# The Influence of Agency Banking on Customer Satisfaction in the Banking Industry in Arusha Municipality, Tanzania: A Case of National Microfinance Bank

**Annette Godwin Mongi[1], Dr. Samuel Obino Mokaya[2]**

[1, 2]Jomo Kenyatta University of Agriculture and Technology, Arusha Centre

**Abstract:** *Agency banking has become one of the essential services in the banking sector in bringing their services closer to the people at the grass-root or in remote areas where brick and mortar branches are not present. Tanzania has witnessed the mushrooming of the agency banking services to supplement the incapacitated areas of banking services; however, its link on the customer satisfactions' is yet documented, therefore, the study sought to determine the effect of agency banking services on customer satisfaction in the banking industry in Arusha Municipality, Tanzania covering a case of National Microfinance Bank. The study used exploratory research design because the major emphasis is on discovery of ideas and insights. The study covered a stratified random sample of 60 respondents. Data collection was done using questionnaire, interview and review of documents. Data analysis was done quantitatively using descriptive and inferential statistics and the findings are presented in tables and figures. Qualitative data were analyzed in themes according to the study objectives. The study revealed that the quality of agency banking services influence customer satisfaction with quality of agency banking having a strong positive correlation of 0.877, convenience had a strong positive correlation of 0.668, agency banking service location had a strong correlation of 0.803 and service reliability had a strong positive correlation of 0.586. Based on the study findings, it can be concluded that emergence of the agency banking services remain of significance on the growth of banking industry and customer satisfaction in Tanzania; with aspects of quality of the services, reliability, location and convenience of the service being important variables in customer satisfaction. Based on the findings the study recommends the bank should continue to create more awareness on Agency banking services, the bank agents should ensure that there is security at his or her business as this will build trust and more customers will transact. The bank should also add more services in agency banking e.g. account opening. The bank should frequently train its agents on service delivery.*

**Keywords:** Agency banking, Quality, Convenience, Location, Reliability, Customer satisfaction

## 1. Introduction

Agent banking is the business of providing banking services to the customers of a bank or financial institution on behalf of that particular bank or financial institution under a valid agency agreement as prescribed by BOT guidelines BOT (2) Agent banking is quickly becoming recognized as a viable strategy in many countries for extending formal financial services into poor and rural areas. In recent years, agent banking has been adopted and implemented with varying degrees of success by a number of developing countries, particularly in Latin America. Brazil is often recognized as a global pioneer in this area since it was an early adopter of the model and over the years has developed a mature network of agent banks covering more than 99% of the country's municipalities. Other countries in Latin America have followed suit, including Mexico (2009), Peru (2005), Colombia (2006), Ecuador (2008), Venezuela (2009), Argentina (2010), and Bolivia (2006). Other countries around the world have also utilized the agent banking model to expand financial services, including Pakistan, Philippines, Kenya, South Africa, Uganda, and India. For instance, in 2010, Colombian bank agents facilitated the opening of 9,652 new accounts. This leads to increase of the bank's market share. In some countries regulators have decided that the risks involved with allowing an agent to facilitate the opening of an account, such as those related to anti-money laundering or know-your-client procedures, outweigh the potential benefits. For example, until recently agents in Peru were explicitly prohibited from receiving account or loan applications from customers; however, with a new resolution released in February 2011, agents are now allowed to open and close simplified bank accounts AFI (1) Also, according to AFI (1) they did a study that compared the experiences of four Latin American countries that have implemented agent banking, namely Brazil, Colombia, Peru and Mexico. The study focused on Mexico as the most recent case. The study examined the differences in the agent banking model and the possible impact these differences had on access and usage of financial services. The examples of Brazil, Colombia and Peru demonstrated that agent banking has a significant potential to increase access to financial services to remote areas. Mexico has had a successful first year in implementing agent banking, when compared to its neighbors. The successes recorded in Brazil, Mexico, and Peru is worth a note. Brazil alone has more than 140,000 banking agents, making it the largest deployment of third party banking correspondents in the world.

Similarly, AFI (1) sheds that Brazil is more often than not considered as the global pioneer of agency banking due to the fact that it was an early adopter of the model and over the years has developed a mature network of agent banks covering more than 99% of the country's municipalities. Other countries in Latin America that have followed suit include Peru 2005, Colombia 2006, Bolivia 2006, Ecuador

2008, Venezuela 2009, and Argentina 2009. Other countries that have adopted and utilized the agency banking model are Pakistan, Kenya, South Africa, Philippines, Uganda and India. The regulation, design and implementation of agent banking vary across countries.

