International Journal of Science and Research (IJSR)
ISSN (Online): 2319-7064
Index Copernicus Value (2013): 6.14 | Impact Factor (2015): 6.391

Determinants of Uptake of Agency Banking in Tier Two Banks in Kenya

Lisa Kainyu Gitaar[1], Dennis Juma[2]

[1]Jomo Kenyatta University of Agriculture and Technology, P.O Box 62000-00200, Nairobi, Kenya

[2]Jomo Kenyatta University of Agriculture and Technology, P.O. Box 62000-00200, Nairobi, Kenya

Abstract: ***The purpose of this study was to investigate the determinants of uptake of agency banking in Tier II banks in Kenya. Though commercial banks agents contribute immensely to economic development their input in economy has been constrained by some factors which influence uptake of their agency services. These factors led to the researcher formulating a topic that guided the research process and the final results were used to evaluate the determinants of uptake in agency banking in Tier II banks in Kenya using the following objectives; To examine the effect of agency banking regulations on uptake of agency banking in Tier 2 banks, To determine the influence of perceived cost on uptake of agency banking in Tier 2 banks, To evaluate the effect of perceived security on the uptake of agency banking in Tier 2 banks and to assess the influence of agent training on uptake of agency banking in Tier 2 banks. Theoretical framework was reviewed in line with the research variable and a conceptual framework developed in line with the research objectives. Agency banking uptake was the dependent variable while government regulations, perceived cost of uptake, security and agents training were the independent variables. The study adopted a descriptive research design. According to (Kothari, 2004), descriptive study is concerned with finding out the what, where and how of a phenomenon Total population of Tier 2 banks with agency banking were 10 and from these the convenient sampling methodology was applied to identify the bank agents in Ongata Rongai town. The reason for choosing Ongata Rongai Town was because it's a cosmopolitan Town with several shared agents of Tier two banks. Questionnaire was the main instrument of data collection. The major source of data was primary data obtained from bank agents through the questionnaires that combined the features of both open ended and closed questions. According to Cooper & Schindler, (2006) observed that, a questionnaire defines the problem and the specific objectives of a study. Data collected was analyzed using SPSS since it allows statistical tools such as correlation and then it was presented in tables and bars. The main variables influencing uptake of agency banking among the Tier II banks were government regulation, perceived security and agent training. Perceived uptake cost was not influencing uptake since this was a once off cost except the cost of maintaining cash***.

Keywords: Agency Banking, Agent banking, Tier II Banks, Trialability, Observability

1. Introduction

More than ever before there is a global concern to entrench financial deepening access to previously ignored areas due to some areas considered economically unviable where majority of bank customers operate their businesses. There is an increasing need to promote technological and institutional innovation as a means to expand financial system access and usage, including addressing infrastructure weaknesses and empowering business enterprises by developing financial literacy and financial capability programs to bring all people on board and all to participate in economic development of a country, perhaps agent banking will offer a solution to a slow pace of individual enterprise development.

In the banking Industry banks are classified according to their capital adequacy as per the Basel Accord. Under the Basel Accord, a bank's capital consists of tier 1 capital and tier 2 capital, and the two types of capital are different. Tier 1 capital is a bank's core capital, whereas tier 2 capital is a bank's supplementary capital. A bank's total capital is calculated by adding its tier 1 and tier 2 capital together. Regulators use the capital ratio to determine and rank a bank's capital adequacy. Tier 1 Capital consists of shareholders' equity and retained earnings. Tier 1 capital is intended to measure a bank's financial health and is used when a bank must absorb losses without ceasing business operations. Under Basel III, the minimum tier 1 capital ratio is 6%, which is calculated by dividing the bank's tier 1 capital by its total risk-based assets. Tier 2 Capital includes revaluation reserves, hybrid capital instruments and subordinated term debt, general loan-loss reserves, and undisclosed reserves. Tier 2 capital is supplementary capital because it is less reliable than tier 1 capital. In 2015, under Basel III, the minimum total capital ratio is 8%, which indicates the minimum tier 2 capital ratio is 2%, as opposed to 6% for the tier 1 capital ratio (Bank for International Settlement, 2015).

The Kenyan business environment has experienced many changes among them: international, increased competition, acceleration implementation of economic reforms, increased customer demands, privatization and commercialization of public sector, price decontrols and liberalization of both domestic and foreign markets (Aosa, 1992).

One of the initiatives has been the agent banking model. According to the (CBK Annual Report, 2010) the banking sector has continued to experience significant factors simultaneously. Commercial banks need to establish a sustainable strategy into their core business activity in the markets and communities where they operate.

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.

