial system for purposes of resource mobilization (Johnson & Susan, 2011).

In Kenya, high proportion of population is excluded from access to financial sector with the situation being more in rural areas. For majority of Kenya’s population, especially those living in rural areas, access to banking services has been almost non-existent (Atandi, 2013). The need for convenient ways of accessing financial resources has also gone beyond the conventional norms with the recurrent expansion and modernization of banking patterns (Mwongeli, 2013). The government through the central bank has therefore been trying to explore and implement innovative models that will deepen Kenya’s financial sector to support savings and investments growth. Some of these innovations are mobile banking, internet banking, and agency banking among others (Mwachofi, 2013). With the introduction of Mobile banking and Agency banking services in Kenya’s financial systems, affordable and convenient banking services continue to be availed to the large unbanked masses (Kitaka, 2001).

The Central Bank of Kenya bars faith-based organizations, not-for-profit organizations, Non Governmental Organizations (NGOs), educational institutions, and Forex bureaus from acting as
agents. Individuals are also not expressly permitted to be agents but are often approved as informal sole proprietorships (Ayuma, 2013). For an agent to be registered, it must have been operating as a business for at least 18 months and not been classified as a deficient, doubtful, or non performing borrower during the period. The principal institution must assess the moral, business, and professional suitability of an agent before such agent is registered (CBK, 2010).

Agency banking has enhanced accessibility to banking services; According to Berger (1998), agent banks offer similar services as a real bank. Berger argues that, the agent also facilitates new account opening, credit and debit card application, cheque book request, hence eliminating the need for the commercial bank to have branches all over. According to Cohen (2002) the greatest benefit of agency banking in Kenya as a financial inclusion tool is that it has been taking banking services to areas that hitherto would have remained unbanked for a long time. These are areas that most banks always shunned because of economic factors. Taking the bank to the community has not only widened and deepened the financial market but it has also enhanced customer loyalty to respective banks (Cohen, 2002).

**Conceptual Framework**

**Technology Infrastructure**

McKay and Brockway (1989) defined technology infrastructure as the enabling foundation of shared information technology capabilities upon which a business depends. This foundation is standardized and shared by business functions within the organization, and typically used by different organizational applications. Earl (1989) viewed technology infrastructure as the technological framework that guides the organization in satisfying business and management needs. According Atandi (2013), the agents make use of the mobile phone technology and internet banking technology to connect to the server of the principal institution to carry out customer transactions. Information technology (IT) infrastructure investment and management have become strategically important to banks and mobile service providers since they face constant changing business and technological environments (Massey, Wheeler and Keen, 2000).

The problem of inadequate access to affordable ICTs in most African countries is due to the poor state of Africa’s ICT infrastructure, the weak policy and regulatory frameworks, and human resource deficiencies in these countries (Gorretty et al, 2013). Although African countries, in recent years have made some efforts to facilitate the ICT infrastructure deployment, roll-out and exploitation process in a number of areas (such as the sub-marine Fibre Optics Cable), Africa still remains the continent with the least capability in ICT and other related facilities (New Partnership for Africa’s Development (NEPAD), 2002). The threat posed by the digital divide to the rapid development of African countries can on the whole be attributed to their inability to deploy, harness and exploit the developmental opportunities of mobile technology to advance their socio-economic development within the public, private and banking sector.
According to Government of Kenya (2003), the major Information Systems and mobile technology challenges in the country consist of poor and inadequate information systems, inadequate IT infrastructure, limited skills in ICT, lack of appreciation of ICT, technology weaknesses exhibited by heavy reliance on inappropriate and obsolete technology, lack of skills on modern technology, lack of awareness of the changing technology, poor dissemination mechanisms between and among the various levels of enterprises, and poor technology linkages between the private and public sector institutions.

It was widely acknowledged that the technology infrastructure across the financial system is exceptionally complex, to the point where it no longer serves many banks; it hinders them (Wilson, 2013). Wilson argued that this usually invisible infrastructure is the myriad complex technology systems that every function within every bank is built upon, from assessing loan applications, to detecting money laundering, to making payments into accounts.

