Assessment of Factors Influencing Adoption of Agency Banking in Kenya: The Case of Kajiado North Sub County

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Abstract

This study was intended to asses some of the factors that contribute to the adoption of agency banking in Kenya. Three independent variables were assessed namely Customer Service. Convenience and quality of agents. The dependent variable was the total commissions earned by agents from time to time at intervals of six months .The results indicate that System availability contributes to service reliability. High reliability increases the adoption of agency banking. Complaints resolution time does not affect the adoption of agency banking. Agency banking is delivering convenience in form of extended hours of banking and by bringing the banking service closer to the customers leading to increased adoption of agency banking. High quality of agents increases the adoption of agency banking while poor quality agents inhibit the adoption of agency banking. Commissions earned by agents grew from one period to the other signifying adoption and growth of agency banking.

Keywords: *Agency banking, Adoption, Commissions, convenience, System availability, Float.*

1. Introduction

1.1 Background of The Study

Agent-banking is an arrangement by which licensed institutions engage third parties to offer certain banking services on their behalf. In Kenya, agency banking is governed by the Prudential Guideline on Agent Banking issued by the Central Bank of Kenya (CBK) and which became operational on 1st May 2010. In February 2011, the Central Bank of Kenya released regulations allowing banks to offer services through third party agents approved by the CBK. The use of the agency banking model by banks has continued to improve access of banking services since its launch in 2010. As at 30th June 2013, CBK had authorized 13 commercial banks to offer banking services through third parties (agents). Since 2010, a total of 19,649 agents had been contracted facilitating over 58.6 million transactions valued at Kes. 310.5 billion. The increased number and value of transactions demonstrate the increased role of agent banking in promoting financial initiatives being championed by the Central Bank. (CBK, 2013) The agency banking model is still in its infancy, having started in February, 2011. Comparing the 2011 and 2012 performances, tremendous growth has been evidenced in agency banking conducted by Commercial Banks. Agency banking largely offers a variant of M-Pesa with the main exception being that agency services are supported by bank accounts. For example, the Co-op Kwa Jirani agency platform by Cooperative Bank offers cash deposits and withdrawals, money transfers, fees and utility payments, balance inquiries and mini statements. More banks now also offer a direct connection from bank accounts to M-PESA, allowing customers to transfer funds between both. According to a survey on agency banking carried out by Kenya Bankers Association (KBA, 2012) for its Center for Research on Financial Markets and Policy, 40.9% of agents operations are cash deposits while 36% are withdrawals. The survey also revealed that customers are asking for additional services not on offer, including ATM cards, recommendations for loans and advice on various bank products on offer. While these would offer a distinction from services offered by telcos' mobile money services, they require more expertise than agents have, and closer supervision than they can be given. The survey also found that 91% of respondents will use an agency outlet because they trust the bank compared rather than the agent. Banks with positive images and long, stable operations are favored. Agents use point-of-sale (POS) devices and/or mobile phones and must have access to the bank's core banking system so that the clients' transactions are reflected in real time. In the same report cited above, CBK notes that various banks have already invested in new core banking systems. 'The new systems are expected to facilitate centralization of operations, staff rationalization and support new technological products such as internet and mobile banking.

However, while Safaricom still prohibit their agents from representing any other mobile money service, banking agents cannot be exclusive for any one bank provided they make a clear distinction in operations of the different banks served. This is expected to raise agents' income as some have complained or even abandoned agency operations altogether, citing low margins. Agency banking has helped to bring some banking services to rural and suburban areas. The prohibitive costs of setting up branches and ATMs vis-à-vis the expected returns have been a disincentive for banks to roll out their services in these areas, but agency banking has provided an avenue to these markets at limited cost. Although some rural customers still have to travel some distance to branches for services that agents can't deliver, basic transactions are far more readily available. By its nature, the model was intended to take

banking to the low income and rural populations. This places outlets in areas where insecurity is a concern. They lack the sophisticated security measures of the bank branch (CCTV, armed guards), large deposits (large here means over KES50, 000) are in some cases turned away. The outlets also operate beyond standard bank opening hours, further exacerbating the security risk. Other problems include: lack of consumer information on agency banking, for example on charges, lack of sufficient float, image problems (shabby shops may turn off customers); system collapse; equipment breakdown and incompetent agents. Despite the obstacles, agency banking is expected to gain in importance as banks roll out more products. Together with ATMs, mobile and internet banking, agent outlets may then leave bank branches to become customer care centers providing more complex transactions and relationship banking. Investors briefing during Equity bank half year results release on July 29th, 2013 had the following comments "The focus on Agency Banking and several strategic initiatives on merchant business, payment processing and facilitation paid off driving deposits growth by 20% to Kes. 187 Billion as at 30th June 2013 from Kes. 155.7 Billion as at 30th June 2012. The rapid growth in deposits helped to grow the liquid assets to 41% of the balance sheet with Government Securities increasing by 39%. The number of customers grew to 8.3 million maintaining Equity as the largest bank by customer base in Africa. The convenience of Agency Banking has led to the channel taking the lead as the most preferred delivery channel overtaking conventional channels like ATMs and branch over-the-counter transactions. The cost income ratio reduced from 50% to 49% as a result of internal process optimization initiatives as well as the growth of Agency Banking."