The banking sector in Kenya operates in a relatively deregulated environment governed by the companies' Act, the Banking Act, the CBK Act and the various prudential guidelines issued by the CBK. The financial performances of banks have been in a general increasing trend and these have mainly been attributed to proper management and proper formulation and implementation of strategy. In Kenya there are a total of 42 banks which are all for the same market share (CBK Annual Report, 2015).The Kenyan banking industry has faced some challenges including: stiff competition among the existing local banks as they offer substitute products, offer loaning services at different rates. Microfinance and Savings and Credit Societies (Sacco) institutions are emerging key players in delivery of financial services. However, it is expected that the banking sector will continue to grow especially in retail banking segment, as major consumer segments remain largely unbanked. For example, The Family bank uses Pesa Pap. This is a product that allows Family Bank customers to make banking transactions from the comfort of their mobile phones through the USSD platform, including: deposits, withdrawals, M-PESA top up, airtime top up, balance enquiry, statement request, salary advance loan, Personal Identification Number (PIN) change request and others.All this services been performed by bank agents clearly implies that there will be less queues in the banking halls hence improving customer satisfaction

2. Statement of the Problem

The economic development of countries is partly attributed to the extent of financial inclusion amongst the citizenry. There are a number of strategies that financial institutions have embraced to enhance financial inclusion; agency banking is presumably one of them. The commercial banking sector in Kenya has become more visibly competitive. Each bank has developed a strategy unique to its corporate culture, but all of these banks have the same desire to be the customer's number one choice for their banking products and services. The commercial banking industry in Kenya has been in a state of constant change that due to economic liberalization, competition has become stiff, forcing Commercial banks to conform to the changing economic environment. The bank agency model has been a hub and spoke model, with agents being associated with a nearby bank branch from which their liquidity is managed by the bank, hence in a sense, still rides the existing brick and mortar networks of the Bank. This may explain why in Kenya, Tier 1 banks; Equity, Co-operative and Kenya Commercial Bank; have also led in the agency banking uptake. Although some Tier 2 banks have invested colossal sums of money in agency banking the uptake hasn't been as wide as compared to the uptake in Tier 1 banks. In Tier II banks, the uptake of agent banking in Kenya has not been well appreciated by the target beneficiaries who include among others the micro and small enterprises in the rural areas in Kenya who were expected to benefit from this technologically innovative service. In as much as it has been witnessed that there is an increase in penetration of agent banking services clients have not fully made use of the available agents at their localities to cut down on transaction costs occasioned by travelling to traditional branches and also time wasted on queuing for services. It can also be noted that, the banks have not fully taken advantage of agent banking to explore all market segments at a low operating costs(Atandi, 2013).

Studies carried out in Kenya have paid more attention to agency banking and financial performance of the selected banks. In addition, all these studies haveassessed agency banking in Tier I banks such as (Maina, 2014), (Ndungu, 2014) and (Musau, 2010).According to Maina, (2014)he established the factors influencing the uptake of agency banking services by customers in commercial banks in Kenya. The study also sought to establish how security, liquidity availability, customers and awareness influenced the uptake of agency banking by customers in Kenya Commercial Bank. In addition,Ndungu, (2014) assessed some of the factors that contribute to the adoption of agency banking in Kenya. Three independent variables of Customer Service, Convenience and quality of agents were assessed. The dependent variable was the total commissions earned by agents from time to time at intervals of six months.According to Musau, (2010) he assessed the utilization of agency banking on the financial performance of Post bank, equity bank, Co-operative Bank and the Kenya Commercial Bank

All the studies mentioned in the research above have not investigated the uptake of agent banking in the specific segment of tier two banks.This study endeavored to answer the question; what determines uptake of agency banking in Tier 2 banks in Kenya. Recommendations are outlined based on the results of data analysis so as to improve on uptake of agency banking.

General Objective of the Study

To investigate the determinants of uptake of agency banking in Tier 2 banks in Kenya.

Specific Objectives of the Study

This study was guided by the following specific objectives;

1) To examine the effect of agency banking regulations on uptake of agency banking in Tier 2 banks.
2) To determine the influence of perceived cost on uptake of agency banking in Tier 2 banks.
3) To evaluate the effect of perceived security on the uptake of agency banking in Tier 2 banks.
4) To assess the influence of agent training on uptake of agency banking in Tier 2 banks

3. Literature Review

a) Transaction Cost Theory

The transaction cost theory was developed by Ronald Coase as part of the theory of the firm to explain why firms exist. The model shows institutions and market as a possible form of organization to coordinate economic transactions. When the external transaction costs are higher than the internal transaction costs, the company will grow. If the external transaction costs are lower than the internal transaction costs the company will be downsized by outsourcing. It presented an explanation of the firm consistent with constant returns to scale, rather than relying on increasing returns to scale(Archibald, 2008). The theory notes that a firm's interactions with the market may not be under its control, for instance because of sales taxes, but its internal allocation of resources are within a firm's control. Market transactions are eliminated and the place of the complicated market structure with exchange transactions is substituted with an entrepreneur who directs production. In the banking sector, the cost of the traditional brick and mortar branches and the ensuing contracts from the same, related transaction cost as well as the cumulative cost of a customer to perform a single transaction informs the success or otherwise of the agency model. This too has to be coupled with the willingness of the agent entrepreneurs to direct resources into the agency business to enhance uptake of the agency banking. This theory has much relation with the uptake cost variable in this research.