According to Kinyanjui (2011), the agents make use of the mobile phone technology and internet banking technology to connect to the server of the principal institution to carry out customer transactions. Crisis such as system failures, rogue trading and money laundering have all been irrefutably attributed to failures of a technology infrastructure that has not been modernized as banks operations have expanded over the last few decades (Wilson, 2013). Hampson (2014) argued that when you examine the Information technology budgets of banks today, maintenance and support is the largest amount. In this regard, banks need to adopt platforms like peer-to-peer that are now in existence and effectively replicate the old banking infrastructure of the pre-technology era (Hampson, 2014). These platforms have minimal cost base, can innovate rapidly and connect with their clients in ways that did not exist a couple of years ago.

**Agency Banking Risks**

A risk is defined as the effect of uncertainty on objectives; in this definition uncertainties include events which may not happen and uncertainties caused by ambiguity or lack of information (Hopkin, 2012). Agency banking is exposed to risks such as; Operational risks, Security risks, financial integrity risks, and Reputational risks (Mwenda, 2012).

According to Lehman (2010), financial services can only be delivered to a majority of poor households if the service providers; banks and Telco’s use retail distribution channels to get closer to where the poor live and at a fraction of the cost of traditional banking. These retail agents who convert cash to electronic money (e-money) or convert e-money to cash are the human face of all agent banking systems. Therefore, when building, incentivizing, and managing a network of retail agents, providers must address the operational challenges in a way that fosters a positive and consistent customer experience that will create and maintain trust in the system (Lehman, 2010).
According to Lauer et al. (2011), the use of a non-bank employee, i.e., an agent to service bank customers introduces new operational risks that may stem from lack of capacity, poor training, and lack of necessary tools and systems. These risks include; Unauthorized fees, Abusive service by agent of customers (in particular, tying whereby the agent require clients to purchase certain goods and services to obtain other services) or misrepresentations regarding the agent’s role as acting on behalf of a bank, Loss of customer assets and records, data entry errors, Poor cash management resulting in an agent not having sufficient cash on hand to enable the customer to make a withdrawal, and Agent failure to resolve or forward consumer complaints to the bank. Lehman (2010) argued that an agent must maintain adequate cash and e-money float balances to meet customer cash-in/cash-out requests. If too much cash is taken in, the agent may run out of e-float and not be able to accept more deposits. If there are too many withdrawals, the agent will accumulate e-float but run out of cash. In either case, customers will get discouraged if the agent cannot provide the services they need when they need them; a problem known as agent liquidity problem. In addition, a secure mechanism needs to be in place to transport cash needs to and from an agent for instance, Vodacom Tanzania tested multiple strategies and settled on using “aggregators” to both recruit agents and manage their floats, transporting cash for the agent if necessary. The aggregator receives a flat fee for each new agent and a percentage of the agent commissions. This provides an incentive to sign up high-quality agents who will actively transact (Lehman, 2010). According to Mwongeli (2013), the agent liquidity problem is often approached in a way where the system keeps track of the actual cash available in the drawer of each agent in order to guide subscribers where they can withdraw big amounts. This approach is overtly complex and often fails because of the informal nature of agents business.

Mwenda (2013) stated that the use of agency-banking facility depends largely on customer’s security; this is because if the customer is not satisfied with sharing confidential information with the agent outlet attendants on the basis of security threats, therefore no customer was willing to use the banking facility, this issue should be addressed for agency banking to be successful.

Santos (2003) defined security as the freedom from danger or doubt during the service process. It involves physical security, financial security and confidentiality. It consists of employees who instill confidence in customers, making customers feel safe in their transactions; employees who are consistently courteous or employees who have the knowledge to answer questions.