1.2 Statement of the Problem

In the last decade, there has been an explosion of different forms of remote access of 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. One of the main obstacles to financial inclusion is cost, both the cost to banks involved in servicing low-value accounts and extending physical infrastructure to remote rural areas, and the cost (in money and time) incurred by customers in remote areas to reach bank branches. In Kenya, Central bank of Kenya continues to report very impressive performance by agent banking, for example volumes transacted in 2012 were triple those in 2011. In spite of this impressive performance, banks have not managed to convince large retail chains in the country to be their agents yet the researcher feels they would have been the ideal outlet because of the large footprint they command, convenient hours of business, ability to generate cash which is the raw material for agency banking and their more secure environments. Observations by the researcher are that agents operating within same geographical locations have huge disparities in commissions earned and that some of the bank agents that used to dot trading centers have disappeared for some reasons. Out of 43 banks in Kenya, only 13 of them have adopted agency banking. According to CBK, in pursuit for cheaper deposits the percentage increase of bank branches in 2012 was higher than the percentage increase in bank agents meaning banks side stepped agency banking to open more branches despite the cost saving associated with agency banking. The researcher was interested in exploring some of the factors likely to have occassioned such mixed fortunes with regard to adoption of agency banking in Kenya.

1.3 Objectives of the Study

The study had the following objectives:

1.3.1 The general objective

To assess the factors that affect adoption of agency banking in Kenya.

1.3.2 Specific objectives

i. Investigate if customer service is affecting adoption of agency banking in Kenya.
ii. Assess whether convenience is affecting adoption of agency banking in Kenya.
iii. Determine whether quality of agents is affecting adoption of agency banking in Kenya.

1.4 Research Questions

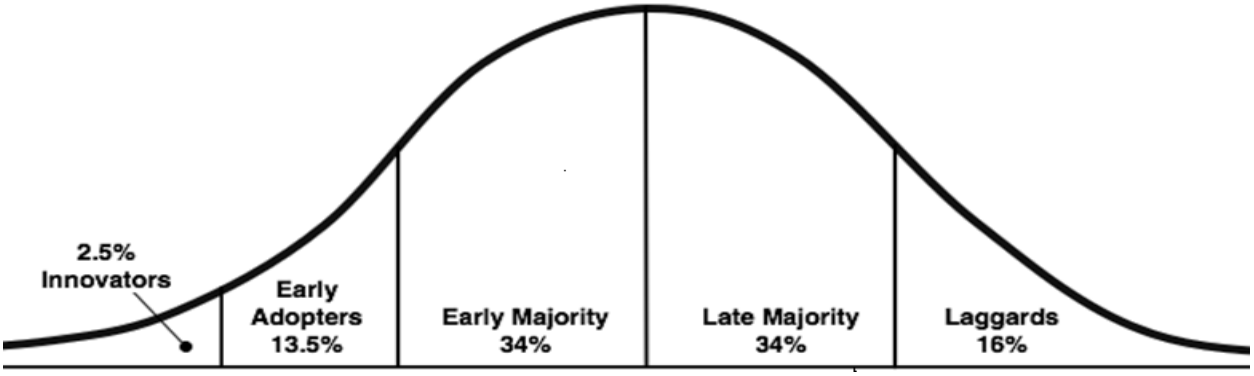
i. Does Customer Service affect adoption of agency banking in Kenya?
ii. Is convenience affecting adoption of agency banking in Kenya?
iii. Is the quality of agents a factor in the adoption of agency banking in Kenya?

2. Literature Review

2.1 Theoretical Review

2.1.1 Diffusion of innovations theory

Diffusion of Innovation (DOI) Theory, developed by E.M. Rogers in 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.



Source: Boston University School of Public Health 1972

Figure 2.1 Distribution of adopters

2.1.2 Agency theory

Explains the relationship between principal and agent in business. Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals and agents of the principals. The two problems that agency theory addresses are: (1) The problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing; and (2) The problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions. The first scholars to propose, explicitly, that a theory of agency be created, and to actually begin its creation, were Stephen Ross and Barry Mitnick in the early, 1970s. Research on agency theory has had several findings. Most notably, an agent is more likely to adopt the goals of the principal, and therefore behave in the interest of the principal, when the contract is outcome-based. Also, when the agent is aware of a mechanism in place that allows the principal to verify the behavior of the agent, he is more likely to comply with the goals of the principal.

2.2 Relevance of the Theories

Relating the diffusion theory to agency banking, the agency banking is clearly an innovation that requires time to reach critical mass. 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. The rate of diffusion of agency banking will depend on many factors some of which are subject of investigation in this study, but also not forgetting disruptive innovations like the mobile money services. Critical mass will only be reached when agents have earned enough commission for their sustenance. The commissions are however volume based. According to Equity bank, 2011 it is estimated that, an agent will need to transact on average more than fifty transactions per day to cover their monthly overheads. This of course will depend on an agent's efficiency and ability to keep costs at the minimum. Such costs include rent, salaries and wages, float costs, business permits and airtime to name but a few. Agents are ideally supposed to be engaged in an existing business such that the agency banking becomes another product on their shelves but it is not unusual to find agents providing agency banking services