b) Agency Theory

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, independently and roughly concurrently. Ross is responsible for the origin of the economic theory of agency, and Mitnick for the institutional theory of agency, though the basic concepts underlying these approaches are similar. Indeed, the approaches can be seen as complementary in their uses of similar concepts under different assumptions. In short, Ross introduced the study of agency in terms of problems of compensation contracting; agency was seen, in essence, as an incentives problem. Mitnick introduced the now common insight that institutions form around agency, and evolve to deal with agency, in response to the essential imperfection of agency relationships: Behavior never occurs as it is preferred by the principal because it does not pay to make it perfect. But society creates institutions that attend to these imperfections, managing or buffering them, adapting to them, or becoming chronically distorted by them. Thus, to fully understand agency, we need both streams to see the incentives as well as the institutional structures (Clark &Wilson, 1961).

Agency theory analyzes the relationships between a business firm's owners and its managers who, under law, are agents for the owners. The key issues in agency theory center upon whether adequate market mechanisms exist that compel managers to act in ways that maximize the utility of a firm's owners where ownership and control are separated. Under the terms of agency theory, a principal (P) passes on authority to an agent (A) to conduct transactions and make decisions on behalf of the principal in an effort to maximize P's utility preferences. Agency problems can arise if: P and A have different goals; P and A have disparate skills in evaluating A's performance; P and A possess different sets of information relevant to the managerial decisions A must make as a representative of P; or P and A have different degrees of risk aversion. At the core of agency problems is the fact that principals may not be able to monitor agents, either perfectly or costless, as to the agent's actions or the information behind those actions.

Agency theory is relevant to this research since it 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. 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 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. This theory has relationship with agents training in this research. The Tier II banks should train their agents to ensure that they implement the best services since the bank will benefit at the end.

4. Conceptual Framework

According to Mugenda&Mugenda, (2003), a conceptual framework helps the reader to quickly see the proposed relationships between the variables in the study and show the same graphically.

