EFFECTS OF AGENCY BANKING ON THE PERFORMANCE OF BANK AGENTS BUSINESS IN THIKA MUNICIPALITY, KENYA

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The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 2 (79), pp 940- 972, Oct 9, 2015, www.strategicjournals.com, ©strategic Journals

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Accepted: October 9, 2015

ABSTRACT

In the last decade, there has been an explosion of different forms of remote access financial services, i.e., 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. Agency banking is the latest in this series of technological wonders in the recent past involving use of mobile device, most often a mobile phone for delivery of banking products & services. This study was conducted in 32 bank agencies representing 3 banks i.e. equity, KCB and Co-operative bank in Thika Municipality. The main objective of the study was to determine the effect of agency banking on the performance of bank agents business. The study adopted a descriptive research design. The population of study was 32 agencies in Thika municipality both qualitative and quantitative data was collected by use of questionnaires with both open and close ended questions, The questionnaires was provided to respective owners/managers of the 32 banking agents in Thika Municipality. Data was analyzed using descriptive statistical tools including graphs, frequencies percentage charts, mean and standard deviation. SPSS (statistical package for social sciences) model was used in data analysis. The study used linear regression model to analyze the relationship between the independent and dependent variables. The study established a head start in licensing has created concentrated monopoly in competing banks thus loss of other agents business in the process. The study established that it is not easy to maintain adequate cash and e-money float balances to meet customer cash-in/cash-out requests all the time may discourage clients from frequenting the other business. The study revealed that lack of in depth knowledge and modern skills of banking industry has affected speedy growth of the agency banking and the other business they operate. The study established that the number of people coming into their store changed after you became an agent. The study recommends that the government subsidizes the agency banking sector to help compete more favorably with the mobile money transfers. The study also recommends that the government offers support to the agencies in form of offering security officers. The study further recommends that the banks should meet the costs of painting each and every agents premises.

Key Words: *Agency Banking, Performance*

Introduction

This chapter introduces the study by discussing the background to the study, examines the statement of the problem, objective of the study and research questions to be used to collect data. It also looks at the justification of the study, scope of the study, limitations of the study and finally it also defines the operational terms to be used in the study.

Background to the Study

In the last decade, there has been an explosion of different forms of remote access financial services, i.e., 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. In many countries, these branchless channels have made an important contribution to enhancing financial inclusion by reaching people that traditional, branch-based structures would have been unable to reach (Beck, 2007).

Rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds, pay their bills, inquire about an account balance, or receive government benefits or a direct deposit from their employer. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices, and many more. Agency banking is changing the banking industry and is having the major effects on banking relationships. Banking is now no longer confined to the branches where one has to approach the branch, to withdraw cash or deposit a cheque or request a statement of accounts (Berger, 2003).

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

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

The World Bank 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. Part of their approach to addressing these challenges is to promote innovation through mobile financial services and to address the delivery channel costs through increased use of agent banking (World Bank 2010). A banking agent is a retail or postal outlet contracted by a financial institution or a mobile network operator to process clients' transactions (Ivatury, 2006).

Rwanda has in the last five years made great strides in improving access to financial services throughout the country. According to a study conducted by FinAccess in 2009, financial exclusion – that is people without access to any form of financial services – has fallen from 38.4 percent in 2006 to 32.7 per cent of the population. However, despite this rosy picture, a lot still needs to be done to bring in more Rwandese under financial inclusion in line with their technological advances. In a bid to bridge the financial divide and improve the financial access among the most vulnerable sections of the society, the Rwanda government through their Central Bank has come up with Agency Banking guidelines as a means of addressing financial inclusion and enables more Rwandese access banking services. This model of banking will see Rwandese and the ever burgeoning small scale sector access financial services from bank-appointed agents, away from the traditional banking halls (Lyman, 2010). In contrast to the South American countries studied.

Kenya has experience with both bank-based and nonbank-based agent banking models. With respect to the bank-based model, Parliament gave approval for banking legislation 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 2010 (Guideline on Agent Banking - CBK/PG/15, 2010). Prior to the 2010 Guidelines on Agent Banking, the Banking Act did not address the issue of banks using agents to deliver financial services, so the CBK approved such arrangements on a case-by-case basis.

Other relevant regulations which have enabled branchless banking are, a 2008 regulation allowing microfinance deposit-taking institutions to use agents; a 2009 amendment to the Banking Act that allows banks to appoint agents to take deposits and perform other activities; and, a 2009 AML/CFT bill which applies to both bank and non-bank institutions (CGAP, 2010d). The draft regulations for the Provision of Electronic Retail Transfers were launched by the CBK in February 2011. These will provide a full legal framework for nonbank-based models when they are enacted.

Role of Agency Banking in an Economy

Agency banking model hoped to enhance access to financial services by allowing small businesses to operate as satellite branches. Based on early experiences, agency banking has a large contribution to make towards financial inclusiveness in developing countries. Policy makers and regulators are demonstrating keen interest in this topic, although in most countries regulation continues to constrain the emergency of agency banking (Morawczynski & Mark, 2009).

Where regulation permits, existing new branchless banking initiatives are being developed by a plethora of market participants (Neil & Leishman, 2010). However, agency banking has yet to demonstrate pro-poor, pro-growth impact for households, communities and the National economics (Morawczynski &Mark, 2009). Kenya has witnessed an accelerated expansion of many banking services since independence. However, despite the existence of banks in Kenya, 32% of Kenya's bankable population remains totally outside the orbit of financial services and many more being served by the informal financial systems (NFAS, 2009).

Importance of agency banking in an economy

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

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

Statement of the Problem

Agent banking has grown in importance by expanding regional banking networks. Mobile money has been taken up in other countries, but has not yet achieved success as services offered by SafaricomLtd due to market share and demographic differences (CGAP, 2010d). Technology holds the potential to fundamentally change banks and the banking industry through agents has emerged as a strategic resource for achieving higher efficiency, control of operations and reduction of cost by replacing paper based and labour intensive methods with automated processes thus leading to higher productivity and profitability (DeYoung, 2010b).

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

Several research studies have been done on agent banking: Omumi (2010) did a study on agency banking and use of agents including postal corporation of Kenya while Mauricio and Maudrile (2008) did a study on a new agent model for agency banking in Colombia. Despite this attention, there is a richness of information on the nature and scope of agency banking, but there is a scarcity of evidence about the effects of agency banking on the performance of bank agents businesses. The purpose of this study was to fill significant gaps on this issue, especially with respect to the Kenyan banking industry, where no rigorous attempts have been undertaken to understand this aspect of the agency banking on the performance of bank agents business. Hence this study aimed at finding out the effect of agency banking on the performance of bank agents business in Kenya.

General Objective

The general objective of the study was to determine the effects of agency banking on the performance of bank agents business in Kenya.

Specific Objectives

The study specifically sought to:

1. Evaluate the effects of market share on the performance of bank agents business.

2. Assess the financial effects of agency banking on the performance of bank agents business.

3. Ascertain the effects of market development on the performance of bank agents business.

4. To establish the effects of branding on the performance of bank agents business.

Research Questions

1. What is the effect of market share on the performance of bank agents business?

2. What are the financial effects of agency banking on the performance of bank agents business?

3. What are the effects of market development on the performance of bank agents business?

4. What are the effects of branding on the performance of bank agents business?

Justification of the Study

This study will be of significance to banks agents in making decision concerning their involvement in agency banking. Since agency banking as the emerging issue in the banking sector is the most important factor of organization prosperity, there is a need to take to understand the effects of agency banking on the performance of bank agents business.

The study will also be important in policy formulation. This study will assist policy makers to draw up effective policies in agency banking. It will be of great interest and importance to the government since it will help in the formulation and (or) modification of the various policies to assist remove any outstanding hindrances to adopting of agency banking in business operation.

This information on the current status of agent banking in international business operations will also form part of the academic contribution of this study. Academicians and other researchers will find the study material useful in their studies since they will have a ready source of literature review.