exclusively. Unless an agent attains break even points, the agency will close unless he or she is able to spread costs to the core business. Banks are actually only eager to recruit well established businesses as agents for this reasons and the need to bolster their reputation and the much needed deposits from the agents (SMEs) who automatically become their customers. This is because bank agents must open agency operations account with the bank they work for. The reluctance of the majority banks to engage in agency banking despites its potential for cost saving could be explained by the different categories of adopters. Banks however need to come up with initiatives to popularize the agency banking such as advertisements, road shows, pricing strategies to create push and pull at the agency as well as many more initiatives until the agency banking has attained the critical mass. The diffusion theory does not however take into account an individual's resources or social support to adopt the new innovation. Majority of the unbanked Kenyans poses all categories of adopter's characteristics yet they are not banked. Agency theory on the other hand explains the importance of the relationship between the banks and the bank agents. Banks are responsible for the actions of their agents and thus must be able to come up with supervision and monitoring procedures to ensure that they do not suffer losses, material or reputational due to the actions of their agents. In concurrence with the theories, some unscrupulous agents deviate from compliance to laid bank procedures for their own interest. Examples are where agents split a single deposit transaction into several transactions in order to increase their commissions. Since customers do not pay for deposits, banks are disfranchised whenever a deposit transaction is multiplied over by an agent as they have to pay from their profits for each of these deposit transactions. The other concern is where an agent is compromised by fraudsters in abating frauds to customers account like card skimming which have been traced to agents. In such instances banks are forced to increase their surveillance which calls for more and more supervision resulting in a vicious cycle of cost of agent's administration. However these vicious circles can be broken by proper screening of agents at recruitment to match the culture and values of the banks they represent. Other ways could be by recognizing and rewarding complying agents and disciplining non-conforming agents. According to agent supervisors, currently banks are more concerned with recruitment of agents to a certain minimum numbers and as such termination of errant agents is less a priority until they have attained the targeted numbers. This may explain the continued inclusion of dormant agents in the total agent numbers being quoted. A major criticism of the theory is that, simple agency model assumes that no agents are trustworthy and if an agent can make himself better off at the expense of a principal then he will. This ignores the likelihood that some agents will in fact be trustworthy and will work in their principals' interests whether or not their performance is monitored and output measured.

2.3 Empirical Review

2.3.1 Customer service

Customer service has been defined as customers' overall impressions of an organization's services in terms of relative superiority or inferiority (Bindra, 2007). Further, service quality is considered to not only meet but to exceed customer expectations, and should include a continuous improvement process (Walker & Cheung, 1998). Service quality arises from a comparison of the difference between service expectations developed before an encounter with banks and the performance perceptions gained from the service delivery based on the service quality dimensions (Bindra, 2007). Berry *et al*. (1985) and Zeithaml and Bitner (1996) indicated that service quality consisted of five dimensions as Follows; Tangibles: appearance of physical facilities, equipment, personnel and written materials. Reliability: ability to perform the promised service dependably and accurately. Responsiveness: willingness to help

customers and provide prompt service. Assurance: knowledge and courtesy of employee and their ability to inspire trust and confidence. Empathy: caring, individualized attention the firm provides its customers. In a study by Berry *et al.* (1994) with more than 1,900 customers of five large famous US corporations, they found that thirty-two out of a hundred placed emphasis on reliability, followed by responsiveness (22%), assurance (19%), empathy (16%) and tangibles (11%). Thus, reliability is considered the essential core of service quality. In addition, other dimensions will matter to customers only if a service is reliable, as those dimensions — for example, responsiveness and empathy from service staff — cannot compensate for unreliable service delivery. In Kenya the success of Equity bank Ltd and Safaricom Ltd with the bottom of the pyramid mass has led to a renewed focus of this customer group. Several banks have entered this market which is volume based where the large number of accounts have proved a cheap source of deposits and transaction fees. Banking the bottom of the pyramid is not without its challenges chief among them being congestion and low margins which call for effective and varied delivery channels. As customers become better educated, they demand new products, better and more reliable delivery channels, as well as more responsive services. As a consequence, to improve, banks have to understand customer needs and expectations and satisfy their customers by providing better products and services. (Parasuraman, 1991). Today, bank marketing strategy applied in the market is easy to imitate over a short period of time. One obvious evidence is that banking products and services offered in the market are the same or very similar (Li et al., 2001; Lim & Tang 2000; Lockwood, 1995; 1996; Alfansi & Sargeant, (2000). Service quality will sustain the customers' confidence in a service provider's service delivery, attract more new customers, increase business with existing clients, reduce dissatisfied customers, maximize a company's profits and increase customer satisfaction (Berry *et al.*, 1994; Lee *et al.*, 2000).

System availability**:** Agency banking success will largely depend on reliability. One of the major measurements of reliability is the system availability. In Brazil many agents complain about downtime – POS "frozen" by bank once cash limit reached, pending deposit of cash at branch, but often with a lag until POS is unfrozen.–Poor GPRS connection for some agents –Occasional maintenance required. If unable to transact for 2 days, monthly profit margin may cut by more than half from 10.6% ($124/mo) to 2.6% ($27/mo) CGAP, (2010). By its very nature the ICT phenomenon is relatively new in the developing world. Available data, suggest that the majority of developing countries such as Kenya in sub-Saharan Africa are lagging behind in the information revolution (Zhao and Frank, 2003). The system being the only connectivity between the customer and the bank will determine whether a customer request is frustrated or satisfied at the agent location. System safety and malfunction can frustrate the agent reconciliation or even facilitate fraud against the bank, customer or the agent.

Complaint resolution: Banks and their agents have to contend with customers complaints in cases such as, customer being debited with cash he did not receive because of incomplete withdrawal transactions, an urgent deposit 'hangs' somewhere else other than the beneficiary account due to system failure, where the agent has erroneously entered the wrong account number or bill account. This could mean a stranded commuter for lack of fare, a son or daughter somewhere being sent home for non-remitted school fees, a punitive disconnected utility supply. How such complaints or errors are handled could mean retention or loss of the customer for good. Bindra,(2007) urgues that a satisfied customer will tell one other customer about the experience but a dis-satisfied customer will tell a crowd.

