

# Investigation on Factors Facilitating Accessibility of Banking Services through Agency Banking in Kenya: (A Case of Equity Bank) in Kitui Central District, Kitui County, Kenya.

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**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. This study focused on the role of agency banking in providing and availing the banking services to the customers'. The purpose of the study was to explore the functionality and contribution of agency banking. This study assessed the Role of agency banking in increasing accessibility to banking services and helping in decongesting the banking halls in Kitui central district, through an analysis of the costs and benefits raised by agency banking and how these are distributed among the stakeholders. The researcher was guided by the following objectives:-To investigate the cost of banking transactions through agency banking ,to investigate the efficiency of Agency banking in time saving, To investigate the convenience of banking products offered through agency banking and to investigate if availability of bank Agents has increased the opening hours to increase accessibility for banking services. The study used descriptive survey design and the target population was six Equity bank agents and one hundred (100 A/c holders) in Equity bank in Kitui central district. Data was collected using questionnaires and review of documentation .Data analysis was done quantitatively using inferential statistics mean ,mode, median and percentages with the help of computer software statistical package for social scientist(Spss) and the presented in tables, bar charts and graphs. Qualitative data was analyzed thematically according to the study objectives. The findings of this study are; the banking agency availed banking services closer to the customers leading to more accessibility hence saving the customers the transport cost, the agency banking is efficient in terms of transactions cost and time saving and most of the respondents were impressed by their performance, the agency banking like any other bank offered banking products which include; cash withdrawal, cash deposit, bill settlement and balance enquiry. The recommendations of the study are; Equity bank should do more advertising to sensitize the public on the availability and the services of agency banking, agency banking should also increase the products to include credit facilities and that the agency banking should have more

money so that those who wants to withdrawal more would not be forced to go to the physical banks.

**Index Terms-** Agency banking, accessibility to banking services, Agent, banking, Principal.

## I. INTRODUCTION

According to a banker (2011) Agency banking is not new in the world. It has been used very well in Latin, America and Asia. There are few African countries that have taken up Agency banking. Agency banking has become an essential practice of financial institution in bringing their services closer to the people at the grass-root.

### Agent banking in Latin America

According to Alliance for financial inclusion (2012) 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 had a significant potential to increase access to financial services to remote areas.

### Agent banking in Nigeria

Nigeria is actively promoting access to financial services to millions of unbanked and under-banked throughout the nation. The regulator in Nigeria is developing policies and regulations that are creating access for more people through micro finance banking, cash lite programs, mobile payment while reducing cost of entry for the unbanked population to gain access in a country of 70 million adult populations in a total of addressable market of 140 million. There is no doubt that agency banking is adopted in Nigeria banking systems(see European journal 2013) and has proved to have essential role in increasing accessibility to banking services.

## Agent banking in Kenya

In Kenya large number of the population is excluded from access to financial services in the financial sector with the situation being worse in rural areas. Most of the individuals in Kenya especially those living in rural or remote areas where infrastructural development is a problem ,access to banking services has been a very disturbing problem. In the old times people used to travel for long distance so as to access financial services from banks and this was consuming most of their time and more spending on transport cost. According to Prof Njuguna Ndung'u governor of the CBK (2013) the aim of agent banking was to increase the level of formal financial inclusion in un-served and under- served areas. According to Gideon Kiarie (2012) with the introduction of agency banking services in Kenya financial system, convenient and affordable banking services continue to be availed to the large masses without the mortar and brick branches. According to Ken Kigunda (2012) the use of agency banking model by banks in Kenya has continued to improve access to banking services and has also increased financial deepening in the country since agent banking was launched in 2010.Kigunda say that due to agency banking the financial sector has recorded an increase in growth with most Kenyans accessing finances at their convenience. This study also found that agency banking has increased accessibility of banking services since they have reduced the distance the customers need to travel to get the financial services as agents are located at customers premises, in Agency banking also it saves time for getting the services as no long queues of individuals waiting to be served. The cost of transactions is also cheap as compared to services from brick and mortar branches.

## II. PROBLEM STATEMENT

In Kitui central district most of the banks are only located in Kitui town and this causes a problem for the people in rural areas or remote areas of Kitui in accessing the financial services. Agency banking is then seen to bring the services closer to the customers and now days people in remote areas do not need to travel to towns to get financial services.

## III. RESEARCH OBJECTIVES

### General objectives

To investigate the role of Agency banking in facilitating accessibility of banking services through agency banking in Kenya.