Scope of the Study

This research was carried out at 32 bank agencies in Thika municipality representing 3 Banks i.e. Equity Bank, Co-Op Bank and Kenya Commercial Banks. This is because the three banks are already providing agency banking services and have branches all over the country thus the subsequent effects of agency banking on the performance of bank agents businesses form a conclusive area of the study. The variables in the study were: Performance of bank agents, financial effect, Market share, Market development and Branding.

Limitations of the Study

Information access- respondents were reluctant to share information about their businesses that is private and confidential. However, this was solved by reassuring the respondents about the privacy and also disclosure of the research findings.

LITERATURE REVIEW

Introduction

This chapter presents a review of existing literature and theories of fit and empirical data. It also looks at the summary of the literature review, critiques of literature review and the research gaps of findings regarding the past findings. It also includes conceptual framework which indicates the variables relationship.

Theoretical Review

This is a collection of interrelated ideas based on theories. It is a reasoned set of ideas which are derived from and supported by data or evidence (Macharia, 2012).This study will be guided by the following theories:

Nonbank-led Theory

According to Kumar, etal (2006) under non-bank-led theory customers do not deal with a bank, nor do they maintain a bank account. Instead, customers deal with a nonbank firm either a mobile network operator or prepaid card issuer and retail agents serve as the point of customer contact. Customers exchange their cash for e-money stored in a virtual e-money account on the non- bank's server, which is linked to a bank account in the individual's name (Kumar et al, 2006). This model is riskier as the regulatory environment in which these nonbanks operate might not give much importance to issues related to customer identification, which may lead to significant Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT) risks. Bringing in a culture of Know Your Customer (KYC) to this segment is a major challenge. Further the nonbanks are not much regulated in areas of transparent documentation and record keeping which is a prerequisite for a safe financial system. Regulators also lack experience in the realm. However, this model becomes viable after regulators have gained sufficient experience in mitigating agent related risks using bank led model and need to think about mitigating only e-money related risks (Kapoor, 2010).

According to Hogan (1991) to mitigate the e-money risks (which are peculiar to Nonbank-led model), necessary changes in the existing regulations are required. It starts by bringing non-banks under financial regulatory net by giving these entities special status of some sort of quasi-bank/remittance agent .The Nonbank-led Theory is found relevant to the study as it explains how agent deals with customers on behalf of the bank.

Market Share Theory

According to Kulzick (2002), in most mature markets, three to five companies hold around 70% of the market. The remaining 30% of the market is usually divided among many (frequently thousands) of very small firms. If the organization is one of the large companies, it should stay in its market, provide a broad product line, and compete using Porter's low cost strategy, selling to the large middle market (perhaps extending to the high and/or low ends).

Market share is the percentage of an industry or market's total sales that is earned by a particular company over a specified time period. Market share often is associated with profitability and thus many firms seek to increase their sales relative to competitors. As the total market for a product or service grows, a company that is maintaining its market share is growing revenues at the same rate as the total market. If the organization is one of the small firms, it is at a significant scale disadvantage and generally should not attempt to compete head-on with the large firms. Small firms should redefine part of the large market into a smaller market (a niche). Such a redefinition would be consistent with Porter's focus or differentiation strategies. After redefining, the company would then be one of the large companies within the smaller market, and should then follow the large company strategy within that market.

Kulzick (2002) suggests that for expansion, Organizations normally should not expand beyond their market, but should stay within it. If, however, a firm dominates its market and desires to grow faster than the growth of the market, then it can follow one of the following two strategies: Expand the definition of its market slowly to include additional areas. Any of the four defining factors can be used. Seek similar and related (product or customer) niches. Preferred expansion niches are growing at an acceptable rate and have fragmented (and smaller) competitors. Market share increases can allow a company to achieve greater scale in its operations and improve profitability. This theory is found relevant because it explains how a banking agent expands their market by running agency banking business together with their main business.

Diffusion of Innovations Theory

Diffusion of Innovation (DOI) Theory, postulated by Rogers (1962), is one of the oldest social science theories. It originated in communication to explain how, over time, an idea or product gains momentum and diffuses (or spreads) through a specific population or social system. Researchers have found that people who adopt an innovation early have different characteristics than people who adopt an innovation later. When promoting an innovation to a target population, it is important to understand the characteristics of the target population that will help or hinder adoption of the innovation.

There are five established categories of adopters, and while the majority of the general population tends to fall in the middle categories, it is still necessary to understand the characteristics of the target population. When promoting an innovation, there are different strategies used to appeal to the different adopter categories. Innovators - These are people who want to be the first to try the innovation. They are venturesome and interested in new ideas. These people are very willing to take risks, and are often the first to develop new ideas. Very little, if anything, needs to be done to appeal to this population. Early Adopters - These are people who represent opinion leaders. They enjoy leadership roles, and embrace change opportunities. They are already aware of the need to change and so are very comfortable adopting new ideas. Strategies to appeal to this population include how-to manuals and information sheets on implementation. They do not need information to convince them to change.

Early Majority - These people are rarely leaders, but they do adopt new ideas before the average person. That said, they typically need to see evidence that the innovation works before they are willing to adopt it. Strategies to appeal to this population include success stories and evidence of the innovation's effectiveness. Late Majority - These people are skeptical of change, and will only adopt an innovation after it has been tried by the majority. Strategies to appeal to this population include information on how many other people have tried the innovation and have adopted it successfully. Laggards - These people are bound by tradition and very conservative. They are very skeptical of change and are the hardest group to bring on board. Strategies to appeal to this population include statistics, fear appeals, and pressure from people in the other adopter groups. Diffusion of innovation theory is relevant because currently agent banking is an integral part of modern banking in many countries and the business agents have adopted the new idea of agency banking in their business premises. In this study, innovation theory will be used to show how modern payment systems have transformed the technology of banking and facilitated changes in the strategy and structure of financial services organizations.

Brand Loyalty Theory

Political economy theorists Simon and Sullivan (1993) formulated the concept which basically insists that the financial perspective focuses on the total value of the brand and answers the question of how well the company performs in the market. Thus, the financial perspective allows companies to extract the financial brand value from the total value of the company. Simon and Sullivan (1993) were among the first authors to present a way to mathematically calculate brand equity.

They used the financial market value of a company as a basis for evaluating brand equity and, by calculating the Tobin's Q, found that it was possible to distinguish between the brand value and the value of all other assets of the company. If the results showed a Q-value above 1, the company had immaterial assets. The reason for using financial market value as the basis is that this value represents an unbiased view on the future revenues of the company. Hence, the result reveals brand equity based on the market expectation of the future cash flow. According to Simon and Sullivan (1993), this methodology has three important features: (1) Brand equity is treated as an asset of the firm and is consequently separated from other assets of the firm; (2) brand equity is calculated with a forward-looking perspective; and (3) the value of the company changes when new information reaches the market.

In contrast to the financial perspective of brand equity, a more consumer-oriented approach blossomed as an alternative. The aim of the consumer-based perspective is to measure how consumers react to a brand (Keller 1993; Shocker, Srivastava & Ruekert, 1994). Within this perspective, brand equity has been defined as the differential effect of brand knowledge on consumer response to the marketing of the brand (Lassar, Mittal & Sharma 1995). Hence, the

consumer-based perspective derives individually for every single consumer, and consumer based brand equity arises when a consumer considers a brand to be well-known by means of positive, strong, and unique brand associations. To be able to understand the foundations of the consumer-based perspective, there are five considerations that have to be taken into account. First, brand equity refers to consumer perceptions, rather than any objective gauges. Second, the value associated with a brand refers to the global value. Third, the global value associated with the brand derives also from the brand name, and not only from physical aspects. Fourth, brand equity is not absolute, but relative to the current competition in the market. Finally, brand equity positively influences financial performance (Lassar et al, 1995).