Paper ID: 21101601 DOI: 10.21275/21101601

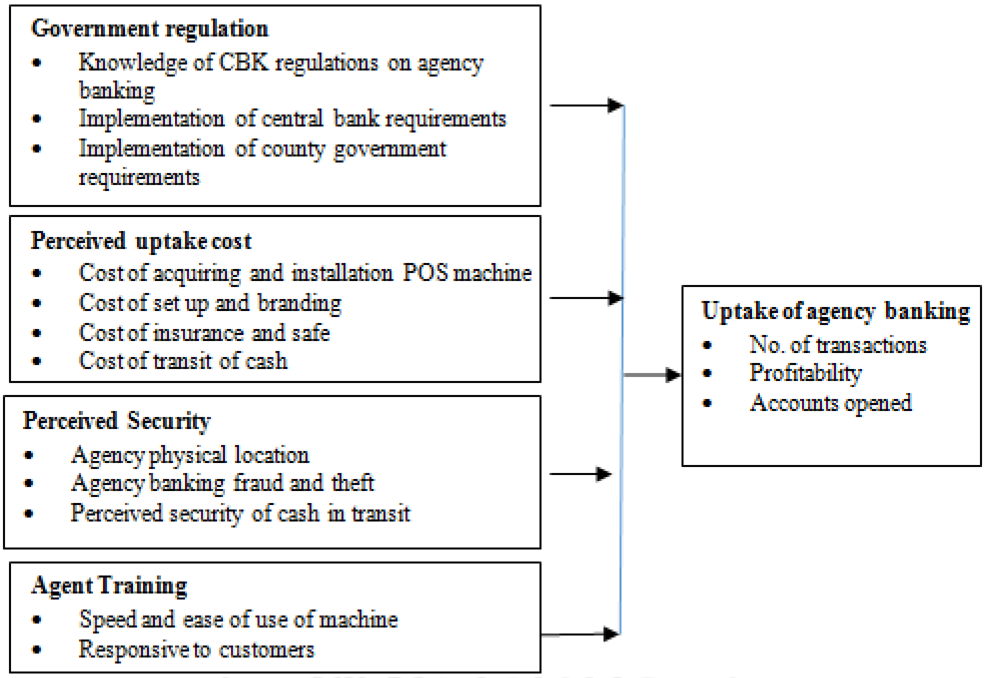

Figure 1: Conceptual frame work

a) Government Regulation and Uptake of Agency Banking

Agents play a critical role in acquiring new customers, enabling them to transact, and keeping them satisfied. They verify the identity of customers, both when clients sign up and at subsequent transactions. The Policy makers and regulators have been facing problems to reconcile safe development of branchless banking and operation with increased levels of financial access (For broad branchless banking experiences). Central Bank of Kenya and Kenya Bankers Association are the promoters of Agency Banking. Central Bank issued the first Agency Banking prudential guide lines (CBKlPGI15) under section 33(4) of the Central Bank Act, (CBK 2010). CBK needed to address the development of the Agency banking model, the legal and regulatory framework, the model of agency banking and the branching regulations in the guidelines. In addition to vetting of the Agents by Central bank, a contract agreement is signed between the Commercial banks and Agency on responsibilities of each party. The guideline is issued under section 33(4) of the Banking Act which empowers CBK to issue guidelines to financial institutions. The Agency banking guidelines outlines the following: The activities which can be carried out by an Agent; Serve as a set of minimum standards for data and network security, customer protection and risk management. Spells out responsibilities of the BODs of financial institutions (i.e. ensure they have oversight over Agency Banking standards); Approval of application for agency banking business by CBK Settlement of transactions - All transactions involving deposit, withdrawal payment and transfer from or to an account should be real time. Technology - Automatically log off an Agency once it exhausts its daily cash limit or tries to perform unauthorized transaction. The pin and electronic transactions are encrypted and Submission of data to CBK every month among others.

b) Perceived Cost of uptake and Agency Banking Uptake

There is an increase in penetration of agent banking services but clients have not fully made use of the available agents at their localities to cut down on transaction costs occasioned by travelling to traditional branches and also time wasted on queuing for services. It can also be noted that, the banks have not fully taken advantage of agent banking to explore all market segments at a low operating costs (Atandi, 2013).

There are two basic types of competitive advantage a firm can possess: low cost or differentiation. These combined with the scope of activities which a firm seeks to achieve them lead to three generic strategies namely cost leadership, differentiation and focus. The focus strategy has two variants cost focus and differentiation focus. In cost leadership a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry. In differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important and uniquely positions it to meet those needs. Differentiation is aimed at the broad market that involves the creation of a product or services that is perceived throughout its industry as unique. The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others (Porter, 1985).

(Thompson and Strickland, 2007) define strategy as the game plan that the management has for positioning the company in its chosen market in order to compete successfully, please its customers and also achieve good business performance. It thus involves choosing among alternatives. This shows that organizations must be aware of the competition in order to position themselves successfully.

c) Perceived Security and Uptake of Agency Banking

Some agents disclose customer information to third parties without their knowledge that the bank owes its customers the duty of confidentiality and a breach of this duty can lead to customer taking legal actions against the bank. Most of these agencies are in areas that are what would be considered high Risk". Some agents are located along streets that are high risk areas and the agents do not take necessary measures to protect the customers.

Customer Service is a huge challenge for the banks as they need to train and retrain the Agents so as to maintain high levels of customer service. 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 (Ignacio, 2009)

Security is one of the very important factors in determining the decision of consumers to use agency banking. Unless security is improved, more households wouldn't be willing to conduct their transactions over the latest agency banking technologies. Security comprises of three dimensions: reliability, safety, and privacy. Security has always been an issue, but its scope has changed from mere doubts about the privacy of personal information to worries of financial loss (Polatoglu&Ekin, 2001).

Application of technology has ensured quick and effective services to the clients however use of these technology systems has associated data and network security risks which make clients susceptible for conducting financial transaction. It can be noted that banks recognize and address these technology related risks thus increasing confidentiality of the client in applying for the agency banking. It is not clear to consumers how they can protect themselves but banks can apply proper technology infrastructure backup, disaster recovery plan and technical security infrastructure in ensuring timely services availability to all clients (Kiura, 2014).

Branchless Banking is growing faster and becomes the key factor in modern technologies so it needs to be secure from each and every perspective it might be bank security or even customer security, as the technology is moving onwards everyone is concerned about security related to customer money but there is still gap to be filled is the bank secured while doing branchless transactions via retail agents (Musau, 2010).

An important shortcoming typical of informal financial services is lack of reliability and continuity in the long run. Formal providers have clearer incentives to offer more reliable and safer services. Technology-enabled mechanisms may help achieve that goal. Evidence from the four country studies suggests that technical failures (e.g., equipment malfunctioning and other errors occurring during a transaction) are a major issue in branchless banking. Similarly, research on consumer experience in Brazil shows that less than 5 percent of users have made a mistake and paid the wrong bill at an agent, sent money to the wrong account, or noticed that a payment or a deposit was never processed or received (Mas & Hannah, 2008).

d) Influence of Agents Training on Uptake of Agency Banking

Agents are much more likely to adopt new technology when they are supported and trained. There are perceived risks due to lack of understanding the business benefits to the bank and the economy at large. These refers to social issues, such as acceptability of mobile device and cultural fit of wireless application, as primary consideration for the wireless market and perceived usefulness of a wireless application all affecting behavior intention (Mberia,2009) understanding credit, operational and compliance risks are the major worries hindering implementation of Agency banking by commercial banks. Management of agency banking business requires man power and technological resources. Management of retail sized agents is a big challenge due to the risks mentioned above replicated in each agent.

