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Challenges of Implementing Agency Banking: A Survey of Selected Commercial Banks in Kakamega County.

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ABSTRACT

This study sought to establish the problems commercial banks in Kenya are facing when implementing agency banking. In addition, the study sought to establish the solutions commercial banks are employing to counter these problems. The research adopted descriptive survey approach focusing on three commercial banks in Kakamega County that are currently operating agency banking model. The population of the study consisted of three commercial banks, KCB Group, Equity Bank and Co-operative Bank with a target respondent of 30 staff members and 90 bank agents. The respondents were drawn from a target population of 90 bank employees and 150 bank agents. Primary data was obtained from questionnaires and interview schedules as research instruments. The analysis was done using descriptive statistics with an aid of a computer software SPSS version 20.1. The qualitative data was analyzed using content analysis. The study found out that 51.3% of the agency implementation can be explained (r^2 = 0.513.) by fraud, literacy levels, technological issues and liquidity problems. The study recommended that commercial banks need to proactively engage in training their staff and agents on fraud prevention and improving the technology they use in agency banking. Commercial banks must also find ways to deal with the liquidity issues experienced by their agents in order for agency banking model to work.

***KEY WORDS**: Agency banking, Commercial banks, Implementation problems.*

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I. INTRODUCTION

1.1 Background of the study

Technology proliferation has resulted to revolution of all sectors of the economy hence banking has not been an exception. This led to revolution in banking for the past 30 to 40 years. As a result, most commercial banks started adapting various alternative channels of banking that were based on technology. Therefore, there has been a paradigm shift from the traditional frontline counter services to technology based services. Agency banking is one such channel that uses agents to deliver banking services to the people. This is understood to create value both to banks and clients. Therefore, it is important to study the problems commercial banks face when implementing agency banking in Kenya.

The world financial sector has been revolutionized with the development of the new technologies and with the review of regulations and policies governing them. Furthermore, with recent economic recession and increasing market competition, financial institutions have been put to unprecedented pressure that threatens their business performance (Hannsens& Schultz, 2001). This has been exacerbated by the fact that there is high demand for lifestyle that is digital oriented since technological revolution has resulted to the world being a global village. For that case, alternative banking channels have been seen as the best way of satisfying user needs in a technologically oriented market. All commercial banks are profit oriented (Hannsens & Schultz, 2001). For that reason, alternative banking channels are taken to be one of the key ways of optimizing services and minimizing costs. Commercial banks are also keen on transforming their operations in order to provide 24-7 services. For this to be realized, alternative banking channels are viewed as the best option to provide greater differentiation from their competitors (Park & Weber, 2002). Furthermore, the channels are also taken as a cost saving method that can be used to reach a large number of customers especially the low income market segment for business sustainability.For that reason, banking options such as mobile phone banking, tele-banking, internet banking, fax banking among others are some of the alternative channels that have been explored by various commercial banks. As a result, many banks seem to shift from frontal personal services since they believe that they create value for the banks and clients. However, despite this trend, traditional branch services remain important.

Locally, regulators and policy makers in Kenya have already demonstrated a high level of commitment to the goal of promoting financial inclusion alongside the stability and efficiency of the financial system. This is well demonstrated by the 2009 Finance Bill (Finance Act, 2009; Sect 2 of Cap. 488) which amended the Banking Act to allow the appointment of agents by commercial banks. This was followed by the commercial banks deploying both traditional and new alternative channels for banking activities. As a result, M-PESA which is an electronic banking system that employs use of mobile phones has tremendously been adopted by all local commercial banks thus making it the highest growing network for financial transactions. It was asserted by Liu and Mithika (2009) that just after three years since its launch, M-PESA reported some 7 million customers who were served entirely through more than 12,000 agents.Commercial banks also started agency banking in Kenya where people with established businesses are appointed to serve as agents for bank services. For instance, cooperative bank has its services branded as 'Coop kwa Jirani', Equity bank -'Equity Agents' and Kenya Commercial Banks -'KCB Mtaani 'among others. Alternative banking channels is a strategy that has been widely employed by various local commercial banks hence it is imperative to study the effects they have on their performance.