### Specific objectives

- i. To determine the cost of transaction through agency banking.
- ii. To determine the efficiency of agency banking in time saving when serving customers.
- iii. To determine if availability of bank agents has increased opening hours to increase accessibility for banking services.
- iv. To determine the convenience of getting banking products offered through agency banking.

## IV. RESEARCH QUESTIONS

1. How much cost do one incur to make transactions through agency banking?
2. How has agency banking increased efficiency in time saving for making bank transactions?
3. How has agency banking increased the availability of their services through long opening hours?
4. How convenient are the banking products which are offered through agency banking?

## V. JUSTIFICATION OF THE STUDY

This study is hoped to help to establish knowledge on agency banking in the area of Kitui central district. This knowledge is important to the banking agents providing the service in Kitui and also it is important to the banks in Kitui.

## VI. SCOPE OF STUDY

The research covered Kitui central district.Three locations from the district was considered in the research and this included Kalundu, Township and Miambani locations. The study population included all Equity bank agents and A/c holders from the same bank in Kitui central district. One agent from Kalundu and one from Miambani was picked and four agents from township location was picked randomly making a target sample of six respondents, also one hundred ( 100) A/c holders from the same bank were selected to make up the target population.

## VII. LIMITATIONS OF THE STUDY

There was a problem during data collection as some respondents were not willing to fill the questionnaire as they felt that giving the financial information about their banking through agency banking is very sensitive as banking involves money which is very sensitive. There was a problem in terms of getting secondary data because agency banking is a new phenomenon in Kitui central district and then little information was available.

## VIII. ASSUMPTIONS OF THE STUDY

The study was guided by the following assumptions:-

- i. The randomly selected sample of Equity bank agents from Kitui central district was operational.
- ii. The use of agency banking model in Kitui central district has continued to expand access to banking services especially where there are no physical bank branches.
- iii. The use of agency banking has decongested the banking hall of Equity bank Kitui branch though at a slow rate.

## IX. LITERATURE REVIEW

Agency banking regulations passed in February 2011 enable banks to offer services through third party agents approved by the CBK, agents can be telecoms outlets, small and medium

enterprises, retail chain and even small shops among others. They must be a profit-making entity that has been in business for at least 18 months and can afford funds for a float account. The services that agent can offer include cash deposits, cash withdrawal, payment of bills transfers (including benefits and salary payment) among others.

According to the bank supervision annual report (2011) adoption of agency banking has enhanced access to banking services. Despite 2011 being a year of accelerated inflation arising from high food and fuel costs the total population with access to financial services, which is a key indicator of financial sector growth and development, increased. This was attributed to the cost effective and efficient innovations within the banking sector one of them being adoption of branchless banking models like the Agency banking models. According to the bank supervision report (2012) Equity bank had the highest number of customers and agents where it had 5.3 Million customers and 2851 agents and this indicated that agent banking had an effect on financial deepening as the higher the number of agents the higher the number of customers.

## X. THEORETICAL REVIEW

### Agency theory

Stephen Ross and Barry Mitnick (1972) came up with agency theory, where they said that the principal delegates or hire an agent to perform work. The theory attempts to deal with two specific problems; first that the goals of the principal and an agent are not in conflict (agency problem) and second that the principal and agent reconcile different tolerances for risk. (Bruce et al 2005) say that the challenge in agency theory is to get agents to either set aside their self-interest, or work in a way in which they may maximize their personal wealth while still maximizing the wealth of the principal. This is true as some agents were even closing early than the physical banks according to this study.

### Diffusion of innovations theory

The original diffusion research was done as early as 1903 by the French sociologist Gabriel Tarde who plotted the original S-shaped diffusion curve. Tarde 1903 S-shaped curve is of current importance because, Most innovations have an S-shaped rate of adoption (Rogers, 1995). Diffusion research centers on the conditions which increase or decrease the likelihood that a new idea, product, or practice will be adopted by members of a given culture. Diffusion of innovation theory predicts that media as well as interpersonal contacts provide information and influence opinion and judgments. Very little innovators adopt innovation in the beginning. Later Diffusion of innovation theory was developed by E.M. Rogers in (1962) and it originated in communication to explain how overtime an idea or product gains momentum and spreads through a specific population or social system. Researchers have found out 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

majority of the general population tends to fall in the middle categories. The five categories include:-

**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 risk takers.

**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. They do not need to be convinced so as to change.

**Early majority-** They are rarely leaders, but do adopt new ideas before an average person. They just need to see evidence that innovation works before they adopt it.

**Late majority-** These people are skeptical of change and will only adopt innovation after it has been tried by the majority. They need to be told how many other people have tried the innovation and have adopted it successfully.

**Laggards-** These are people bound by tradition and very conservative. They are very skeptical of change and are the hardest group to bring on board.