This theory is relevant because it explains the relationship of customer's psychology with the brand of a company by painting their business premises and logos of the banks they represent. With regard to communication channels, banks have done well to popularize the model with service names that resonate well with the target population. Such names include -Co-op Kwa Jirani, KCB Mtaani, Equity Ndio Hii, Family Papo Hapo, Chase Popote ,Conso Maskani, Posta mashinani, DTB agent, and so on. Such names are intended to create a sense of ownership and create confidence among the banks' customers for a service that has been devolved to their neighborhood.

Conceptual Framework

The model of the study shown in fig 2.1 clearly illustrates the dependent variable and a set of independent variables. The model shows independent variables as the financial effect, market share, market development and branding. The dependent variable is performance of bank agents business.

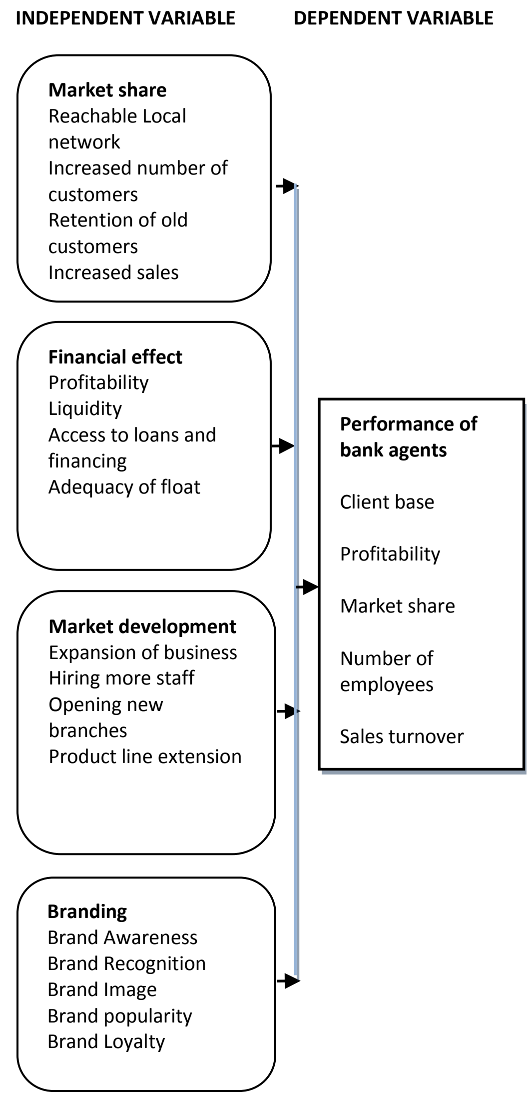

Figure 2.1 Conceptual Framework

Empirical review

Market share effect on the performance of bank agents business

A study by DeYoung (2005) indicated that as the banking fraternity continues to make forays into the retail segment of the market, it is becoming more paramount that customers be given value for their hard-earned deposits. The new banking environment is about differentiating banking products, increased choices, security and accessibility. The ability of financial

Institution to deliver products and services in the most efficient and effective manner will therefore be the key to performance and relevance.

Heggested and Mongo (2011) found that the greater the market share, the greater is a bank agent's business control over its prices and the services it offers. Heggested (2011) and Mullineaux (2003), however, found that market share had an adverse relationship with profitability. Short (2012) believed that some bank agents might sacrifice current profits by growing at a faster rate or expanding their market share with the intention of earning more profits in the future. He used the growth of assets rate as a proxy for measuring the effect of market share on profitability and found that growth of assets did not have a significant effect on profit.

Smirlock (2010) not only believed that market share influenced profitability but that growth in the market created more opportunities for a bank agent and thus generated more profits. His findings indicated that growth had a significant positive relationship with profits.

Tarazi and Breloff, (2011), did a study and revealed that regulations often impose some form of "fit and proper" requirements, mandating a form of agent due diligence that requires financial institutions to verify that would-be agents have good reputations, no criminal records, and no history of financial trouble or insolvency. While fit-and-proper criteria listed in regulation often are not problematic, providers and agents have occasionally argued that compliance with particular details can impose significant cost, particularly with respect to gathering documentation (Tarazi and Breloff, 2011).

Central banks regulations on agency banking hamper the growth of agency banking, these regulations slows down the penetration of the agency banking which negatively affect the performance bank agents business (Vutsengwa and Ngugi 2013). Central Bank has stringent regulations on agency banking which slow down the growth of agency banking in Kenya thus affecting the performance of bank agents business in Kenya .The ability of financial Institution to deliver products and services in the most efficient and effective manner will therefore be the key to performance and relevance.

As recently as 2009, just 23% of Kenyan adults had access to formal financial services (Barca, 2010). Financial inclusion has risen in recent years, with aggressive expansion by Kenyan banks. Kenya now has 1,072 retail bank branches, up from 534 in 2005. Several factors have driven service expansion: the recovery of the Kenyan economy since 2003, advances in technology that support the administration of a large number of small bank accounts; and the wildfire spread of mobile money services through Safaricom's M-PESA that created a dual dynamic of both competition and co-operation with the banking sector. Safaricom, Kenya's leading mobile phone operator with more than 70% market share, oversees a network of 27,000 M-PESA agents and of the company's more than 17m subscribers, 13.8m, or 81%, are registered M-PESA users. Customers can send and receive money and make bill payments to hundreds of bill-pay partners in seconds. When M-PESA was launched, there was much speculation as to whether Safaricom would compete directly with banks. So far, there are no plans to transform mobile money into a financial institution: Safaricom provides the infrastructure for M-PESA data, but does not handle any of the cash – this is still held in a trust account. Nor does the company engage in any financial intermediation. To date, M-PESA only provides money transfer services.

In February 2011, the Central Bank of Kenya (CBK) released regulations to govern a new agency banking model. The regulations allow banks to offer services through third party agents approved by the CBK. Agents can be telco outlets, SMEs, retail chains, savings and credit co-operatives (SACCOs), or even ‘dukas’ (cornershops) – 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 payments. Kenya Commercial Bank (KCB), Co-operative Bank and Equity Bank, all financial institutions with a large retail footprint, are in the process of rolling out agent banking networks. KCB had 2,000 agents by the end of 2011. Equity Bank has recruited 8,000 agents, with 2,000 in operation (CBK, 2011a). Co-op Bank has already seen its profits increase through partnerships with SACCOs that tap deposit pools in rural areas. Effectively, the agency 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. Up-market banks may follow suit. 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(NFAS, 2009). However, agents are limited to cash-only transactions and cannot assess applications (CBK, 2010). Through KCB’s model, customers are charged KES20 per deposit, which goes to the agent and KES70 for a withdrawal, split evenly between the bank and the agent.

inancial effect on the Performance of Bank Agents Business

According to Carlson (2001), there is still some skepticism regarding how well banks can manage risks remotely. Liability between the agent and bank must be well established and liquidity and credibility of the agent ensured, which means banks are keen to work with SACCOs and large well-known companies that have solid cash flows.

Owens, (2006), states that financial institutions are required to plan and act for long term development and prosperity of their agents for them to reach the targeted customers at a set population. However, technology systems have associated data and network security risks which make them susceptible for conducting financial transactions. Technology risks regarding information and data security based on applicable models of agent banking have been reported thus creating uncertainty to the clients (Owens, 2006)

According to (Neil & Leishman, 2010), When agents provide a range of services (e.g., account opening, deposits, withdrawals, bill payments, etc.) they are able to generate transaction volume and balance liquidity. 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. This is a big risk in losing loyal customers of the other business operated by the agent. In addition, a secure mechanism needs to be in place to transport cash needs to and from an agent.

The CBK regulations are also quite clear about the need for agent training and enforcement of anti-money laundering standards. The former in particular has been an enormous investment in building Safaricom's extensive agent network, and monitoring and policing agents requires continuous efforts. Kenya is looking to Brazil, where agency banking has worked well. Similar schemes are coming up in Bolivia, Colombia, India, Mexico, Pakistan, Peru and South Africa. A truly functional system in East Africa may require shared infrastructure in order to achieve critical mass and ensure enough investment to attract customers and make them feel safe (Gourlay, 2002).