2.3.2 Convenience

Kenya, is a developing country with a total population of 43 million people, with slightly lower than average income inequality measured by the Gini Coefficient at 47.7 compared to South Africa's Gini coefficient 57.8; Brazil's 55.0; Peru's 49.6, Mexico's 48.1 and India's 36.8 (UNDP, 2009). This population needs continuous cash flow for development and mobile banking has been making waves. Mobile banking offers numerous benefits to SMEs. SMEs can check account balances, transfer money, pay bills, collect receivables and ultimately reduce transaction costs and establish greater control over bank accounts. Agency banking in Kenya has then to go an extra mile to be able to match such convenience. Indeed several initiatives are in that direction. These initiatives include extended banking hours with some agents reportedly opening as early as 06.00hrs and others closing as late as 01.00hrs. The mobile banking platform which for some majority of banks is a prerequisite for using the agency banking is whipping masses into convenience banking with as much control of one's bank account as would a telco service.

Hours of banking: Competition for customers has pushed banks to extend their opening hours to late evening, with an increasing number of lenders now serving customers over weekends and public holidays. Standard Chartered, ABC, Diamond Trust, NIC and Barclays Bank of Kenya have recently announced an extension of their opening hours to between 7a.m and 8p.m, from what has been the traditional banking hours of between 9a.m and 3p.m. Diamond Trust Bank has extended its operating hours for five outlets in Kenya and six in Uganda, which now operate for seven days a week between 8a.m to 8p.m."We had to introduce new staff shifts, increased security and investment in technology," said Naomi Mangatu, senior manager for marketing and corporate communications at the bank. Ms Mangatu said DTB is planning on opening a sixth extended hour's branch in Nairobi. ABC Bank Group Managing Director Shamaz Savani attributed the extension of banking hours to increased economic activities, traffic jams that have cut peoples' spare time and change of Kenyan's lifestyles. Mr Savani said the bank's long-hour branches are targeted at late night shoppers in high income residential areas. "We looked at the foot traffic, area security and location while selecting the branches. For the Eldoret branch we considered the presence of Nakumatt, which is located opposite our branch and operates for 24 hours." said Mr Savani. Standard Chartered Bank said the extension is meant to accommodate customers' busy schedules. Executive director of the Kenya Bankers Association John Wanyela said the increased banking hours point to a shift towards a 24-hour economy, adding that it will help retailers such as supermarkets that wish to operate for long hours. Some banks have also taken advantage of the introduction of the agency banking model to have their operations in outlets such as supermarkets that open for 24-hours or up to late in the night (Property Kenya, 2010). While this is happening targeted the high net worth, the low income earners have moved with the trend as they facilitate and service such lifestyle change.

Proximity: **A**ssessed whether the distance covered to access bank services and the associated time and cost of transport are real incentives to alter the customer decision whether to visit the bank or the agent. According to (Kithuka, 2010) distance does not influence the frequency of customer transactions. This cannot be interpreted to mean proximity has zero effect on agency adoption. "Customers will not knowingly incur more in terms of time and financial cost to do a bank transaction at the bank unless it is not available at the agent" (CBK Governor, 2011) 'Lower transaction costs were incurred since client/ entrepreneurs would visit agency any time without incurring any additional cost like transport cost to bank their cash. Agencies are more accessible for illiterates and the very poor who might feel intimidated in branches with low amount of money they would wish to withdraw and deposit. Though most people

are not aware of these costs, to some extent they do influence the customer decision to use agency banking or not to use the agency banking hence influences the performance and growth of agency banking' (Ombutura & Mugambi, 2013).

2.3.3 Agent quality

Agent quality was assessed using three parameters namely float adequacy, age of an agent in agency business and the core business of the agent.

Agent float: This is the cash at hand and bank balances set aside by the agent for agent banking operations. According to CGAP. (2011). The top concerns among agents are low remuneration, liquidity management and network availability. The operation of the agency is such that a customer deposit at the agent means customer giving cash to the agent and is accounted by the bank by debiting the agent account at bank and crediting the customer's account at the bank . It is therefore not possible for an agent to receive a deposit unless the agent has sufficient credit in the bank. A customer withdrawal at the agent means the agent gives cash to the customer and the bank accounts by debiting the customer's bank account and crediting the agent's account at the bank. An agent then can only pay out a withdrawal if they have cash in their till at the shop. This means the agent has to have both cash in the bank and cash in till. This is a key challenge to banks as most agents are not able to balance the cash holding or have inadequate capital. For some reason banks have not been able to convince some businesses like large retail chains which could be ideal for agency banking. Some of the reasons given are the inability of the banks to provide reconciliation mechanism which has led to the chains loosing cash. The situation of float is even worse for remote agents who have to travel to the banks to replenish their deposits when balances run low. Erratic nature of finance services daily cash limits are also to be considered as part of anti-money laundering initiative by CBK, agents cannot transact above certain limit. Hitting this limit means the agent can only close for the day unless they have applied for higher limits. In Brazil many agents complain about downtime –POS "frozen" by bank once cash limit reached, pending deposit of cash at branch, but often with a lag until POS is unfrozen (CGAP,2010)

Age of agency: Agents are expected to take time to establish themselves and the normal growth curve is expected to apply. This means lower foot print in the beginning of a new outlet that keeps on growing to maturity if the correct factors for growth are cultivated or closure or dormancy of agency if the right factors are not exhibited.

Agent's type of core business: The type of agent business is critical in number of ways. First the nature of business determines the hours of business. For example retail shops, supermarkets and hotels are known to open 365 day a year, they open early and close late. Chemists are known to open late in the day but extend late in the night. Majority of other businesses like the hard-ware shops open between 08.00hrs and 18.00 hrs. The more formal businesses like the SACCOs and microfinance have similar hours of business to those of banks and remain closed for businesses on weekends and public holidays.