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 its entire staff on the issues regarding agency banking since the agents normally work on behalf of the bank. Staff training affects strategy implementation to a great extent. Employee training is an attempt to improve employee performance by increasing the employees' ability to perform, creating and sharing an organizational goal, acting as a role model, training and development programs are designed to educate employees beyond the requirements of their current position so that they are prepared for a broader and more challenging role in the organization. Training allows employee participation in making job-related decisions, encouraging creativeness, providing support for employees, training is the process of imparting knowledge and skills and presents employees or beneficiaries with the skills they need to perform their jobs better (Mwangi, 2013).

5. Research Methodology

The study adopted a descriptive research design (Kothari, 2004). This study targeted agents of 10 Tier II Commercial bank who had introduced agency banking by the year 2014 as per the bank supervision report of 2014 to investigate the determinants of uptake of agency banking (Attached List at Appendix IV). The choice of Ongata Rongai was used as case study because it's a cosmopolitan town with nearly all the major Tier II banks.The study used convenient sampling to select 39 agents within Ongata Rongai Town. Data were collected using questionnaires which was administered by the researcher to the respondents. The reason for using this procedure is because of the disadvantages of mailing a questionnaire.The data collected was edited, coded, classified on the basis of similarity and then tabulated. The collected data was used to analyze the determinants of Uptake of agency banking in Tier Two banks in Kenya.

Descriptive statistics method were applied to analyze quantitative data where data was scored by calculating the percentages and Variance. This was done using Statistical Package for Social Sciences (SPSS) computer software. SPSS was used to generate tabulated reportsandcharts, as well as generate descriptive statistics and more statistical analyses.

6. Results and Discussion

The researcher had sampled out a group of 39 potential respondents for the data collection exercise using a non-probability sampling method who all responded positively.

SPSS Statistical Analysis

This study utilized factor analysis and regression analysis as the main statistical methods for data analysis. Factor analysis attempts to identify the underlying variables, or factors that help explain the pattern of correlations within at set of observed variables. Cronbach's alpha test was employed to test the reliability of the chosen constructs. Cronbach's alpha test is informed by two principles as explained below; 1) Variables identified in the construct should be correlated to some degree, but not be perfectly correlated; and 2) Correlations observed in the analysis should be at least above 0.3. To this effect, the researcher analyzed the correlation matrix between the research variables. Some variables scored an average of 0.1 – 0.24 while most of the other variables scored an average of 0.8. The variables that scored below 0.3 were dropped from the construct. These variable measures are; Agency Physical Location, and Cost of Transit of cash which relate to agency security variable. All other variables showed some significant degree of correlation and thus met the requirement and they were consequently adopted for the construct.

Table 1: Variance Inflation Factor (VIF) analysis

PREDICTORS	VIF
Knowledge of CBK regulations on agency banking	1.264
Implementation of central bank requirements	1.263
Implementation of county government requirements	1.313
Cost of acquisition and installation of POS machine	1.023
Cost of set up and branding	1.121
Cost of insurance and safety	1.033
Agency banking fraud and theft	1.256
Perceived security of cash in transit	1.211
Speed and ease of use of machine	1.376
Responsiveness to customers	1.234
Average	**1.2094**

Thirty five (90%) respondents indicated that transaction fee income was a significant motivation that inspired them to engage agency banking. The issue of business expansion also came out clearly in the data analysis exercise in that majority of the respondents (87%) believe that they engaged agency banking so as to bring more people to their stores. Sixty three percent of the respondents indicated that they had been pushed by their client base to start agency services. It should also be noted that majority of the respondents (56%) started agency banking because they wanted to associate their business with big- prevailing brands in the market. Other respondents expressed they were motivated to start agency banking because they wanted to create more employment opportunities in their stores as well as advance their skills and competence in financial management. On the level of agency banking transactionsa majority of the respondents (54%) recorded 50-200 transactions on a daily basis- that seems to be on the lower side. From the findings above, it can be noted that agency banking for the Tier II banks has not taken roots in the market.

Table 2: Level of agency banking transactions

Daily transactions	*Frequency*	*Percentage*
1-50	10	25.6
50-200	21	53.8
200-500	8	20.5
Above 500	0	0

Poor training on agent banking operations seems not to be a significant risk as it was noted in the data collection exercise. Majority of the respondents (93%) indicated that the issue of training is either 'important' or 'not important' at all because the banking agents were sufficiently trained before embarking on the job and they also consult the bank officials in case of any problem. Sixty seven percent (26) of the respondents indicate that the issue of system failures in the course of agency banking operations is considered as one of the potentially significant risks in the business. The systems sometimes hang for several hours, subjecting the agents to business losses. Poor network connections have also hindered business operations to a relatively larger extend.