1.2 Statement of the Problem

In today's financial environment, clients are in control of their needs and requirements thanks to development in information communication technologies. Through these technologies, customers are empowered to access banking information through various alternative channels which include but not limited to call centers, internet, mobile channels and bank agents among others (Liu &Mithika, 2009). For any financial institution to be able to compete in the current market, it has to embrace alternative banking channels in its operations. As a matter of fact, commercial banks have developed robust strategies that cover multichannel processes that are customer focused in order to serve as key differentiators in the market. Customers' concentration according to Hannsens and Schultz (2001) is now shifting to multiple delivery channels that have flexible working hours and which are not constrained by the geographical location. This has resulted to a variety of alternative channels being offered by financial institutions to cater for these diverse needs. These include but not limited to Automated Teller Machines, Mobile Banking, Credit Cards, Debit Cards, Internet Banking, Banking Agents among others. Hannsens and Schultz (2001) explained that integration of alternative banking channels in the banking operations is not an end in itself since other factors come into play to determine its successfulness. For instance, it was believed by Kimenyi and Njuguna (2009) that age, education and computer literacy are some of factors that determine performance of modern alternative banking channels. This has resulted to improved performance of the banks in some situations while in some, performance of the banks have been thwarted. The central thesis of the present study is to find out the challenges faced by commercial banks in implementing agency banking in Kenya, and the possible solutions

1.3 General objectives

1.3.1 Specific objectives

The specific objectives of the study were to:
(i) To determine the implementation problems of agency banking in Kenya
(ii) To determine solutions to the implementation problems of agency banking in Kenya
(iii) To determine the solutions being implemented.

1.3.2 Research questions

The following research questions were used in this study;
1. What are the problems faced by commercial banks in implementing agency banking in Kenya?
2. What are the solutions to the problems faced by commercial banks in implementing agency banking in Kenya?
3. What are the solutions being implemented?

1.4 Significance of the study

The study will establish the problems commercial banks in Kenya are facing when implementing agency banking. In addition, the study seeks to establish the solutions commercial banks are employing to counter these problems. This is beneficial to financial business owners as it will help them in making wise investments that guard against these negative impacts. It will help in checking on poor performance associated with agency banking. The study will also help to establish solutions to the problems identified hence helping in solving them.The findings are very useful to the policy makers and the management of agency banking in the Kenya. Moreover, the study contributes to the existing literature in the field of management and other management courses and thus forming a basis of reference by academicians and the business community in Kenya and the world in general.

1.5 Scope of the Study

The proposed study will be conducted using the following banks' Kakamega branches, Cooperative Bank of Kenya, KCB ,Equity bank of Kenya, Family bank, Barclays bank and Post bank as the case study. Nonetheless, the main focus will be on agency banking employed by the banks. The study will be confined to the implementation problems of agency banking. For this to be fully established, both problems and the solutions being implemented will be studied. Solutions that can be instituted to enhance performance of commercial banks using agency banking will also form the scope for the proposed study.

1.6 Limitations of the Study

[1] The study respondents were discovered withholding important information from the researcher. The researcher had to assure the correspondents of their confidentiality so that they freely open up to give the information. Further the resercher informed the respondents that their views were for academic purpose only.

[2] The findings of the study was influenced by the researcher's subjectivity . The researcher addressed this through citing literary sources to support personal views to minimise subjectivity.

[3] The research instruments that included questionnaires used for data collection was time consuming and costly.The researcher overcame this by setting timeframes within which the questionnaires were to be administered to save time and reduce costs.

The study was limited to the Challenges of implimenting agency banking in Kenya; case study og Kakamega county. To begin with, availability of relevant information was a great challenge as there are few studies which have been done in the area. Most of the studies done in Kenya have focused on mainstream channels hence ignoring alternative ones. Similar studies have been done in other countries, but the limitation with such data is that financial institutions in different countries operate under fundamentally different conditions.

1.7 Assumptions of the Study

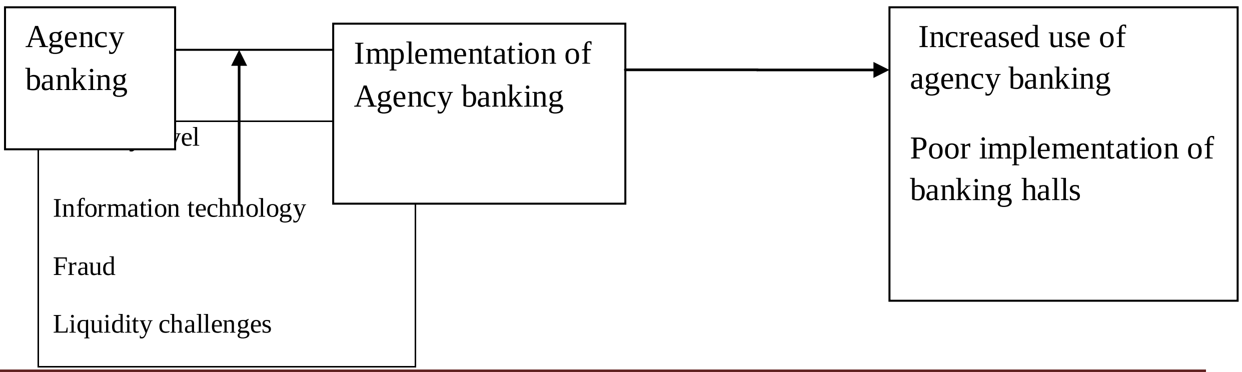
The study was based on the following assumptions: The challenges of implementation of agency banking in Kenya;case study Kakamega county and that all the respondents participated in the study; the respondents were co-operative and gave voluntary and accurate information; all respondents were honest, objective and found appropriate time to respond to the questionnaires. The findings and recommendations of the study were of use to the relevant stakeholders in the banking industry, future researchers, academicians, policy makers and administrators in the Ministry of Trade, communities, employees and the customer.