2.3.4 Agency banking adoption

The key measure of performance at the agency is the commissions earned at the end of the month. The research has however realized the agents will be more at ease discussing number of transactions than they would on the commissions earned. This is because first nobody wants to discuss their earnings especially if they are too high or too low and second the agent has to calculate or rely on memories since the cumulative commissions are paid once in a month. However number of transactions per day can easily be obtained with ease from the agent records. Commissions earned are a factor of number of transactions

done in a given period. If an agent remains closed for a day for various reason then the agent earns zero on such a day. The independent variable under investigation are likely to influence the agent performance as follows: customer service – when customer are satisfied they gain confidence in the agent and because of customer retention and growth the agent is expected to grow the number of customers who are attached to the agent and thus an increase in transaction numbers which will then translate to commissioned earned. The availability of network is key to an agent performance while poor connectivity constraints the number that are handled at the agent location. Complaint resolution: Banks and their agents have to contend with customers complaints in cases such as, customer being debited with cash he did not receive because of incomplete withdrawal transactions, an urgent deposit 'hangs' somewhere else other than the beneficiary account due to system failure, where the agent has erroneously entered the wrong account number or bill account. This could mean a stranded commuter, a son or daughter somewhere being sent home for non-remitted school fees, a punitive disconnected of utility supply. How such complaints or errors are handled could mean retention or loss of the customer for good. . Bindra,(2007) states that a satisfied customer will tell one other customer about the experience but a dis-satisfied customer will tell a crowd. Proximity: will assess whether the distance covered to access bank services and the associated time and cost of transport are real incentives to alter the customer decision whether to visit the bank or the agent. According to (Kithuka, 2010) distance does not influence the frequency of customer transactions. This cannot be interpreted to mean proximity has zero effect on agency adoption. "Customers will not knowingly incur more in terms of time and financial cost to do a bank transaction at the bank unless it is not available at the agent" (CBK Governor, 2011) Agent float: This is the cash at hand and bank balances set aside by the agent for agent banking operations. According to CGAP. (2011). The top concerns among agents are low remuneration, liquidity management and network availability.

Age of agency - Agents are expected to take time to establish themselves and the normal growth curve is expected to apply. This means lower foot print in the beginning of a new out let that keeps on growing to maturity if the correct factors for growth are cultivated or closure or dormancy of agency if the right factors are not exhibited.

3. Methodology

3.1 Population of the Study and Data Collection Method

The population of the study consisted of all the bank agents operating within Kajiado North Sub – County. Banks agents have been narrowed to mean agents operating on behalf of the 13 banks approved to undertake agency banking. In Kenya there are a total of 43 licensed banks. The sampling frame consisted of a list of commercial banks approved to engage in agency baking and represented by an agent in the Sub –county obtained from CBK quarterly reports. Number of agents operating in the area of study was obtained from the agency departments of the various banks represented in the area. Total numbers of agents in the country approved as at 30th June, 2013 were 19 649 agents. The researcher selected to concentrate on Kajiado North Sub – County for the reason that the area offers both the urban and the rural environment and thus representative of the two scenarios. In total there were 214 licensed agents in the area of study as at 30th June, 2013. The study was a survey on the 214 agents. The research adopted a structured closed and open ended questionnaires administered face to face as the main instruments for collecting data relating to the variables - customer service, convenience, agent quality and number of transactions. According to Crisp (1957), structured questionnaire facilitates the collection of information

in a systematic and orderly manner as the questions are formulated in advance. The questionnaires were divided into five sections. Section A. gathered data on the general information about the agent. Section B, C D & E dwelt on each of the four variables.

4. Results and Discussions

4.1 General Respondents' Information

The study targeted a population of 214 agents out of which 184 responded. This is an 86% response rate and acceptable for this kind of study. According to Punch, K. F. (2003). Response rates are more important when the study's purpose is to measure effects or make generalizations to a larger population and less important if the purpose is to gain insight. Acceptable response rates vary by how the survey is administered: Face-to-face: 80-85% is good. Among the non- responding were agents who had since closed operations comprising of 7%, 4% declined to participate while the remaining 3% could not be reached for various reasons. The following were business activities which the agents engaged in: Agro vets, barber, cereals, chemist, cereal shops, electrical, electronics, LPG gas vendors, general services, hardware shops, hotels, meat, microfinance, fruits shops, M-pesa agents, property broker, repairs, SACCO, saloon, security, services, retail shops, spares, studios, mini, supermarket, tailor, timber and water vending. Retail shops had the highest frequency of 49% followed by hard ware's shops at 21% and Chemists at 13%. Some business activities like the Bars were noted as not being engaged in the agency banking perhaps due to moral obligation, reputational concern or prohibition by the CBK. Over 70% of the agents had business experience of 5years and above. None was less than 2 years in business as per CBK guide lines.