Fifty six percent (22) of the respondents indicated that theft is a risk potential that they consider very significantly because such businesses which operate financial services are deemed as hot spots by thieves. The respondents are forced to close their businesses early so as to avoid theft. This has limited scope of operations most especially regarding time schedule for operating the business and thereby limited their potential returns reserves.

The aspect of quality assurance was also examined. Ninety one percent (35) of the respondents indicated that they try as much as possible to have proper internal controls to ensure compliance with the existing regulations. A worrying trend was observed on the reactions emanating from the question on if the agents understood the county government requirements for operation of agency bank business. 29 (75%) respondents stated that they have never understood the role of the county government in the business operation. On the question of whether the cost of insurance and safety is an important contributor to cost uptake of agency banking, majority of the respondents believe it is. Fifteen percent (9) of the respondents believe that it is very important while 5% (2) and 77% (30) believe that it is 'fairly important' and 'important' respectively. Twenty percent of the respondents believe that cost of cash transit is 'very important', 20% argue that it is 'fairly important', 15% believe that cost of cash transit is 'important' and another group of 18 respondents argued that cost of cash transit is not important at all as illustrated below.

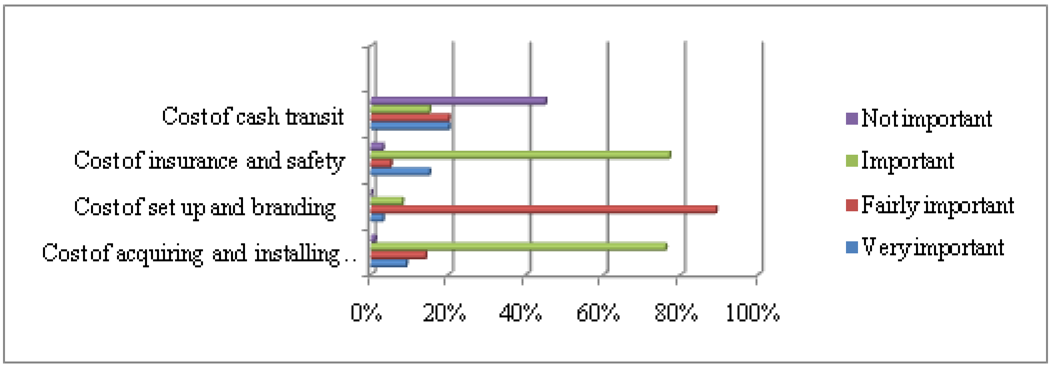

Figure 2: Perceptions on cost of uptake of agency banking

On perceptions on the role of transactional cost, infrastructure and Tier II systems on cost uptake of agency banking, Majority of the respondents (30%- 12) believe that agency banking reduces transactional cost, relatively. Another relatively bigger group of 8 respondents argued that Majority of the respondents (78%) believe that tier II systems are relatively less expensive in agency banking than the rest of commercial banks.

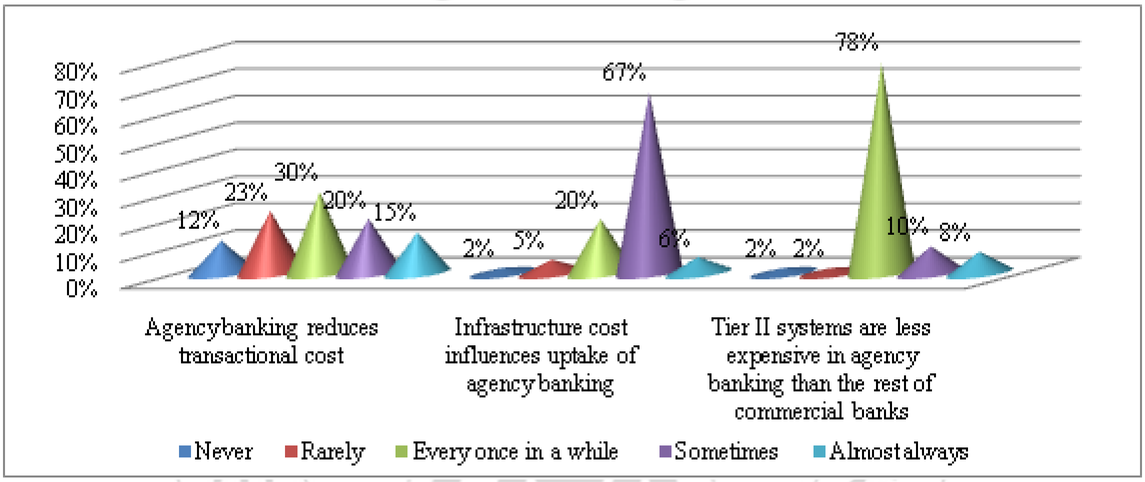

Figure 3: Perceptions on the role of transactional cost, infrastructure and Tier II systems on cost uptake of agency banking