## XI. 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 agency banking with service names that resonate well the target population. Such names include; Equity ndio hii, Kcb mtaani, co-op kwa Jirani, Family papo hapo and so on. Such names intended to create a sense of ownership and create confidence among the banks customers for a service that has been devolved to their neighborhood or brought closer to their doorsteps.

Agency theory relates well with agency banking as most of banks have sought the services of third parties in offering the banking services to their customers. These bank Agents are paid some commission by the banks which they work for. The nearest branch of the bank provides necessary logistic support to their respective Agents.

## XII. RESULTS AND FINDINGS

This study investigated the factors facilitating accessibility of banking services through agency banking in Kenya. The objectives of the study were; to determine the cost of transactions through agency banking, to determine the efficiency of agency banking in time saving, to determine how agency banking has increased opening hours to increase accessibility for banking services, and to determine the banking products offered through agency banking.

The study established that majority of the respondents (86%) strongly agreed that agency banking was worthwhile in availing banking services closer to customers. This reduced time wasting since customers do not have to travel long distances as the agencies are close to their residences.

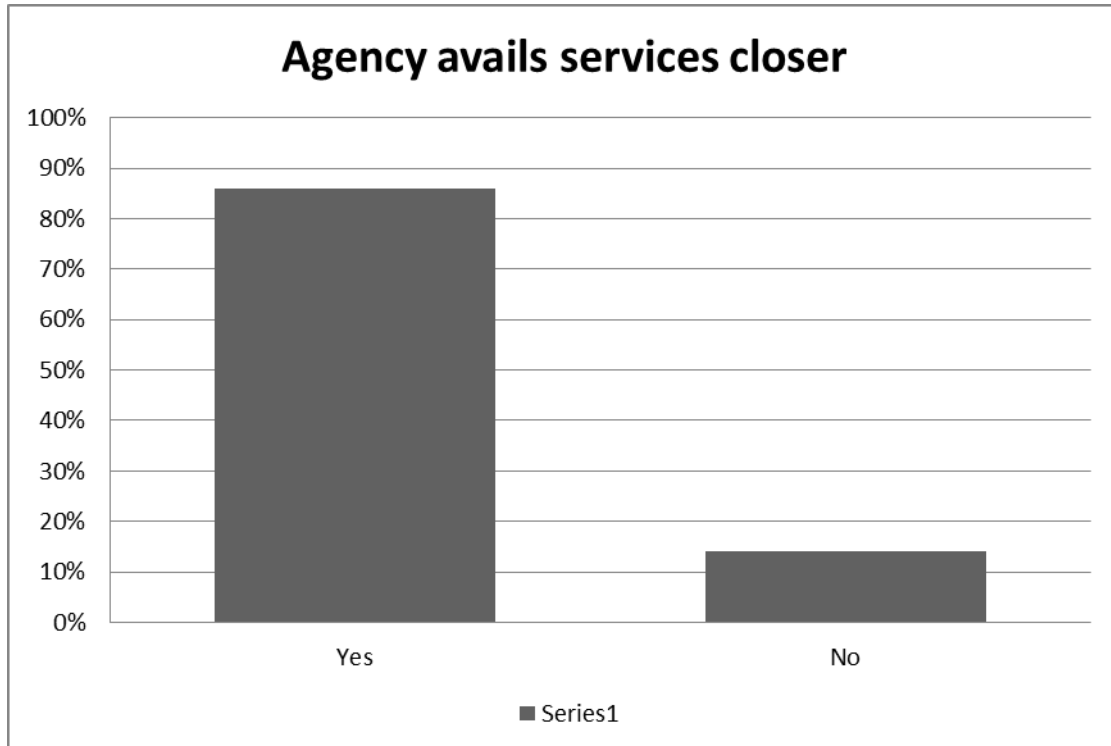
**Table 4.5: Transaction through agency avails services closer to customers**

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<b>Category</b>	<b>Responses</b>	<b>Percentage</b>
Strongly agreed	86	86%
Agreed	14	14%
<b>Total</b>	<b>100</b>	<b>100%</b>

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The research also used the bar graph to represent the opinion of respondents on whether agencies availed services closer to people.



The researcher calculated the correlation coefficient between the transaction cost and agency banking. This was to establish the strength of the relationship between transactions cost and agency banking and to determine if there was effect of reducing banking cost on accessibility of agency banking. The study

revealed that there is a strong negative correlation between transaction cost and agency banking ( $r=-0.80$   $p=0.04$ ) this implies that the more the banking agencies the less the transaction cost.