4.2 Customer Service

Customer service in this case was measured through two parameters namely System availability and Complaint resolution time. The respondents were asked to name the connectivity technology used and also rate their availability. The two methods of connectivity found to be in use were the mobile phone and the Point of Sale machines (POS). 58.2% of the respondents were using a combination of the two 29.9% were using POS only while 12% were using the phone only. System availability ranged from excellent to poor depending on the bank served. Only 3.8 % rated the availability as excellent, 44% said the availability was average. Good and poor were at 27.7% and 24.5 respectively. Asked whether system down time was affecting negatively the commissions earned, 3.8% indicated that they were not affected while 96.2% indicated that they were negatively affected by system down time. The reliability of service in this case the system availability is key to gaining of customers' confidence. In a study by Berry *et al.* (1994) with more than 1,900 customers of five large famous US corporations, they found that thirty-two out of 100 placed emphasis on reliability, followed by responsiveness (22%), assurance (19%), empathy (16%) and tangibles (11%). Reliability is thus essential for quality service Regarding complaints and resolution of errors, respondents indicated the time taken to have complaint and errors resolved in the following percentages. 26.3% of respondent indicated resolution of complaints is immediately they reported, 43.2% within two days of reporting, 25.% up to a week and 5% indicated that errors or complaints not reported are never corrected. On whether agents were aware of whom or where to contact in case of support, there was 100% yes. The following relationships were tested using Chi-square. Complaint resolution time versus total commissions earned, Connectivity devise versus Percentage commissions attributed to each, and Service availability versus Agent total commissions earned.

Complaint resolution time against total commission earned had a Chi Square test significance of 27.3% beyond acceptable significance levels of 5%. and thus has not been discussed further. Service availability at the agent was interesting to note. It was not significant for all other banks but was significant for Post bank at .3.7%. Possible explanations are that the bank has been in agency banking for longer than any other bank having been involved in bills payment for Kenya Power way before the launch of agency banking. This could have enabled them to perfect their systems as was attested by the respondent when they ranked the bank as excellent on POS system availability with no other banking attaining the same. The bank also had zero errors as per data findings. This is because the bank has it systems integrated with utility firms for whom it was collecting payments on behalf. However, the bank had more of third party receipts mainly electricity and water bills and could be argued that it was tested on withdrawals and accounts deposits. In fact agents are diverting utility payment through Post bank regardless of the customer choice. This is so because they are assured that the payments will go to the intended accounts as opposed to other banks systems where payment to wrong accounts are evident. The other reason for this could be that the other banks fluctuating service availability could have distorted respondents response depending on the recent experience other than an objective experience. Having said that, if the significance of service availability could be obtained on the more stable system availability of Post bank then it could be generalized that yes Service availability is a key factor in determining growth of the agency banking. Regarding the relationship between total commissions earned against the device in use in connectivity, Chi- square test was not significant where POS or the phone was in use alone but was significant when both the devices were in use simultaneously. This bogs down to the issue of service reliability. When one device is in use alone service disruptions are devastating as no customer can be served but when the two gadgets are in use together then the agent and the customer are able to switch from one to the other with a less repercussion on the customer experience. Zeithaml and Bitner (1996) indicated that service quality consisted of five dimensions as Follows; Tangibles: appearance of physical facilities, equipment, personnel and written materials. Reliability: ability to perform the promised service dependably and accurately. In a study by Berry *et al.* (1994) with more than 1,900 customers of five large famous US corporations, they found that thirty-two out of 100 placed emphasis on reliability, followed by responsiveness (22%), assurance (19%), empathy (16%) and tangibles (11%). Thus, reliability is considered the essential core of service quality. The two authors concur that reliability of service is the key to quality service and unless banks engaged in agency banking are able to improve their systems stability form poor to a minimum of good, then the customers confidence in agency banking will remain hampered and so will be its adoption.

4.3 Convenience

Bank agents deliver convenience by providing more working hours than the conventional bank's hours of business and through close proximity to the customers than would the banks. The researcher asked the respondent to indicate their hours of business on various days classified as Weekdays, Saturdays, Sundays and Holidays. Results indicated that agents were delivering additional hours and making services available to bank customers beyond what the banks could deliver. All agents were opening longer hours than banks during weekdays. 52.6% opened on Sundays and 93.5% opened on holidays. This was in tandem with the agents core businesses hours. Banks can thus greatly increase their hours of business without incurring huge costs by adopting the agency banking. Only 8.8% of agents did not open on Saturdays. Those who opened on holidays had business hours similar to those of weekdays. This is double the business hours of the banks who opened on Saturdays. 52.6% opened on Sundays and

93.5% opened on holidays. This was in tandem with the agents core businesses hours of banking. Agents being examples of banks customers in themselves, confirms that most banks' customers are cut out by the conventional banking hours.

The respondents were then asked to indicate how their transactions were distributed across the hours of business with the following results. The results indicated two sets of response. Those who opened between 06-18hrs had a distribution of 20%, 30% and 50% while those who opened between 06-22hrs had a distribution of 20%, 20%, 40% and 20% at sessions of 4 hours intervals. Most banks in Kenya are open between 08 hours to 16hrs meaning customers have no option on where to get service before the banks have opened for business and after the banks have closed for business. The agency solution has thus afforded flexible hours of banking. The high transactions during banking hours are likely to be because customers are receiving a cost benefit by opting to bank at the agent or are moving away from congestion in the banking halls as suggested by Wairi. D. K 2011.

The respondents ranked weekdays, weekends and holidays from the busiest to the least busy. As follows 92.9% ranked holidays as the most busy, followed by weekends as the second busy. Weekdays were the least busy. This indicates that agents are more busy on days that the banks are closed with customers streaming to the agents on such days. The reason being that bank services are still in demand even when banks have closed.