Technology will also be important, but perhaps less so than dedication by the banks to training, branding and marketing the service(Pickens, 2008).(Lyman, 2008),revealed that by using mobile phones rather than point-of-sale terminals as the technology platform, financial service providers do not even have to incur equipment costs for each new retail outlet opened And, by remunerating the outlet with a commission per transaction rather than paying salaries to tellers, service costs are incurred only if there is business.

According to (Lyman, 2008), Flexibility for the recipient, in terms of allowing recipients to determine when and how much they receive according to their specific needs, often comes at the expense of predictability of cash flows and system operations for the transferring agency; providing widespread information about the timing and availability of payments may compromise the security of recipients – for example through the risk of personal attacks and other forms of violence when recipients need to spend the night at a pay point location or when they face a long journey with their Cash; measures that reduce the cost to recipients may well be costly to the program(Barca et al, 2010).

Acting as an agent for a bank is also not very appealing as banks offer limited marketing support to their agents and the systems connecting banks and agents often fail. In order to try to mitigate these challenges, since 2008, BDO has provided subsidies for banks to help them fund agent operations in some municipalities which lack financial services (CGAP, 2010a).

According to CGAP, Banco Agrario's experience of using agents to process conditional cash transfer (CCT) payments has revealed the following challenges :Lack of liquidity on payment days: since the CCT program has a payment cycle concentrated on certain days, there is huge demand for cash-out transactions at agents and ATMs for one or two days every two months. It is virtually impossible for a typical agent to use its normal cash supply to meet this demand.

The customer is still the responsibility of the Banks and the same has not been delegated to the Agency (Ivatury, 2006). Some of the challenges that need to be addressed are:

Security – Most of these agencies are 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. This aspect scares the customers from purchasing in the other business operated by the agency.

Issues of Fraud – 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.

The same amount is unknowingly used in transacting in the other agents business thus prone to losses.

Market Development effect on the Bank Agents Business

The potential growth of agency banking in Kenya is due to the financial attributes including: Low incomes and high cost of banking, Profitably to serve the unbanked in the existing banking environment, Remote & sparsely populated areas with poor infrastructure, Lack of awareness, social exclusion and low literacy levels, Distance from bank branch, branch timings, lengthy documentation & procedures, unsuitable products, language barrier among other (Lyman, 2010).

According to the Central Bank Annual Supervision report (2006), employment on the agency banking sector rose by 23%. The report attributes this due to the expansion of the institutions branch network and expanded business volume.

According to Camilleri (2005), building comprehensive, secure banking networks accessible to the under-banked and unbanked segments of population, dealing with very modest sums of money, can prove to be prohibitively expensive to banks. Building network of bank branches and ATMs in remote locations can be unsafe, while providing electronic banking is impossible due to the lack of either fixed telecommunication infrastructure (poor telecom service penetration rates) or lack of end-user devices (Ivatury, 2006).

Kenyan financial institutions have since year 2010 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 security measures challenge. Recent data from the Central Bank of Kenya (CBK) reveals that the regulator has licensed over 10,000 establishments to act as agent banks, with Equity claiming to have outsourced some of its operations to 5,000 active outlets.

CBK data shows 8,809 agency outlets were opened in 2010, most of which are being operated by Equity and Co-operative banks. KCB hopes to open about 2,500 agency branches this year, but 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. Analysts say that the development may arise from the fact that many of the available outlets have already been snagged by mobile phone companies, who have relied on their agents to fast-track uptake of mobile money solutions. Currently, over 30,000 outlets around the country are enrolled as mobile money transfer agents, leaving banks with a smaller pool of businesses from which they can pick the cash-rich operations they need to roll out agency banking model (CBK, 2011a).

Although consumers have had an interest in advanced agency banking services and tended to have various financial sources or tools for money transactions, they have not quickly changed their main propensity to use banking services or goods that they are already familiar with (Ivatury, 2006). Although various electronic banking services have emerged since the ATM was introduced 30 years ago, a lot of consumers still use checks as a primary source for money transactions, and banks still have a lot of bricks and mortar branches in the market (Staschen, 2006). In spite of the emergence of a series of advanced agency banking services, both consumers and banks still regard traditional banking as one of the important sources for money transaction (Ayo, 2006).

A study by (Nick, 2007) revealed that Agency banking has not yet become main stream. This means that both marketers in banks and financial institutions still need to make an effort to understand the factors which will enhance market share and especially enhance profitability and business prosperity of the respective agent other businesses to enable it be sustainable. All the research done so far on market development have been addressing the financial institutions hence the challenges on growth and development for the other agency business has been ignored. Therefore, financial institution to maintain motivation of agents and enhance loyalty, they should invest time and money to learn challenges affecting market development for the Agency business too (Camilleri, 2007).

Branding effect on the Performance of Bank Agents Business

Building a brand driven culture is a lifelong commitment to a mindset and a way of life that takes time, planning and perseverance that produces intangible outputs which include greater customer satisfaction, reduced price sensitivity, fewer customer defections, a greater share of customers' wallets, more referrals, and a higher percentage of repeat business (Knapp, 2010).

(Alexander et al., 2008) did a study and revealed that customers value their relationships with their branded possessions and with marketing agents and institutions that own and manage the brand.The brand identity needs to focus on points of differentiation that offer sustainable competitive advantage to the firm. Brand identity is based on a thorough understanding of the firm's customers, competitors, and business environment. The brand identity needs to reflect the business strategy and the firm's willingness to invest in the programs needed for the brand to live up to its promise to customers (Aaker & Joachimsthaler, 2010).

According to (Simsons, 2007) he revealed that strong brands enjoy customer loyalty, the potential to charge premium prices, and considerable brand power to support new product and service launches. Companies need to have thorough understanding of customer beliefs, behaviors, product or service attributes, and competitors

A brand is a distinguishing name and/or symbol (such as logo, trademark, or package design) intended to identify the goods or services of either one seller or a group of sellers, and to differentiate those goods or services from those of competitors. A brand thus signals to the customer the source of the product, and protects both the customer and the producer from competitors who would attempt to provide products that appear to be identical (Aakeret al2007). Brands provide the basis upon which consumers can identify and bond with a product or service or a group of products or services (Weilbacher, 1995).

To be effective, a brand identity needs to resonate with customers, differentiate the brand from competitors, and represent what the organization can and will do over time (Aaker & Joachimsthaler, 2010). To excel, a brand image must be well planned, nurtured, supported, and vigilantly guarded (Knapp, 2007). One key to successful brand-building is to understand how to develop a brand identity – to know what the brand stands for and to effectively express that identity (Aakeret al, 2006). A brand is a distinctive identity that differentiates a relevant, enduring, and credible promise of value associated with a product, service, or organization and indicates the source of that promise (Ward et al., 2009).

Companies that present a cohesive, distinctive, and relevant brand identity can create a preference in the marketplace, add value to their products and services, and may command a price premium (Simonson, 2007).According to (Aaker et al 2007), he revealed that when brand faces aggressive competition in marketplace, brand personality and reputation of the brand help it distinguish from competing offerings. This can result in gaining customer loyalty and achieve growth. A strong brand identity that is well understood and experienced by the customers helps in developing trust which, in turn, results in differentiating the brand from competition. A company needs to establish a clear and consistent brand identity by linking brand attributes with the way they are communicated which can be easily understood by the customers.

Critique of the existing Literature

The literature review on the hypothesis of the study have revealed a huge gap in that it only focuses on agency banking and does not focus on the effect of agency banking on the performance of bank agent business in which this research aims to identify. The literature review assumes that the agent has only one business i.e. being an agent but in reality the bank agents are formed within other business establishment like retail shop, boutique, and pharmacy among others thus totally cannot be relied upon to evaluate other businesses owned by the agent.