Agency physical location significantly influences perceived security of uptake of agency banking was exhibited in the questionnaire. 95% of the respondents argued that they always consider the issue of business location very important because some areas, as observed in different areas, are not safe and conducive for financial businesses due to high levels of crime cases and insecurity in general. Interestingly, only 16% of the respondents agree with the statement that Tier II banks always consider location of the agents business before the partnership. This trend exhibits an implementation gap, from the service providers' side, who have failed to put into place necessary capacity building incentives inform of advice to their bank agents.

On perceptions on agents training, Seventy eight percent of the respondents did not agree with the statement that customers complain about their services. They indicated that they had not experienced numerous complaints from their customers about their service but the most complains have been on systems failure and lack of network- that seem to lie within the realms of the bank's responsibilities. 35 (90%) respondents agree with the statement that agents' training ensures speed and ease of use of agency banking machines. Some of the responses exhibited assert the fact the banking institutions prioritize thorough training on the handling of transaction machines before any agent commences offering the service. To this effect, the same number and an additional 2 respondents (95%) also agreed to the statement that agent training influences response to customers.

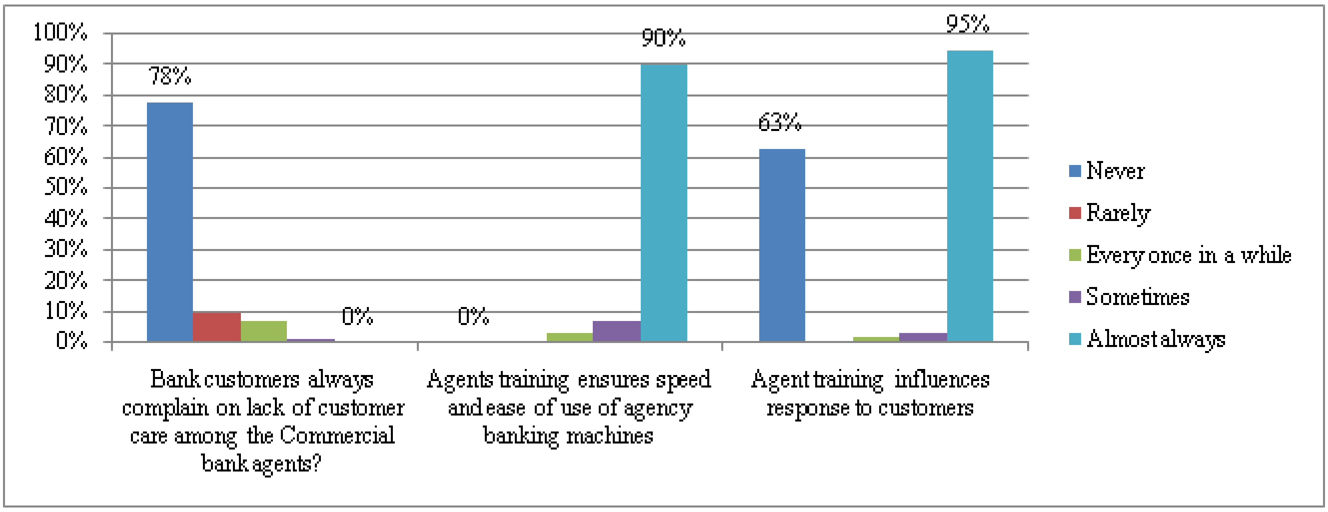

Figure 4: Perceptions on agents' training and customer service

40% percent of the respondents cited instructions as the mechanism though which they were trained to engage agency banking services. Thirteen respondents cited use of trainings while four respondents cited workshops. Five respondents reported to have received manuals on how to conduct the business, form their bank-service providers.

The study sought to find the impact of operating agent banking to the business. Out of the 39 respondents 11 (28.2%) indicated that agency banking had led to increase in customer numbers. Customer loyalty had also increased as was noted by 5 respondents who attributed the trend to the fact that they were capacitated enough to guarantee the customers consistent and reliable service.

7. Recommendations

Majority of the respondents indicated that they did not clearly understand CBK's regulations on agency banking while 10 per cent of the respondents don't understand the regulations at all, while 52% hardly get the regulations right. The owners of the agency business for Tier II banks needs to train their employees so that they comply with the Government Regulations on agency banking so that these facility can be effective to the intended customers. In addition, CBK in conjunction with the Tier II banks should implement tight regulation on agency banking in order to ensure majority of agency banking customers can feel that they are operated in a safe and regulated platform.