Response on how far the nearest branch of the bank the respondents were serving indicated that agents o cluster near the branch and further away from the branch, while customers appeared to originate within proximity of the agent. Over 95% of agents indicated that they are affected by the distance of the branch of the bank they serve. Asked how, those far from branches indicated they had difficulties replenishing their float. Agents near branches indicated they benefit from reduced cost of float replenishment but were negatively affected in that they received more deposits than withdrawals. Deposits earn lower commissions than withdrawals and thus customers preferred to make withdrawals at the branch or ATMs where withdrawals are relatively lower than at the agent depending on the withdrawal amount. Banks do not charge customers for deposits both at the bank and at the agent but pay a lower commission to agents on deposits received. Relationship test was done comparing the distance of the nearest bank branch and the proximity of customers to the agency. A strong relationship at significant level of 0.023 was established. In cases where the distance between the bank and the agent was the same for the customer, the customer chose to go to the bank or other nearer agent. No customer went to the agent if the bank was nearer than the agent, indicating that customers still preferred to be served at the bank but there is a pull towards the agent if the cost savings are significant in relation to the nature and value of the transaction. Customer being a rational being will tend to make options that best maximize their value be it in cost or time savings. According to (Kithuka, 2 010) distance does not influence the frequency of customer transactions. This cannot be interpreted to mean proximity has zero effect on agency adoption. "Customers will not knowingly incur more in terms of time and financial cost to do a bank transaction at the bank unless it is not available at the agent" (CBK Governor, (2011) at the launch of agency banking). Though most people are not aware of these costs, to some extent they do influence the customer decision to use agency banking or not to use the agency banking system hence influences the performance and growth of agency banking' (Ombutura & Mugambi, 2013). Other relationship tested was comparison of number of hours served by the agents versus the number of hours opened by banks where a Chi –square test significant at 0.01 level of confidence was estalished. This meant that atleast 99% of agents were open longer than either of the banks engaged in agency banking in the area of the

study. (this excludes the extended banking hours arrangements for prestige and premier customers in some of the banks) The 1 % is attributed to agents who did not open on Weekends as some banks are open on weekends. The distribution of footprint during the day was also used to test the relationship and yes, agents who opened longer than others had different footprint distribution patterns than the earlier, they captured the late customers conveniently. The Chi square test, level of significant was at 0.035. All the above test validates that agency baking is providing convenience which is key in its adoption.

4.4 Quality of Agents

The researcher was interested in three parameters for measuring the quality of agents. These parameters were, float management, experience in agency which was depicted by length of service as an agent and the type of business agents were engaged in.

Agent float: With float management the areas of interest were adequacy, daily limits, mismatch of deposit and withdrawals and the fluctuating requirements of float. The respondents were 100% in agreement that the daily transaction limits are adequate for their current levels of transactions. 92.4% indicated that deposit and withdrawals did match. On average there were more deposit than withdrawals. It was also noted that the pattern of nature of transactions changed from one day to the other and from one location to the other. For example agents reported that there were more number of withdrawals on end months than during mid-month. Agents in town had their transactions dominated by third party deposits like bills, school fees and rent payments while upcountry agents had a lot to do with individual withdrawals. Float adequacy versus total commissions earned had a Chi-square test significance of 0.472. This was not significant enough to make a generalized conclusion but is worth noting that some who indicated that they had adequate float were found to be struggling to balance their cash at hand and the cash at bank. Too much cash at hand and no cash at bank and vise vasa would not be optimal for both deposits and withdrawal transaction as either of the service will not be possible at the agent. The operation of the agency is such that a customer deposit at the agent means customer giving cash to the agent and is accounted by the bank by debiting the agent and crediting the customer's account at the bank . It is therefore not possible for an agent to receive a deposit unless the agent has sufficient credit in the bank. A customer withdrawal at the agent means the agent gives cash to the customer and the bank accounts by debiting the customer and crediting the agent's account at the bank. An agent then can only pay out a withdrawal if they have cash in their till at the shop. This means the agent has to have both cash in the bank and cash in tills. This is a key challenge to banks as most agents are not able to balance the cash holding or have inadequate capital. For some reason banks have not been able to convince some businesses like large retail chains which could be ideal for agency banking. Some of the reasons given are the inability of the banks to provide reconciliation mechanism which has led to the chains loosing cash. The situation of float is even worse for remote agents who have to travel to the banks to replenish their deposits when balances run low. According to CGAP. (2011), the top concerns among agents are low remuneration, Liquidity (float) management and network availability.

Length of service as an agent : Agents were almost evenly distributed in number of years served as agents ranging from below six to above 24 months. 16.8% had served below 6 months, 16.3% between 6months and 12 months of service. Those who had served for above 13 months but below 1 months were 27.7%. 19 months to 24 months 23.4% and above 24 months 15.8%. There was a significant two tailed Chi – square test at 0.01 level of significance between the length of services and the total commissions earned by the same agent. This means that with other factors held at a constant an agent should earn more

commission with every increase in the length of service. This again validates Diffusion of Innovation (DOI) Theory, developed by E.M. Rogers in 1962. This growth in commissions will continue until maturity of the innovation is attained or where the number of agents will reach a saturation point. Other exemption is if there arises a new a disruptive innovation in the market.