Research Gap

At present, a number of commercial banks have set up their own standalone ATM networks, issuing credit and debit cards, offering round the clock phone banking, and maintain comprehensive websites providing detailed information on their conventional and e-banking products (Lyman, 2008). Furthermore, most banks have joined one of the operating ATM Switch Networks (Kenswitch Network). However, agency banking will play a big role in market development by enhancing customer loyalty and competitiveness of respective banks by reaching the unbanked and convenience of already existing clients, only if the respective effect of the agency banking on the performance of agents business is positive.

This study in consideration to above theories on development of agency banking in Kenya and the world at large found out the effect of agency banking on the performance of bank agents business. All the other study were revolved around the agency relationship but has alienated the challenges.

RESEARCH METHODOLOGY

Introduction

This chapter comprises of several sections indeed it defines the population from which the research sample was drawn and also tells the method used to select the sample. It is in this chapter that different research instruments, methods of collecting the research data and research tools and procedures used in data analysis.

Research Design

Research design refers to the way the study is designed, the method used to carry out a research (Kothari, 2004). The study used descriptive research which refers to the investigation in which data is collected and analyzed in order to describe the specific phenomena in its current trends, current events and linkages between different factors at the current time (Kothari, 2004). Descriptive research design was used because it enabled the researcher to generalize the findings to a larger population. Both quantitative and qualitative approach was used in order to gain a better and more insightful interpretation of the results.

Target Population

According to Ngechu (2004), a population is a well-defined or set of people, services, elements, events, group of things that are being investigated. The target population of this study was the whole population of 32 bank agents operating agency alongside other business in Thika Municipality. The study focused on managers and owners who are directly dealing with agency banking, since they are the ones conversant with the subject matter of the study.

Table 3.1 population study and sample size

	No. of agencies	Sample size	Percentage
KCB	5	5	15.6
EQUITY	18	18	56.3
CO-PERATIVE	9	9	28.1
Total	**32**	**32**	**100.0**

Sampling Design

The type of sampling technique used to collect information from the respondents was census Survey design. This technique was preferred because it assumes that when all items are covered no element of chance is left and the highest accuracy is obtained (Kothari, 2004) and it's the only instrument through which designed information can be obtained accurately, unbiased and includes every item in the population compared to other sources (Sharma, 1989).Thus, the whole populations of 32 agents were studied.

Data Collection

A total of 32 questionnaires was prepared and sent to owners /managers of Thika municipality who operates agency banking with other business. The questionnaires were then left with the respondents for a week for the purpose of filling them and thereafter were collected for the purpose of analysis.

Data Collection Procedure

The study used both primary and secondary data. The primary data was collected by use of closed and open-ended questions. A5- point likert scale was used to assess the effects of agency banking on the performance of bank agents business where 1 = Very great extent, 2 =Great extent, 3 = Moderate extent, 4 = little extent and 5 = No extent. Questionnaires are commonly used to obtain important information about the population (Orodho, 2005) especially when the respondents can be reached. The questionnaires were administered through drop and pick from the respondents.

Pilot Testing

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

Expert opinion was used as well as having objective questions included in the questionnaire as emphasized by Cooper and Schindler (2003). Reliability on the other hand refers to a measure of the degree to which research instruments yield consistent results (Mugenda &Mugenda, 2003). In this study reliability were ensured by pre-testing the questionnaire which was carried out in a neighboring town (Ruiru).The agents were picked randomly where a total number of 6 questionnaires were administered and not included in the final analysis. After analysis a Cronbach alpha of 0.7 and above was accepted. The pre-testing assisted to enhance clarity of the questionnaire.

Reliability Study

A pilot study was carried out to determine reliability of the questionnaires. The pilot study involved the sample respondents from the bank agents. Reliability analysis was subsequently done using Cronbach's Alpha which measures the internal consistency by establishing if certain item within a scale measures the same construct.

Gliem and Gliem (2003) established the Alpha value threshold at 0.6, thus forming the study's benchmarked. Cronbach Alpha was established for every objective which formed a scale. The table shows that the financial effects had the highest reliability (α= 0.915), followed by market share effects (α=0. 835), market development effects (α=0. 819) and branding effects (α=0. 798). This illustrates that all the four variables were reliable as their reliability values exceeded the prescribed threshold of 0.6.

Table 3.7.1: Reliability Analysis

Scale	Cronbach's Alpha	Number of Items
Branding effects	0.798	4
Market share effects	0.835	6
Market development effects	0.819	5
Financial effects	0.915	6

Data Analysis Methods

To analyze is to search and identify meaningful patterns in data. (Orodho, 2005) points out that analysis means, categorizing, ordering, manipulating and summarizing of data to obtain answers to research questions. The data collected was edited, coded, classified on the basis of similarity and then tabulated. Data was analyzed using descriptive statistical tools including frequencies, percentage, mean score and standard deviation. Statistical package for social sciences (SPSS) Version 21 was used in data analysis. The findings were presented in form of frequency tables and graphs.

The researcher used simple linear regression model to analyze the relationship between the independent and dependent variables. The regression equation estimation was employed to analyze how the four independent variables affected the performance of bank agents. The regression equation was: $\mathbf{Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon}$:

Whereby Y = performance of bank agents
X_1= financial effects
X_2= Market share
X_3= Market development

X_4= Branding

ε = Error Term

DATA ANALYSIS AND INTERPRETATIONS

Introduction

This chapter discusses the interpretation and presentation of the findings. This chapter presents analysis of the data on the effects of agency banking on the performance of bank agents business in Kenya. The chapter also provides the major findings and results of the study.

Response Rate

The study targeted a sample size of 32 respondents from which 30 filled in and returned the questionnaires making a response rate of 93.75%. This response rate was good and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

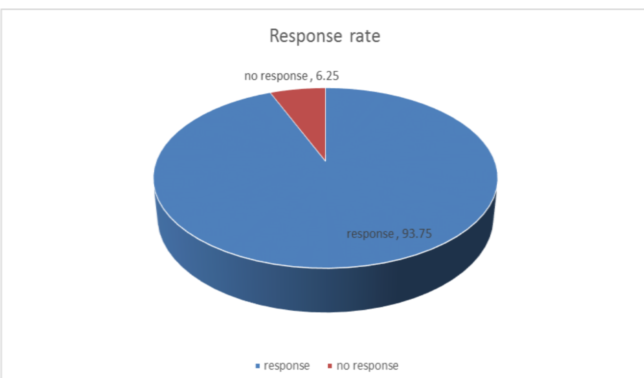

Figure 4. 1: Response Rate

Demographic Information

The study sought to establish the background information of the respondents including respondents' level of education, experience in agency banking business, other main businesses they are engaged in and services frequently offered.

Level of education of the respondents

The study requested the respondents to indicate their level of education. The results are shown below.

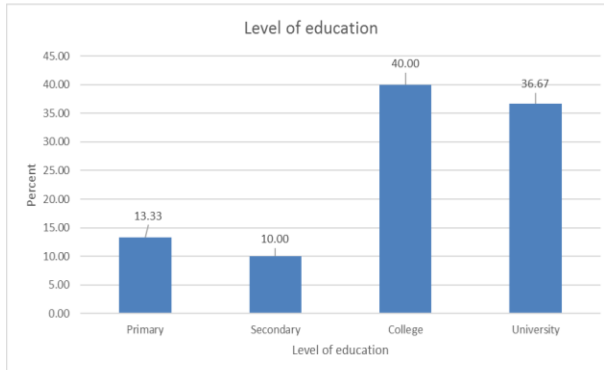

Figure 4. 2: Level of education of the respondents

From these figure above, 40% of the respondents indicated that their highest level of education was the college level, 36.67% indicated university level, and 13.33% indicated primary level while 10% indicated secondary level. From these findings, most of the bank agents indicated that their highest level of education was the college level,

Agency banking experience

The study also requested the respondents to indicate how long they have been in agency banking business. The results are shown below.