Physical security is a common concern of regulators (Mwongeli, 2013). In Brazil, for example, agents must deposit the cash received from clients in a bank branch no more than every other business day. This intended to limit cash accumulation that can lead to robbery by third parties or even by the agent itself. Most Banking agencies are located in areas that are what would be considered 'high Risk’. The Bank needs to audit the security measures being taken by the agencies to ensure the customer can transact confidently without having to look behind their backs. Security and trustworthiness of usage of service is one of the most important factors.
within every target segments when deciding on banking service delivery channel (Mwenda, 2013).

Financial integrity is the risk that the bank through gents could be used for money laundering or terrorist financing (Munyiva, 2013). The agency staff will be a target by fraudsters as they are aware that they will not be able to easily identify fraudulent transactions for example identification of documents for originality or if they are fake, fake money etc. since they posses little if any skills on fraud detection. Lack appropriate fraud and currency detection facilities also make them more vulnerable to fraudsters since such facilities are only available in the bank.

In today’s society a business’s reputation can make or break its business. Reputational risk concerns the public perception of the firm and how the various stakeholders view it (Adam, 2003). This is the risk that a firm may be exposed to negative publicity about its business practices or a change in its credit rating (Adam, 2003). Reputational risks come as a result of underperformance by agents or agent fraud, robbery, agent liquidity shortfalls, loss of customer records, leakage of confidential customer data, and violation of consumer protection rules regarding price disclosure (Lauer et al., 2011). There may also be negative media due to systems failures. Agent-related lapses that result in the bank being used for financial crimes may result in the public’s association of the bank with criminals.

Agents’ Training

This are perceived risks due to lack of understanding the business benefits to the bank and the economy at large. These refers to social issues such as acceptability of mobile device and cultural fit of wireless application, as primary consideration for the wireless market and perceived usefulness of a wireless application all affecting behavior intention (Mberia 2009).

According to Dunning-Kruger (1999) stated that ignorance of standards of performance is behind a great deal of incompetence (Dunning-Kruger, 1999) in this regard, for agent bankers to provide satisfactory banking services, regular training must be done in order to raise their service provision standards close to those of the bank. Inadequate training results to agents displaying some level of incompetence in service delivery and in turn this discourages customers from using the model. Agents will not provide quality service to customers without ongoing, on-site supervision and in-store training to ensure the agents are liquid, consistently branded, and following the prescribed business processes (Lehman, 2010). Providers need to decide how to divide the varied management functions and whether to keep those functions in house or outsource to an independent service provider. As the networks grow, it is increasingly difficult for provider to cover the last mile of the distribution chain, so most use third parties for part or all of the channel management functions (Lehman, 2010). Providers need a system of regular agent site visits to ensure that agents are in compliance with the business processes and maintain proper branding and merchandising.
According to Shukla et al. (2012), research studies showed that training should cover issues of; products and processes, Technology platform and troubleshooting, compensation structure, banking, electronic and mobile banking operations, soft skills and communication. Shukla (2012) further stated that transaction agents require training on products and processes, liquidity management and security while full-service agents need training in all aspects of agency banking. Super agents on the other hand require training on managing the agent network under them and processes involved. In this regard it is recommended that training needs assessment of the agents before designing a training program; it is through the assessment that training requirements for the agents will be unveiled. Customer awareness on agency banking is also an important aspect when it comes to utilization

Agency Banking Uptake

For agency banking model to effectively achieve the financial inclusion strategy, both customers and banks must embrace it. By utilizing agents to seek transactions like cash withdrawal, cash deposit, and utility payments and balance enquiry, customers will help decongest the banking halls and promote utilization of agency banking outlets. On the other hand, by seeking approval from the Central Bank of Kenya to rollout agency banking networks, bank will help in reaching the financial inclusion goal, which is part of the financial pillar; one of vision 2030 pillar.

Technology infrastructure- The current infrastructure that banks are using is characterized by system failures, money laundering, security and privacy issues (Wilson, 2013). Since agency banking system uses the same technology infrastructure to carry out clients’ transactions, the same challenges are translated to the model, hence customers end up complaining and feeling dissatisfied, and depending on how the complaints are handled, customers could be retained or lost for good. Bindra (2007) stated that a satisfied customer will tell one more customers about the experience but a dis-satisfied customer will tell a crowd.