1.8 Conceptual Framework

The study will assume a conceptual framework that has agency banking being taken as the independent variable. Moreover, the study also holds that this independent variable has intervening variables which influence their performance. These factors include fraud, age, technological factors, reputational risks and literacy levels. As a result, they affect implementation of agency banking by commercial banks whereby they can result to increased or reduced business performance. A research by CGAP in Brazil showed ten percent of poor bank clients are illiterate and need help conducting and understanding their transactions. Many of these customers have a long standing relationship with local merchants. Agents help the bank to attract such customers who would otherwise shy away from using a bank branch. Education level will be useful to determine whether it affects the use of agency banking in Kakamega County and in extension whether it poses a challenge in implementing this banking channel. The figure 1.1 illustrates the conceptual framework.

Figure 1.1 Conceptual framework

Independent variable **Dependent variable**



Intervening variable : Source: Researcher's own conceptualization 2013

The study holds that alternative banking channels operate in an environment that is determined by various factors such as age categorization of users. This position was supported by Park and Weber (2007) who believed that age determines the rate of use of alternative banking channels. For instance, online banking channels to the old age clientele is not common since they are considered to be more technophobic as compared to the young clients who are in most cases technology friendly

II. CONCLUSIONS

Literacy level was seen to be the major hindrance to the implementation of agency banking in Kakamega County. According to Mokogi, J.G.O (2003) Banking agents are usually equipped with a combination of point of sale card reader, banking agent, barcode scanner to scan bills for bill payment transactions. Clients who transact at the agency use their banking agent to access their bank account. In view of this, the banks management should train all its staff on the issues regarding agency banking since the agents normally work on behalf of the bank.Lack of adequate cash to carry out business was also seen to be the other challenge as recorded from the views of the respondents. Agents being identified for agency banking should be vetted properly to ensure that they have enough liquid cash to enable them transact. Researchers like (Christopher,W. 2002) add that banking agents help financial institutions to divert existing entrepreneurs from crowded branches providing a "complementary", often more convenient channel. In view of this, it becomes very difficult for agency banking to be implemented without enough cash to handle business.. In has also been noted that financial institutions, especially in developing markets, use agency banking to reach an "additional" client segment or geography. Reaching poor clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of a branch. In such environments banking agents that piggy back on existing retail infrastructure and lower set up and running cost can play a vital role in offering many low-income people their first-time access to a range of financial services. Also, low-income clients often feel more comfortable banking at their local store than walking into a marble branch (Christopher, W.2002). In view of this, Kenya-Kakamega County is a growing County and can use such an avenue to harvest more business deals from the unbanked clients. Technological problems have therefore to be solved on time to ensure that the new clients have confidence in the bank and the agency banking in general.

2.1.Recommendations

The following recommendations were made based on the findings and conclusions of the study;

(i) Banks need to proactively engage in increasing literacy levels in the agents who are left with the duty of implementing agency banking since it impacts on the implementation of agency banking negatively.

(ii) Banks to vet the agents carrying out agency banking properly to ensure they hold enough liquid cash to carry out business. They need also to be provided with loans to cushion their capital base.

(iii) It is high time banks recognize the technological issues have been hindering the implementation of agency banking. There should be programs put in place to train all the agents on how to handle technological problems

(iv) The banks to endeavour in training its staff and the agents on money laundering and other fraudulent related activities. This has been identified as one of the hindrance of agency banking in Kenya-Kakamega County.

2.2.Suggestions for further research

The following suggestions were made for further research based on the findings of this study.The findings do not conclusively establish that liquidity, fraud, technological issues and literacy are the only hindrances to the implementation of agency banking in Kenya for all the years in future. Therefore further research is required that will keep the debate ongoing.Secondly, future researchers are required to explore more extensively the causal mechanisms linking the identified hindrances of agency banking at a broader angle for instance a study carried out in the whole country. Future researchers should consider exploring challenges hindering agency banking in developed countries as this study only considered Kakamega County in Kenya which is a developing state.

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