**Table 4.6 Relationship between transaction cost and Agency banking**

		Transaction cost	Agency banking
Transaction cost	Pearson Correlation	1	-0.8
	Sig. (2-tailed)		0.04
	N	100	100
Agency Banking	Pearson Correlation	-0.8	1
	Sig. (2-tailed)	0.004	
	N	100	100

This agrees with Ivantury and Timothy(2006) who argued that Agency banking could be of benefit to the clients in the following ways; lower transaction costs (closer to their homes), long opening hours, shorter lines than in branches, more accessible to the poor who might feel intimidated in branches compared to agency, This is because the Agency banking enables the bank to extend their services not only in areas with poor branch Penetration but also up to the doorstep of those who are

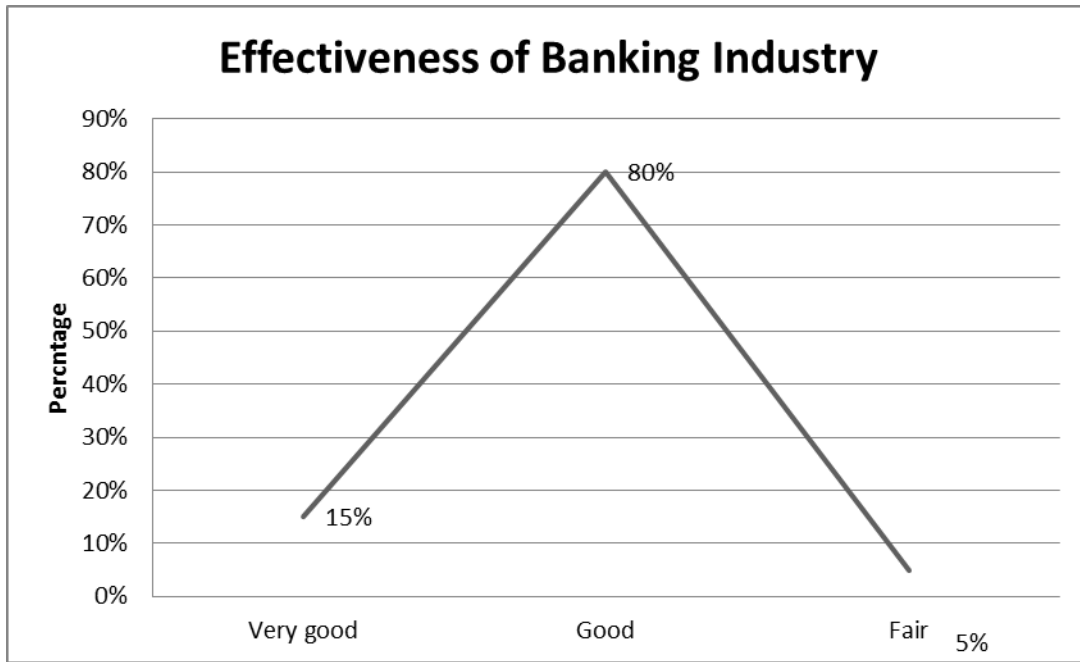
reluctant or otherwise unable, to make a trip to the nearest branch.

The study revealed that majority of the respondents (80%) agreed that the agency banking was effective in time saving. This is because agency banking were of benefit to the clients in the following ways; lower transaction costs (close to their homes) long opening hours, shorter lines than in branches, more accessible to the poor who might feel intimidated in physical branches compared to agent banking.

**Table 4.7: Efficiency of Banking Industry**

Efficiency	Responses	Percentage
Very good	15	15%
Good	80	80%
Fair	5	5%
<b>Total</b>	<b>100</b>	<b>100%</b>

The research also used a line graph to represent the effectiveness of banking industry.



The study also established that( 96% ) of the respondents strongly agreed that the agency banking was saving on time during transactions since there were no long queues which tend to take long to serve the customers.

**Table 4.8: Time saving and Agency banking**

Category	Responses	Percentage
Strongly agreed	96	96%
Disagreed	4	4%
<b>Total</b>	<b>100</b>	<b>100%</b>

According to 91% of the respondents, they strongly agreed that banking agent’s avail banking services through long opening hours as opposed to the banks with most of them opening from 7.00am to 6.00 pm. This has enabled customers to access banking facilities very early in the morning and also late in the evening.