Agency banking risks: Like any other business, agency banking business is also prone to both real and perceived risks. The risks associated with agency banking could discourage customers from utilizing it. For instance, location of an agent could bring about a perceived risk like physical security, privacy and confidentiality. Customers want to carry out financial transactions in an environment they feel secure, and they feel assured that their information is kept confidential. Other risks associated with agency banking model that could affect customer turnout include; liquidity risks, financial integrity risks, reputational and operational risks. The risks that are associated with agency banking model could also contribute to its uptake among banks. This could be due to various reasons which the research will seek to find out from the banks.

Agents’ training: Dunning-Kruger (1999) stated that ignorance of standards of performance is behind a great deal of incompetence. Relating this to agency banking, inadequate training or lack of it at all could result to poor standards of performance and service delivery to clients, this in
turn results to incompetency of the agent operators; hence customers end up raising complaints and seek alternative sources of financial access. According to CBK, 2010, banks should provide agents with sufficient training to enable the agents adequately perform the operations and provide the services agreed upon, including training relating to the proper identification of customers, customer service, cash security, record keeping, financial education and confidentiality of the information. Considering that the agency banking guideline provides a section for agent operators to be trained on agency banking, it is therefore important for this research to find out if the agent operators get trained as directed by the guidelines and if the training they receive, in any way helps them to carry out their daily transactions.

Research Methodology

Research Design

Research design defines the systematic and scientific procedures used to arrive at the results and findings for a study against which claims for knowledge are evaluated (Cooper and Schindler 2003). The study employed a descriptive research design. According to Kothari (2004) descriptive research includes surveys and fact-finding enquiries of different kinds. Descriptive research design was used in this study since it was a fact finding research and that during the research it allowed collection of data through questionnaires administered to respondents as the study sought to identify and describe the factors influencing uptake of agency banking strategy in Kenya.

Population

Target population refers to the one which a researcher wants to generalize the results of the study (Mugenda and Mugenda, 2003). There are 43 licensed commercial banks in Kenya (CBK, 2014). The target population for this study was therefore all the 43 licensed commercial banks operating in Kenya.

Sampling Frame

It is also known as the source list from which a sample is to be drawn (Kothari, 2004). Since the banks are only 43, all the banks were used as the sample frame.

Sample and sampling Technique

Quota sampling and purposive sampling techniques were used in selection of respondents. According to Bryman and Bell (2005) Quota sampling is a non-probability technique where units are selected into a sample on the basis characteristics so that the total sample has the same
distribution as the population of study and the researcher actively chooses the respondents. Purposive sampling is one which allows a researcher to use cases that have the required information with respect to the objectives of the study (Mugenda and Mugenda, 2003). Quota sampling was used in this research because it gives the researcher the freedom to choose respondents while purposive sampling was used because it allows the researcher to choose those respondents that hold relevant information applicable to this study. The banks were grouped into two quotas. One quota contained banks that have rolled out agency banking which according to CBK (2014) are 13 and the second quota included those banks that do not have agency banking which are 30. Purposive sampling was then be used to select respondents from each quota. For the banks that have rolled out agency banking, 1 agent operators from each bank was selected while for the banks that have not rolled out agency banking; the manager in each bank’s head office was selected.

Research Instruments

The study made use of questionnaires as the main instrument of primary data collection. The questionnaire will comprise of both open and closed ended questions. The close ended questions were used because they conserve time and they are easy to fill as well as easy to analyze as they are in an immediate usable form. However, open ended questions were used as they encourage the respondent to give in-depth response without feeling held back. Secondary data was also collected from published financial reports concerning banks and agency banking and other available documents and journals in the library and online.

Data Collection Procedure

According to Kothari (2004) the primary data is data which is collected afresh and for the first time, and thus happen to be original in character. The secondary data, on the other hand, are those which have already been collected by someone else and which have already been passed through the statistical process. This study employed the use of self administered questionnaires as the main instrument of primary data collection.