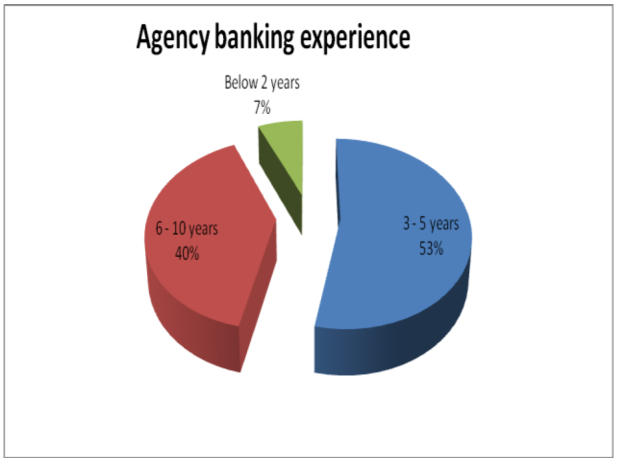

Figure 4. 3: Agency banking experience

From the figure above, 53.33% of the respondents indicated that they had worked in agency banking business for a period of between 3 and 5 years, 40% indicated a period of between 6 and 10 years while 6.67% indicated a period of below 2 years. From these results, we can infer that most of the bank agents had worked in agency banking business for a period of between 3 and 5 years.

Other main businesses

The study further sought to establish other businesses that the respondents were involved in. the result were as shown below.

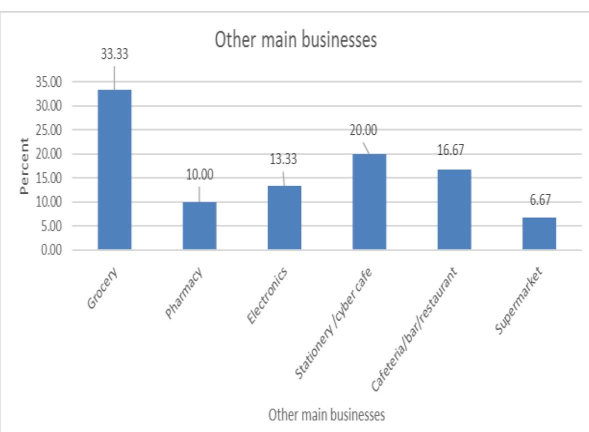

Figure 4. 4: Other main businesses

From these findings, 33.33% of the respondents indicated that they were also involved in grocery business apart from agency banking, 20% indicated stationery/ cyber café business, 16.67% indicated cafeteria/bar/restaurant business, 13.33% indicated electronics business, and 10% indicated pharmacy business while 6.67% indicated supermarket business. From these findings, we can deduce that most of the bank agents were also involved in grocery business apart from agency banking.

Services frequently offered

The study further sought to establish the services frequently offered in their agency business. The results are as shown below.

Table 4. 1: Services frequently offered

	Mean	Std. Deviation
Statement enquiry	3.245	0.635
Cash deposit and Withdrawal	3.241	0.564
Cash payment of salaries	2.426	0.525
Cash disbursements and repayment of loans	2.515	1.342
Generation and issuance of mini statements	2.842	1.556
Collection of documents for account opening	2.95	1.263
Cheque book request and collection by customers	3.525	0.532
Collection of debit and credit cards	4.245	0.526
Utility payments	1.241	0.773
Loan application	2.434	1.425
Paying school fees	3.565	1.042
Debt or credit card application	4.345	1.347
Inquiries and complaints Fund transfer	4.315	0.456
Bill payments	2.456	0.631
Cheque stop order	1.206	1.083

From the findings, the respondents agreed with a mean of 4.345 and a standard deviation of 1.347 that debt or credit card application service was is offered in their agency business. They also agreed with a mean of 4.315 and a standard deviation of 0.456 that inquiries and complaints Fund transfer service was offered in their agency business. Further, the respondents agreed with a mean of 4.245 and a standard deviation of 0.526 that collection of debit and credit cards service was offered in their agency business. Additionally, the respondents agreed with a mean of 3.565and a standard deviation of 1.042 that paying school fees service was offered in their agency business. In addition, the respondents agreed with a mean of 3.525 and a standard deviation of 0.532 that cheque book request and collection by customers' service was offered in their agency business. They also agreed with a mean of 3.241 and a standard deviation of 0.564 that cash deposit and withdrawal service was offered in their agency business. Also, the respondents agreed with a mean of 2.95 and a standard deviation of 1.263 that collection of documents for account opening service was offered in their agency business.

Further, the respondents agreed with a mean of 2.842 and a standard deviation 1.556 that generation and issuance of mini statements service was offered in their agency business. Furthermore, the respondents disagreed with a mean of 2.456 and a standard deviation of 0.631 that bill payments service was offered in their agency business. Additionally, the respondents disagreed with a mean of 2.434 and a standard deviation of 1.425 that loan application service was offered in their agency business. Also, the respondents disagreed with a mean of 2.426 and a standard deviation of 0.525 that cash payment of salaries service was offered in their agency business. They also disagreed with a mean of 1.241 and a standard deviation of 0.773 that utility payments service was offered in their agency business. Lastly, the respondents disagreed with a mean of 1.206 and a standard deviation of 1.083 that cheque stop order service was offered in their agency business.

Market Share Effect on Agents Business

The study sought to evaluate the effects of market share on the performance of bank agents business.

Market share issues

The study requested the respondents to further indicate the Market share issues facing their business as an agent based on the following factors. The results obtained were as shown in the table below.

Table 4. 2: Market share issues

	Mean	Std. Deviation
Head start in licensing has created concentrated monopoly in competing banks thus loss of other agents business in the process.	3.726	0.621
Enhance more clientele purchasing power as one can withdraw cash from the agency and purchase required items at the agents business there and then.	3.612	1.131
Lack of competitive edge due to market power from the ownership of an essential facility such as the local network by competitors.	3.811	1.001
Face challenges of overlapping regulatory domains between central banks and telecommunication regulators	3.792	0.621
Rapidly evolving technology poses significant administrative challenges thus eats into the revenue generated by the other agents business.	3.519	0.641
Face challenges by mobile money transfers which have a wider clientele thus the agency does not attract new clientele to the other agents businesses	3.095	0.723

From the findings tabled above, the respondents claimed that challenges of overlapping regulatory domains between central banks and telecommunication regulators affects the business to a great extent with a mean of 3.792 and a standard deviation of 0.621.

Additionally, the respondents indicated that a head start in licensing has created concentrated monopoly in competing banks thus loss of other agents business in the process and this has affected the business to a great extent with a mean of 3.726 and a standard deviation of 0.621. This is in line with the findings of Kulzick (2002) that in most mature markets, three to five companies hold around 70% of the market. The remaining 30% of the market is usually divided among many (frequently thousands) of very small firms. If the organization is one of the large companies, it should stay in its market, provide a broad product line, and compete using Porter's low cost strategy, selling to the large middle market (perhaps extending to the high and/or low ends).

Also, the respondents claimed clientele purchasing power enhances as one can withdraw cash from the agency and purchase required items at the agents business there and then thus the business is affected to a great extent with a mean of 3.612 and a standard deviation of 1.131. Furthermore, the respondents agreed with a mean of 3.811 and a standard deviation of 1.001 that lack of competitive edge due to market power from the ownership of an essential facility such as the local network by competitors affected their business to a great extent.

They also claimed that evolving technology poses significant administrative challenges thus eats into the revenue generated by the other agents business affected the business to a great extent with a mean of 3.519 and a standard deviation of 0.641.According to Barca (2010), several factors have driven service expansion: the recovery of the Kenyan economy since 2003, advances in technology that support the administration of a large number of small bank accounts; and the wildfire spread of mobile money services through Safaricom's M-PESA that created a dual dynamic of both competition and co-operation with the banking sector.