**Table 4.9: Agency banking long opening hours**

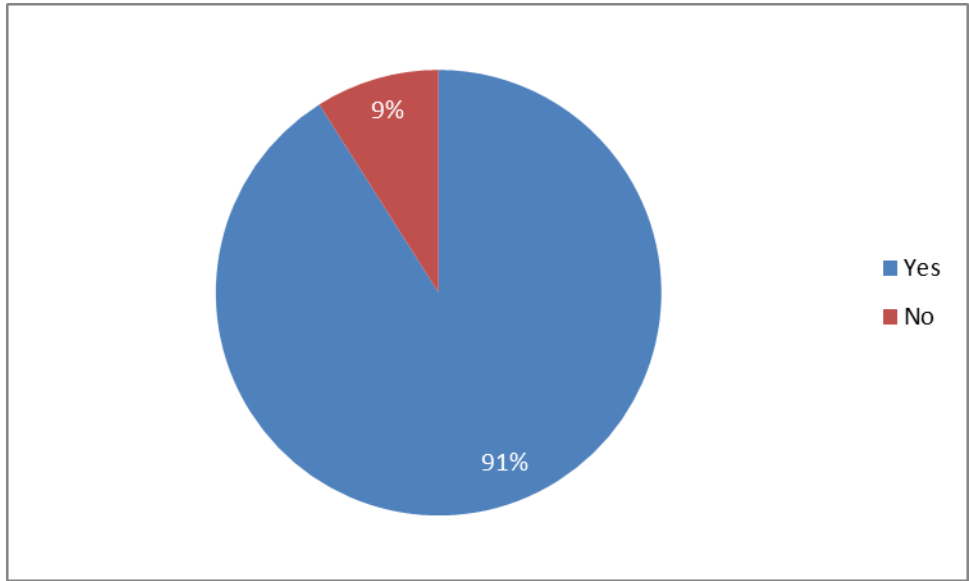
Category	Responses	Percentage
Strongly agreed	91	91%
Disagreed	9	9%

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<b>Total</b>	<b>100</b>	<b>100%</b>
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The research also used a pie- chart to represent this information.



**Table 4.10 Correlation between Long opening time and Agency banking**

		Opening time	Agency banking
Opening time	Pearson Correlation	1	0.86
	Sig. (2-tailed)		0.03
	N	100	100
Agency Banking	Pearson Correlation	0.86	1
	Sig. (2-tailed)	0.003	
	N	100	100

**4.7 Regression Analysis**

The researcher used regression analysis to test the effect of effect of a unit increase or decrease on the dependent variable.

**Table 4 Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant) (a)	5.898	.072		.000	1.000
Cost of transaction(X <sub>1</sub> )	.500	.103	.434	4.873	.000
Time saving (X <sub>2</sub> )	1.561	.199	.000	.000	1.000
Opening Hours (X <sub>3</sub> )	1.777	.187	.000	.000	1.000
Banking products (X <sub>4</sub> )	.500	.055	.548	9.041	.000

a. Dependent Variable: Accessibility of Agency banking services (Y)

Regression model:  $Y = a + b_1 X_1 + b_2 X_2 + b_3 X_3 + b_4 X_4$

$$Y = 5.898 + 0.5 X_1 + 1.561 X_2 + 1.777X_3 + 0.5 X_4$$



### Interpretation of the Beta's

The regression analysis above shows how a unit changes in independent variable changes the dependent variable. All the betas' (B) are positive indicating that every unit change in the independent variables will course a positive change in the dependent variable with the following quantities; Cost of transaction (0.5), time saving (1.561), opening hours (1.777) and banking products (0.5).

### XIII. CONCLUSION

The findings of the research agrees with Habilolaka (2013) who argued that days are long gone when customers would queue in the banking halls waiting to pay their utility bills, school fees or any other financial transactions. They now do this at their convenience by using Agents outlets. Agency banking has enabled bank customer to access the banking services within the comfort of their neighbor-hood. Agency banking can dramatically reduce the cost of delivering financial services to unreached people. Agency banking can address the two main problems of access to finances; the cost of roll-out (physical presence) and the cost of handling the low value transactions. This is achieved by leveraging networks of existing third party agency for cash transactions and account opening and by conducting all transactions on line. This sharp cost reduction creates the opportunity to significantly increase the share of the population with access to formal finance and, in particular; in rural areas where many people in developing countries live (Lyman, *et.al*,2008). The study also revealed that the banking products provided by the banking agencies include cash withdrawal, cash deposit, bill settlement and balance enquiry mostly.

From the findings of this study the researcher concluded that:-

- i. The banking agencies availed banking services closer to the customers leading to more accessibility hence saving the customers the transport cost.
- ii. The agency banking is efficient in terms of transactions cost and time saving and most of the respondents were impressed by their performance.
- iii. The agency banking like any other bank offered products which include; cash withdrawals, cash deposit, bill payment and balance enquiry.

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