Type of business by an agent: The agents nature of core business engaged by agents was compared against the number of hours the agents were open for business. This was proved at 0.041 Chi – square two tailed level of significance. The type of business respondents engaged in had a strong relationship with hours of business. For examples shops and mini supermarkets were found to open as early as 7 o'clock and close as late as 10 o'clock in the night. Chemist shops were found to open late and close late in the night, hotels opened 365 days a year and so forth. Float adequacy versus total commissions earned had a Chi-square test significance of 0.472. This was not significant enough to make a generalized conclusion but is worth noting that some who indicated that they had adequate float were found to be struggling to balance their cash at hand and the cash at bank. Too much cash at hand and no cash at bank and vise vasa would not be optimal for both deposits and withdrawal transaction as either of the service will not be possible at the agent. The operation of the agency is such that a customer deposit at the agent means customer giving cash to the agent and is accounted by the bank by debiting the agent and crediting the customer's account at the bank . It is therefore not possible for an agent to receive a deposit unless the agent has sufficient credit in the bank. A customer withdrawal at the agent means the agent gives cash to the customer and the bank accounts by debiting the customer and crediting the agent's account at the bank. An agent then can only pay out a withdrawal if they have cash in their till at the shop. This means the agent has to have both cash in the bank and cash in tills. This is a key challenge to banks as most agents are not able to balance the cash holding or have inadequate capital. For some reason banks have not been able to convince some businesses like large retail chains which could be ideal for agency banking. Some of the reasons given are the inability of the banks to provide reconciliation mechanism which has led to the chains loosing cash. The situation of float is even worse for remote agents who have to travel to the banks to replenish their deposits when balances run low. According to CGAP. (2011), the top concerns among agents are low remuneration, Liquidity (float) management and network availability.

4.5 Agency Banking Adoption

This was the dependent variable. Respondents were asked to indicate how their commissions were attributed to the devises used. The findings indicate that where both phone and POS were in use the POS account to between 85 and 95% while the phone accounts between 5% and 15% of the total commissions. Phone delivers 100 % commission if used alone same as POS if used alone. When respondents were asked how many customers they turn down due to system down time 100 % indicated that it depends and were not able to give specific numbers as there would be days without system challenges and on other days they cannot serve at all. On whether the agents could earn more than they currently do if they had adequate float, 36.5% said yes while 63.5% indicated no as they had adequate float all through. There was a growing trend in total commission earned by agents as the increased the length of service as agents. The growth is due to growth in commission per agent with time as well as the increase in number of agents. Commissions continued growth validates the diffusion of innovation theory by E.M. Rogers (1962). On whether the agents were in agreement that good customer service enhanced their future commission earned, 87.3% were in agreement, 7.2% disagreed while 5.5% neither agreed nor disagreed.

5. Conclusions

The study showed that agency banking is growing and will continue to grow in the near future. The model is proving key in enhancing financial inclusion especially at the bottom of the pyramid. It has particularly been very successful in collection accounts mainly utility bills settlement, rent collection and school fees remittances. Only a few of the 13 banks approve to carry out agency banking had presence in the area. Out of the targeted population of 214 agents 184 respondents participated making the study a success at 86% response rate. Customer service was found to affect adoption of agency banking in Kenya with high service availability increasing adoption and low availability inhibiting the adoption. Banks need to perfect their systems connectivity and availability to better their poor and average rating as was the case in the findings. Agency banking is delivering convenience to customers through increased hours of banking and bringing the banking services closer to the customers and thus positively influencing adoption of agency banking. Quality of banks agents was found to be a factor contributing to adoption of agency banking. Banks should recruit and maintain high quality agents to increase the adoption of agency banking. The author suggests an investigation of agent's loyalty to the principal banks in cases where an agent is serving more than one bank.

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Table1.1 Number and values of transactions undertaken through Agent banking

Type of transaction	Number of transactions		Transaction value Kes (m)	
	Year 2012	Cumulative 2010 to 2012	Year 2012	Cumulative 2010 to 2012
Cash Withdrawals	11,862,412	14,823,104	49,610	64,929
Payment of bills	142,046	185,444	239	352
Payment of Retirement and Social benefits	303,455	303,455	1,064	1,064
Transfer of Funds	944	949	14	14
Account balance enquiries	4,770,829	5,967,993	-	-
Mini Statement requests	43,376	49,789	-	-
Collection of account opening forms	176,218	1,154,747	-	-
Credit and debit card application forms	52,212	52,212	-	-
Collection of debit and credit cards	31,321	31,321	-	-
Dormant account activation	54,828	54,828	-	
Account linkage to mobile phone services	15,685	15,685	-	-
Total	30,007,652	38,769,355	152,09	195,822

Source: CBK, 2013

Table 4.1 Banks and agent representation in Kajiado North Sub -County

Bank	Agents	Cumulative
Equity	97	97
Co-operative	54	152
Kenya Commercial	37	188
Postbank	7	195
Family	6	198
National bank	4	205
Consolidated	3	208
Diamond Trust	3	211
Chase	3	214

Source: Banks agent departments, 2013

Table 4.2 Systems availability

Rating	Frequency	Percent	Cumulative percent
Excellent	7	3.8	3.8
Good	81	44.0	47.8
Average	51	27.7	75.5
Poor	45	24.5	100.0
Totals	184	100.0	

Table 4.3 Agents float management on weekends and holidays when banks are closed

Float management	Frequency	Percent	Cumulative Percent
I plan ahead for increased float	125	67.9	67.9
Do not open on weekend and h0lidays	11	6.0	73.9
No difference in float requirement	7	3.8	77.7
Serve as long as float can last	41	22.3	100.0
Total	184	100.0	

Table 4.4Chi-square tests with significant levels of confidence

Relationships tested	Significant levels Chi-square (two tailed)
Service availability versus Agent total commissions earned- Post bank	0.037
Connectivity devise versus Percentage commissions attributed to each POS and phone	0.043
Agent business hours versus banks hours of business	0.011
Average days foot print distribution- Agents opening between 08.00 hrs to 18.00hrs Versus Agents operating beyond 18hrs	0.035
Distance – Agent to bank versus Customers to Agents	0.023
Core/nature of agent business versus agent hours of business	0.041
Age in agency business versus total commissions	0.001