Lastly, the respondents indicated that agency banking faces challenges by mobile money transfers which have a wider clientele thus the agency does not attract new clientele to the other agents businesses which in turn affects the business to a moderate extent with a mean of 3.095 and a standard deviation of 0.723A report by NFAS (2009), posits that the pressure for banks is clearly on: Following the 2010 launch of the M-KESHO account, an Equity Bank account that is connected to an M-PESA account, allowing clients to make transfers to and from M-PESA, most banks acknowledge that they have little choice but to seek integration with mobile money.

Financial Effect on Agents Business

The study also sought to assess the financial effects of agency banking on the performance of bank agents business.

Financial Factors influencing respondents' agency businesses

The study further sought to establish from the respondents how their business as agents has been affected by the following factors. The results are as tabled below.

Table 4. 3: Financial Factors influencing respondents' agency businesses

	Mean	Std. Deviation
Not easy to maintain adequate cash and e-money float balances to meet customer cash-in/cash-out requests all the time may discourage clients from frequenting the other business	3.904	0.916
Possibility of loss of close existing clients of the agents to other business offering same services	3.813	1.181
Possibility of the other business being prone to robberies due to the financial transactions of the agency business.	3.914	1.035
Time taken to visit branch for float and back to the business is inconveniencing clients and affects operations of the other business	3.803	0.562
Low number of clients not trusting the agency as a business secure for depositing their cash has led to less uptake of customers to the other business	3.421	1.311

From the findings obtained and tabled above, the respondents claimed that the possibility of their other business being prone to robberies due to the financial transactions of the agency business was high and affected the business to a very great extent with a mean of 3.914 and a standard deviation of 1.035 the Also, the respondents claimed that their businesses were affected to a great extent with a mean of 3.904 and a standard deviation of 0.916 that it is not easy to maintain adequate cash and e-money float balances to meet customer cash-in/cash-out requests all the time may discourage clients from frequenting the other business. Additionally, According to CGAP, lack of liquidity on payment days since the CCT program has a payment cycle concentrated on certain days, there is huge demand for cash-out transactions at agents and ATMs for one or two days every two months.

Further, the respondents indicated that the possibility of loss of close existing clients of the agents to other business offering same services affected the business to a great extent with a mean of 3.813 and a standard deviation of 1.181. Additionally, the respondents agreed with a mean of 3.803 and a standard deviation of 1.181 that time taken to visit branch for float and back to the business is inconveniencing to the clients and affects operations of the other business. Barca et al, (2010), indicated that the risk of personal attacks and other forms of violence when recipients need to spend the night at a pay point location or when they face a long journey with their Cash; measures that reduce the cost to recipients may well be costly to the program.

Lastly, the respondents claimed that alow number of clients not trusting the agency as a business secure for depositing their cash has led to less uptake of customers to their other business affected the business to a moderate extent with a mean of 3.421 and a standard deviation of 0.562. The lack of trust has been identified by Ivatury, (2006), to be caused by among other factors, security. Most of these agencies are in areas that are what would be considered 'high Risk'.

Market Development Effect on Agents Business

The study also set out to ascertain the effects of market development on the performance of bank agents business.

Market Development Factors affecting agency banking

The study further requested the respondents to indicate how their business as agents has been affected by the following factors. The results were as show below.

Table 4. 4: Market Development Factors affecting agency banking

	Mean	Std. Deviation
There is existence of potential synergies between the other businesses I operate and the agency business.	3.924	1.642
High turnover of agent employees affect business operations.	3.821	1.123
Lack of in depth knowledge and modern skills of banking industry has affected speedy growth of the agency banking and the other business I operate.	3.556	0.763
After you became an agent you have expanded your business.	3.801	1.113
Technical hiccups of the network that frustrates the clients while transacting has led to losing potential clients of the other businesses.	3.602	1.114

From the findings, the respondents indicated with a mean of 3.924 and a standard deviation of 1.642 that there is existence of potential synergies between the other businesses they operate and the agency business to a very great extent. Further, the respondents indicated with a mean of 3.821 and a standard deviation of 1.123 that high turnover of agent employees affect business operations to a great extent. Recent data from the Central Bank of Kenya (CBK) reveals that the regulator has licensed over 10,000 establishments to act as agent banks, with Equity claiming to have outsourced some of its operations to 5,000 active outlets. Further, the respondents indicated with a mean of 3.801 and a standard deviation of 1.113 that after they became an agent they have expanded their business to a great extent.

As well, the respondents indicated with a mean of 3.602 and a standard deviation of 1.114 that technical hiccups of the network that frustrates the clients while transacting has led to losing potential clients of their other businesses to a great extent. Lastly, the respondents indicated with a mean of 3.556 and a standard deviation of 0.763 that the lack of in depth knowledge and modern skills of banking industry has affected speedy growth of the agency banking and the other business they operate to a very great extent. This is an agreement with the findings of Lyman, (2010) who mentioned the following as the main hindrances to speedy growth of the agency banking: lack of awareness, social exclusion and low literacy levels.

Branding Effect on Agents Business

The study aimed at establishing the effects of branding on the performance of bank agents business.

Branding Factors affecting agency banking

The study requested the respondents to indicate how their business as an agent has been affected by the following factors. The results obtained are tabled below.

Table 4. 5: Branding Factors affecting agency banking

	Mean	Std. Deviation
After branding by the bank corporate colors the number of people coming into your establishment increased	3.292	0.532
The number of people coming into your store changed after you became an agent.	3.651	1.021
After you cease to be an agent and remove the banks corporate colour off the business premises the main business will be affected negatively	3.221	1.095
Logo, colour paintings on premises by the respective bank drives traffic into the business.	2.958	0.741

From the findings tabled above, the respondents indicated with a mean of 3.651 and a standard deviation of 1.021 that the number of people coming into the store changed after they became agents to a very great extent. Further, the respondents indicated with a mean of 3.292 and a standard deviation of 0.532 that after branding by the bank corporate colors the number of people coming into the establishment increased to a great extent. Strong brands enjoy customer loyalty, the potential to charge premium prices, and considerable brand power to support new product and service launches. Companies need to have thorough understanding of customer beliefs, behaviors, product or service attributes, and competitors (Simsons, 2007).

Additionally, the respondents indicated with a mean of 3.221 and a standard deviation of 1.095 that after they cease to be agents and remove the banks corporate color off the business premises the main business will be affected negatively to a great extent. Lastly, the respondents indicated with a mean of 2.958 and a standard deviation of 0.741 that logo, color paintings on premises by the respective bank drives traffic into the business to a great extent. In this respect, Ward et al., (2009) indicated that a strong brand identity that is well understood and experienced by the customers helps in developing trust which, in turn, results in differentiating the brand from competition.

Performance of Bank Agents

The general objective of the study was to determine the effects of agency banking on the performance of bank agents business in Kenya.

Agency banking business trend

The study additionally requested the respondents to indicate the trend of the following in their business for the last five years. The findings are shown below

Table 4. 6: Agency banking business trend

	Mean	Std. Deviation
Client base	4.352	0.721
Profitability	4.213	0.602
Market share	3.542	0.971
Sales turnover	3.013	1.091
Number of employees	2.789	1.093

From the findings, the respondents indicated with a mean of 4.352 and a standard deviation of 0.721 that client base improved. Ivantury and Timothy (2006) identified the reason behind the

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

They also indicated with a mean of 4.213 and a standard deviation of 0.602 that profitability improved. Agency banking can dramatically reduce the cost of delivering financial services to unreached people thereby increasing profitability according to Ivantury and Timothy (2006).

As well, the respondents indicated with a mean of 3.013 and a standard deviation of 1.091 that sales turnover remained constant. Further, the respondents indicated with a mean of 2.542 and a standard deviation of 0.971 that market share remained constant as well. Lastly, the respondents indicated with a mean of 2.789 and a standard deviation of 1.093 that the number of employees decreased.

Regression Analysis

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 21.0) to code, enter and compute the measurements of the multiple regressions

Table 4.7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.876	0.768	0.731	0.237

R-Squared is a commonly used statistic to evaluate model fit. R-square is 1 minus the ratio of residual variability. The adjusted $R^{2,}$ also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables.73.1% of the changes in the performance of bank agents could be attributed to the combined effect of the predictor variables.