In Brazil in 2008, agents transacted 75% of the volume (agents made 1.6 billion transactions) and 70% of the value (agents transacted a total of US$105 billion) of total bill payments (Banco Central, quoted in CGAP, 2010); In Brazil, rural agents transact more deposits and withdrawals as a percentage of total transactions (38%) than their urban counterparts CGAP (4). Most bank agents in Brazil specialize in receiving bill payments, which account for approximately 75% of all agent transactions (47% of which are utility bill payments). Withdrawals and deposits account for 12.6% and are nearly equally divided into savings and current accounts (including simplified accounts). Only 0.16% of transactions are account opening and 7.3% are government transfers, CGAP (4).

In Peru, agents carry out approximately 3.8 million transactions per month (45 million transactions in the year). In Peru in 2010, less than 50% of the total financial system transactions were conducted through traditional bank branches: ATMs and POS terminals accounted for 36% of total transactions SBS & CGAP (8).

Access to basic banking services in Sub-Saharan Africa is limited, and lags far behind other parts of the developing world. Kendall *et al.* (5) observed that developing countries have only 28% as many bank accounts per adult as do developed countries, the number in Sub-Saharan Africa is far lower (only 16%). Lack of access is particularly acute in rural areas: representative household survey data they collected between 2009 and 2011 suggest that only between 15% and 21 % of households are banked in rural areas of Kenya, Malawi, and Uganda, respectively.

Agency banking took effect in Kenya in May 2010. By December 2015, 17 commercial banks and 3 microfinance banks had contracted 40,592 and 1,154 agents, respectively, spread across the country. In comparison with December 2014, the number of agents contracted increased by 4,745 banks' agents and 1,096 microfinance agents. This was mainly due to increased confidence and acceptability of the agency banking model as an efficient and effective delivery channel. The number of transactions by agents increased by 37.8% from 57,955,472 transactions recorded in 2014 to 79,889,383 in December 2015 CBK (3).

In 2013, The Bank of Tanzania BOT (2) introduced comprehensive agent banking guidelines that permit for the first time licensed banks and financial institutions to appoint retail agents as a delivery channel for their banking services. The introduction of agent banking provides a mechanism though which banks can profitably extend their services to previously unbanked lower income individuals BOT (2). National Microfinance Bank serves a wide range of customers in rural and urban areas, including government agencies, civil service, large corporations, SME's, small-scale farmers, microfinance institutions and retail clients.

## 2. Purpose of the study

The purpose of the study was to examine influence of agency banking on customer satisfaction in the banking industry in Arusha, Tanzania. The study focused on quality of agency banking, convenience of agency services, agency services location and agency services reliability.

## 3. Research Methodology

This study adopted an explanatory research design. Explanatory research design has been chosen because the major emphasis is on discover of ideas and insights, which in this study is to discover on the extent to which customers using agency banking. In identifying the extent and nature of relationship this study used the Pearson Product-moment correlation coefficient to determine the relationship between dependent and independent variables.

## 4. Results and Analysis

96.7% of the respondents were aware of Agency banking service while 3.3% were not aware. Among those who responded, 63.3% were males while 36.7% were females, 31.7% had secondary school certificate, 21.7% were Certificate holders 25% had Diploma, 16.7% are graduate with Bachelor degree and 5% with Master degree.

**Relationship between Quality of Agency Banking Services and Customer Satisfaction**
The first objective sought to explore the relationship between quality of agency banking services and customer satisfaction. The research objective was addressed by running a Person's product moment correlation test. The analysis revealed a significant (p-value=) highly strong positive correlation of 0.877 between the quality of agency banking and customer satisfaction as shown in Table 1. The correlation was significant at the 0.05 level of significance (2-tailed). This implies that an increase in quality of agency banking leads to an increase of customer satisfaction in Tanzania commercial bank. The finding is consistent with Parasuraman*et al* (6) who found that service quality has a positive influence on customer satisfaction

**Table 1:** Correlations between Quality of Agency Banking and Customer Satisfaction

| | | In your own view, how do you rate the influence of quality of agency banking on your satisfaction? | What is your satisfaction level with the agency banking services offered by NMB? |
|---|---|---|---|
| In your own view, how do you rate the influence of quality of agency banking on your satisfaction? | Pearson Correlation | 1 | 0.877** |
| | Sig. (2-tailed) | | .000 |
| | N | 60 | 60 |
| What is your satisfaction level | Pearson Correlation | 0.877** | 1 |

| with the agency banking services offered by NMB? | Sig. (2-tailed) | .000 | |
| | N | 60 | 60 |
| **. Correlation is significant at the 0.01 level (2-tailed). | | | |

### Effects of Convenience of Agency Banking Services on Customer Satisfaction

The second objective sought to find out the relationship between convenience of agency banking services and Customer Satisfaction

Pearson's product moment correlation was run to establish whether there exists a relation between convenience of agency banking services and customer satisfaction in commercial banks. As shown in Table 2, there was a strong positive correlation of 0.668 between effect of convenience of agency banking services and customer satisfaction. The p-value is 0.000 and hence establishing a high significant relationship between variables. The findings are in line with the study Rifkin (7) who conducted a study in the USA and found out 63% of US adults would have bank account due to convenience