Pilot Test

According Kothari (2004), a pilot test is the replica and rehearsal of the main study and it brings to the light the weaknesses (if any) of the questionnaires and also of the sampling techniques. According to Gall and Borg, (1996) the total number of respondents for the pilot study should be between 9% -10% of the sample population. In this study a total of 4 respondents were used for the pilot study, since the total sample population is 43. Two randomly selected respondents from each quota were picked and questionnaires administered to them. The pilot data was analyzed
and results used to modify and improve the questionnaire before rolling out the instrument to the entire population.

**Data processing and Analysis**

The data was analyzed using descriptive and inferential statistics. According to Krathwohl (1993), descriptive statistics is the analysis of data that helps describe, show or summarize data in a meaningful way which allows simpler interpretation of the data. Inferential statistics enables precise and informed conclusions that can be generalized about a population. Chi-square test was used to show the relationship between variables. The data collected was fed into SPSS computing programmer with output results analyzed, discussed and conclusions made.

**Research Findings**

The study adopted a descriptive research design which is basically used in fact finding research such as this one. The research sought to find out the factors which influence uptake of agency banking strategy in Kenya. The problem that led to this particular study was that out of the 43 licensed commercial banks in Kenya; only 13 had rolled out agency banking as at June 2014 (CBK, 2014), therefore leaving 30 banks out of agency banking network. Furthermore to the problem, customers of the banks that have rolled out agency networks prefer to queue in the banking halls for the same services that can be offered by the bank agents. The theoretical foundation of the study was formed using Rogers (1962) Innovation diffusion theory to explain how agency banking as an innovation by the banks has been adopted by its users since its inception. The research was done as a census with the 43 banks being the unit of analysis and respondents were selected purposively from each bank.

From the research findings based the objectives of the study, it was discovered that uptake of agency banking is influenced by the technology infrastructure of the bank. For the banks that have not yet rolled out agency banking networks have not done so because the current infrastructure is not sufficient to support agency banking and for the banks that have agency banking the technology infrastructure in place is not reliable. On agency banking risks, it was discovered that liquidity risks, financial integrity risks, security and reputational risks have a significance influence on banks wanting to engage in agency banking and also agents of the banks that have agency baking are exposed to these risks and in return customers prefer to transact in the bank as opposed to transacting with the agent. On agents training as a factor influencing agency banking strategy, it was the research found out that training of agent is in important factor for agency banking strategy to take up. Majority of agency claimed that they are not trained on agency banking and for those who are trained the training given on agency banking is too basic that they cannot use it to face the challenges of the day like differentiating fake from genuine money. These in turn make customers prefer to carry out their transactions in the banking hall where they are assured of financial integrity and security.
Conclusions

The study concludes that uptake agency banking strategy in influenced by technology infrastructure, agency banking risks and agents’ training. Technology infrastructure influences uptake of agency banking strategy in that for the banks that do not have agency banking have not done so because the technology infrastructure in the bank is not sufficient enough to carry out agency banking while for the banks that have agency banking customers prefer to transact in the banking hall as opposed to agent because the technology infrastructure is unreliable. Agency banking risks on the other hand influences uptake of agency banking strategy in that for the banks that do not have agency banking, the risks have to be put into consideration before they engage in agency banking while for the banks with agency banking the agents are exposed to these risks such that they negatively influence the business and in return it affects customer turn up at the agent outlets. On agents’ training, the training given to agents by the banks if any at all is not enough to help them handle customers’ transactions therefore customers in return prefer to transact in the banking halls.

Recommendations

The study recommends that banks should invest in proper technology infrastructure that can handle all transactions carried out by the banks and the agents without failures or system down time. The study also recommends that banks should invest in proper training of agents and development of staff as this will lead to achieving staff productivity and an increased understanding of new technology. The study further recommends that agents should be aware of risks associated with cash handling and take appropriate mitigating steps for their own good. Insurance cash covers and protected counters are highly recommended. Finally the study recommends that the bank should consider additional services to the agents beyond cash deposit and withdrawals which should further reduce the footprint at the banking halls.

References


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