Table 4. 7: Summary of One-Way ANOVA results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.223	4	1.306	20.713	1.23E-07
	Residual	1.576	25	0.063		
	Total	6.799	29			

The probability value of 1.23E-07 indicates that the regression relationship was highly significant in predicting how financial effect, market share, market development and branding influenced Performance of bank agents. The F critical at 5% level of significance was 20.713since F calculated is greater than the F critical (value = 2.70), this shows that the overall model was significant.

Table 4.1: Regression coefficients of the relationship between performance of bank agents and the four predictive variables

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.492	0.298		4.218	0.044
	Financial effect	0.617	0.178	0.326	5.374	0.032
	Market share	0.702	0.171	0.421	4.963	0.027
	Market development	0.596	0.563	0.123	3.916	0.038
	Branding	0.883	.0725	0.384	4.115	0.019

Regression equation (**$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$**) becomes:

$Y = 1.492 + 0.617X_1 + 0.702X_2 + 0.596X_3 + 0.883X_4$

The regression equation above has established that taking all factors into account (financial effect, market share, market development and branding) constant at zero the performance of bank agents business will be 1.492. The findings presented also show that taking all other independent variables at zero, a unit increase in the financial effect would lead to a 0.617 increase in the scores of the performance of bank agents business and a unit increase in the scores of market share would lead to a 0.702 increase in the scores of survival of the performance of bank agents business. Further, the findings shows that a unit increases in the scores of market development would lead to a 0.596 increase in the scores of the performance of bank agents business. The study also found that a unit increase in the scores of branding would lead to a 0.883 increase in the scores of the performance of bank agents business.

At 5% level of significance and 95% level of confidence, financial effect had a 0. 032 level of significance; Market share showed a 0.027 level of significance, Market development had a 0.038 level of significance while Branding showed 0.019 level of significance hence the most significant factor is market development.

Overall, Branding had the greatest effect on the performance of bank agents business, followed by Market share, then financial effect while Market development had the least effect to the performance of bank agents business. All the variables were significant ($p<0.05$). This is in agreement with Simsons (2007) that strong brands enjoy customer loyalty, the potential to charge premium prices, and considerable brand power to support new product and service launches. Companies need to have thorough understanding of customer beliefs, behaviors, product or service attributes, and competitors.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents the discussion of key data findings, conclusion drawn from the findings highlighted and recommendations made there-to. The conclusions and recommendations drawn were focused on addressing theobjective of the study.

Summary of Findings

Market Share Effect on Agents Business

The study established that a head start in licensing has created concentrated monopoly in competing banks thus loss of other agents business in the process .It was further established that a rapidly evolving technology poses significant administrative challenges thus eats into the revenue generated by the other agents business. It was further revealed that agency banking enhances the clientele purchasing power as one can withdraw cash from the agency and purchase required items at the agents business there and then and overlapping of regulatory domains between central banks and telecommunication regulators. Additionally, it was established that agency banking faces challenges from mobile money transfers which have a wider clientele thus the agency does not attract new clientele to the other agents businesses.

Financial Effect on Agents Business

The study established that it is not easy to maintain adequate cash and e-money float balances to meet customer cash-in/cash-out requests all the time may discourage clients from frequenting my other business. Further, it was revealed that a low number of clients not trusting the agency as a business secure for depositing their cash has led to less uptake of customers to the other business. It was also established that time taken to visit branch for float and back to the business is inconveniencing the clients and affects operations of the other business. Additionally, it was revealed that possibility of loss of close existing clients of the agents to other business offering same services. Additionally, it was revealed that possibility of other business being prone to robberies due to the financial transactions of the agency business was high.

Market Development Effect on Agents Business

The study established that technical hiccups of the network that frustrates the clients while transacting has led to losing potential clients of the main businesses. Also, it was revealed that there is existence of potential synergies between the other businesses they operate and the agency business. Additionally, it was revealed that after they became an agent they have expanded their business. Moreover, the study established that high turnover of agent employees affect business operations.

Branding Effect on Agents Business

The study established that after you cease to be an agent and remove the banks corporate color off the business premises the main business will be affected negatively. Additionally, it was revealed that logo, color paintings on premises by the respective bank drives traffic into the business. Further, the study revealed that the number of people coming into their store changed after they became agents. It was also established that after branding by the bank corporate colors the number of people coming into the establishment increased.

Performance of Bank Agents

The study established that client base, profitability and sales turnover had greatly improved. Market share had remained constant with number of employees decreasing.

Conclusion

The study established that market share through agency banking affects the performance of bank agents business in Kenya to a great extent. (Vutsengwa and Ngugi 2013) revealed that Central banks regulations on agency banking hamper the growth of agency banking, these regulations slows down the penetration of the agency banking which negatively affect the performance of bank agents business. Central Bank has stringent regulations on agency banking which slow down the growth of agency banking in Kenya thus affecting the performance of bank agents business in Kenya.

The study further established that financial services accessibility through agency banking affects the financial performance of agent's business in Kenya to a great extent. According to (Neil & Leishman, 2010), When agents provide a range of services (e.g., account opening, deposits, withdrawals, bill payments, etc.) they are able to generate transaction volume and balance liquidity. 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. This is a big risk in losing loyal customers of the other business operated by the agent. In addition, a secure mechanism needs to be in place to transport cash needs to and from an agent.

The study further established that market development affects agents business to a great extent. Lyman, (2010) mentioned that main hindrances to speedy growth of the agency banking is lack of awareness, social exclusion and low literacy levels. This agreed with the findings of the study which revealed that lack of in depth knowledge and modern skills of banking industry has affected speedy growth of the agency banking and the other business they operate. According to the Central Bank Annual Supervision report (2006), employment on the agency banking sector rose by 23%. The report attributes this due to the expansion of the institutions branch network and expanded business volume.

The study also revealed that branding affected performance of agents business to a very great extent Ward et al., (2009) indicated that a strong brand identity that is well understood and experienced by the customers helps in developing trust which, in turn, results in differentiating the brand from competition. (Simsons, 2007) found out that strong brands enjoy customer loyalty, the potential to charge premium prices, and considerable brand power to support new product and service launches. Strong brand identity that is well understood and experienced by the customers helps in developing trust which, in turn, results in differentiating the brand from competition.

The study finally concludes that branding had the greatest effect on the performance of bank agents business, followed by Market share, then financial effect while Market development had the least effect to the performance of bank agents business.

Recommendations

The study established that agency banking faces challenges from mobile money transfers which have a wider clientele thus the agency does not attract new clientele to the other agents businesses. In this light, the study recommends that the government subsidizes the agency banking sector to help compete more favorably with the mobile money transfers. This is because among the many benefits of agency banking, it enhances the clientele purchasing power as one can withdraw cash from the agency and purchase required items at the agents business there and then. Therefore, it should be accorded the required help.

The study established that a low number of clients not trusting the agency as a business secure for depositing their cash has led to less uptake of customers to the other business. The lack of trust was caused by various challenges among them security in transacting large sums of money. To curb this, this study recommends that the government offers support to the agencies in form of offering security officers. This may be costly, and so the government may consider increasing security in the areas that the agencies are located.

The study established that technical hiccups of the network that frustrates the clients while transacting has led to losing potential clients of the other businesses. This study therefore recommends that system maintenance activities be conducted more regularly especially at night. This will reduce the cases of technical hiccups.

It was also established that logo, color paintings on premises by the respective bank drives traffic into the business. Therefore, this study recommends that the banks should meet the costs of painting each and every agents premises. This is because the cost of painting may be too high for some agents forcing them to stay without. By offering free painting services many people will also be motivated to get involved in agency banking as the overall start-up costs will have been reduced.

Suggestion for Further Studies

The study recommends that a study should be done to determine the challenges faced by bank agents business in Kenya. There should also be further study examining the economic contribution of bank agents business in Kenya and the recommendations submitted to the powers that be.

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