**Table 2:** Correlations between Effect of Convenience of Agency Banking and Customer Satisfaction

| | | How do you rate the convenience of agency banking by NMB? | What is your satisfaction level with the agency banking services offered by NMB? |
|---|---|---|---|
| How do you rate the convenience of agency banking by NMB? | Pearson Correlation | 1 | 0.668** |
| | Sig. (2-tailed) | | .000 |
| | N | 60 | 60 |
| What is your satisfaction level with the agency banking services offered by NMB? | Pearson Correlation | 0.668** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 60 | 60 |
| **. Correlation is significant at the 0.01 level (2-tailed). | | | |

### Effects of Agency Banking Service Location on Customer Satisfaction

The third objective sought to find out the relationship between agency service location and customer satisfaction

A Pearson's product moment correlation test was run to establish whether there exist a relationship between agency services location and customer satisfaction. As shown in Table 3, there was a highly strong positive correlation of 0.803 between the influence of agency services location and customer satisfaction. The p-value was 0.000 and hence establishing a high significant relationship between variables. This implied that agency service location influence had a significant influence on customer satisfaction in commercial bank.

**Table 3:** Correlations between Agency Banking Service Location and Customer Satisfaction

| | | How do you rate the location of agency banking by NMB? | What is your satisfaction level with the agency banking services offered by NMB? |
|---|---|---|---|
| How do you rate the location of agency banking by NMB? | Pearson Correlation | 1 | 0.803** |
| | Sig. (2-tailed) | | 0.000 |
| | N | 60 | 60 |
| What is your satisfaction level with the agency banking services offered by NMB? | Pearson Correlation | 0.803** | 1 |
| | Sig. (2-tailed) | 0.000 | |
| | N | 60 | 60 |
| **. Correlation is significant at the 0.01 level (2-tailed). | | | |

### The Agency Banking Service Reliability and Customer Satisfaction

Objective four sought to assess the relationship between service reliability and customer satisfaction

A Pearson's moment correlation test was run to establish whether there exist a relationship between agency services reliability and customer satisfaction in commercial banks. As shown in Table 4, there was a positive correlation of 0.586 between agency services reliability and customer satisfaction. The p-value was 0.000 and thus establishing a high significance relationship between variables. This implied that agency services reliability had a significant influence on customer satisfaction in commercial banks.

**Table 4:** Correlation between Agency Banking Services Reliability and Customer Satisfaction

| | | In your own view, how do you rate the influence of reliability agency banking on your satisfaction? | What is your satisfaction level with the agency banking services offered by NMB? |
|---|---|---|---|
| In your own view, how do you rate the influence of reliability agency banking on your satisfaction? | Pearson Correlation | 1 | 0.586** |
| | Sig. (2-tailed) | | .000 |
| | N | 60 | 60 |
| What is your satisfaction level with the agency banking services offered by NMB? | Pearson Correlation | 0.586** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 60 | 60 |
| **. Correlation is significant at the 0.01 level (2-tailed). | | | |

## 5. Conclusions

The conclusion of the research study from broader context show that emerging of the agency banking services remain of

significance on the growth of banking industry and customer satisfaction. In line with the research objective one that focused on the aspect of quality of the services it can be concluded that the agency banking services has been so satisfactory to the users of the services and therefore the quality of the services should be maintained. From the study and what was found from literature and field findings it can be concluded that there is a positive relations between reliability and customer satisfaction. NMB agency banking reliability has been reliable to the customers. On location and convenience of the services the findings have shown that agency banking on these aspects has full been satisfying the customers and therefore NMB should nature these banking services.

## 6. Recommendations

The bank should create more awareness on agency banking services. This can be done through TV, Radios; Fliers etc. the wordings used should be simple to understand preferable swahili. Customers in the banking hall can also be educated on the use of agency banking e.g. a bank officer educating them on the use and benefit of agency banking and informing them on the location of the agents. Improved awareness leads to improved customers' perception on agency banking which will lead to increase usage. Customers should be assured of confidentiality when transacting using agency banking.

The bank should also add the number of services offered though agency banking e.g. account opening.

In-order for customers to be satisfied with agency banking, bank agents should provide good customer service. The bank agents should be trained on customer service delivery from time to time. They should also be knowledgeable on the bank regulations, services and products. Agents should also ensure that they have adequate float at all times. This ensures that the customers are served on time without referring them to other agents or branches

Agents should ensure that their business is well secured. This can be achieved by hiring security guards. Presence of security enhances customers' trust and safety.

There should be proper and time to time auditing of bank agents transaction. This aims to prevent any fraud or Anti-Money Laundering transactions.

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