The study found out that agency physical location significantly influences perceived security of uptake of agency banking and therefore recommends that the Tier II banks should ensure that physical location is considered a priority when setting agent bank premises as this could be the reason why many Tier II bank customers shy away from the bank agents.

Lastly, the agents agreed with the statement that agents' training ensures speed and ease of use of agency banking machines and therefore recommends that Tier II banks needs to ensure continuous training of their agents since sometimes the owners of agents change employees and in some case this could limit the employee in terms of responding to issues relating to customers and this will thus influence customer satisfaction and hence slow the uptake of agency banking among the Tier II banks.

References

[1] Atandi,F.G.(2013) Challenges of agent banking experience in Kenya, *International Journal of Academic research in business and social science*, 3(8) ISSN: 2222-6990(Accessed on 18 May 2016).

[2] B. Kiura, (2014). Role of Technology in the Implementation of Agency Banking in Kenya: A Survey of Commercial Banks in Kenya. *Journal of Social Sciences*, 3 (4) 70-76

[3] Central Bank of Kenya (2010).*Guideline on agent banking*, Nairobi: Government of Kenya Printers, Nairobi

[4] Central Bank of Kenya.(2009). *Central Bank of Kenya Annual Report*.Nairobi: Government of Kenya Printers, Nairobi

[5] Central Bank of Kenya.(2015). *Central Bank of Kenya Annual Report*.Nairobi: Government of Kenya Printers, Nairobi

[6] Chandran, E. (2014).*Research Methods. Nairobi*: Straight Services Limited.

[7] Clark, Peter B. and James Q. Wilson. (1961) Incentive systems: a theory of organizations. *Administrative Science Quarterly*6 (9) 129-166

[8] Ignacio M. & Hannah S. (2009).*Banking through Networks of Retail Agents*. Available at: http://www.cgap.org/p/site/c/template.rc/1.9.3922. (Accessed on 18 May 2016)..

[9] Johnson, G & Scholes, K (2003) *Exploring corporate strategy;* Tests & cases, Great Britain: Prentice Hall

[10] Kirimi, S.G. (2011). *The Extent of Implementation of Agency Banking Among Commercial Banks in Kenya*, *MBA Project*, University of Nairobi

[11] Kithuka, B. K. (2012). *Factors influencing growth of agency banking in Kenya: the case of Equity bank, Kwale County, Kenya*. Available at: http://erepository.uonbi.ac.ke. (Accessed on 18 February 2016)

[12] Kothari C R (2004).*Research Methodology – Methods & Techniques,* USA, New Age International (P) Ltd

[13] Kotler, P. (2003). *Marketing Management. 11th Ed.*, Prentice Hall, New Jersey Kumar, A., Nair, A., Parsons, A., &Urdapilleta,

[14] Lyman, T., Pickens, M. &Porteous, D. (2008).*Regulating Transformational Branchless Banking: Mobile Phones and Other Technology to Increase Access to Finance*. Washington, D.C: CGAP/DFID.

[15] Maina, T. M, (2014). Factors influencing the uptake of agency banking services by customers in commercial banks in Kenya, *Strategic Journal of Change Management*, 1(20) 1-5

[16] Mberia, P. M, (2009). *Factors affecting the operations of m-payment agents in Kenya*.Un published master's thesis Kenyatta University.

[17] Mugenda & Mugenda A. (2003). *Qualitative and Quantitative Research Methods*. Nairobi: Acts Press

[18] Musau, S. M. (2013). Analysis of the Utilization of Agency Banking on the Performance of Kenyan Banks. *International Journal of Finance and Accounting* 4 (12), 1-16.

[19] Mwangi, R. W. (2012). *An evaluation of the role of agency banking in the performance of commercial banks in Kenya*. Available at : ir-library.ku.ac.ke/handle/123456789/6156 (Accessed on 22 April 2016)

[20] Ndungu, S. K. (2015). *Effect of alternative banking channels on financial performance of commercial banks in Kenya,* Unpublished research project, University of Nairobi.

[21] Omumi, K. (2010). *Branchless Banking and Use of Agents including Postal Corporation of Kenya*. Available at: http://aitec.usp.net. (Accessed on 24 April 2016).

[22] Orodho J. A (2005).*Elements of Education and Social Science Research Methods*. Nairobi: Masola Publishers

[23] Porter M. E (1985). *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, New York, USA: Free Press

[24] Porter M. E (2008).*The Competitive Advantage of Nations*, London, Macmillan Press Ltd.

[25] Sirken (2009).*Ministry of Finance audit findings on M-PESA money transfer services* http://kenyapolitical.blogspot.com (Accessed on 24 April, 2016)

[26] Waithanji, M. N. (2012). *The impact of agent banking as a financial deepening initiative in Kenya.*Available at: http://erepository.uonbi.ac.ke. (Accessed on 24 April, 2016)