CHALLENGES FACING FINANCIAL SERVICES AGENTS:
CASE STUDY OF NAIROBI COUNTY

BY

MERCY M. KATELA

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SPRING 2017
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A Research Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Masters in Organizational Development (MOD)

UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

SPRING 2017
STUDENT'S DECLARATION

I, the undersigned, confirm that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed: ___________________________               Date: ___________________________

Mercy Katela (ID 647371)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: ___________________________               Date: ___________________________

Paul Wachana, Ph.D.

Signed: ___________________________               Date: ___________________________

Dean, Chandaria School of Business
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ABSTRACT

Financial services agents play an important role in the improving financial access by bringing services closer to the people. Agent banking has dramatically reduced the cost of delivering financial services to the unreached people. Despite the enormous role played by agents, they are affected by various challenges that act as an impediment to their effective operations. The purpose of the study was to investigate the challenges facing financial services agents in Nairobi County. The study was guided by the following research questions: What operational challenges affect agents in the financial services industry? What technological challenges affect agents in the financial services industry? and How do operational and technological challenges affect performance of financial services agents?

The research adopted a descriptive research design. The target population constituted MPESA agents, Airtel money agents, KCB Mtaani agents, Equity agents and Coop kwa Jirani agents in Nairobi County. A structured closed and open-ended questionnaire administered face to face was the main instrument for data collection. The questionnaire was pre-tested through pilot study to ascertain the reliability of instrument in collecting required information for the study. The data was analyzed using descriptive and inferential statistics.

On operational challenges, the researcher found that lack of float was a very important challenge. Training was however not an important challenge. Most of the agents reported to having received training from the concerned financial institution. In cases where agents operated multiple agency services they were of the opinion that receiving training on one standard agency system for all financial institutions would improve their business. Insecurity was found to be a very important challenge although the agents had taken sufficient measures to curb insecurity in their work premises hence low insecurity incidents were reported. Agency related laws were also found to be a very important challenge with 95.3% of the agents that operated multiple agency services forming an opinion that it would be much easier to start agency businesses if the regulations did not require them to seek approvals from multiple institutions.

Findings on the technological challenges revealed that 75.1% of the agents experienced system down times with 95.3% of them agreeing that network unavailability was a major hindrance to service delivery. The system down times were however not attributed to the
gadgets used for agency banking as 71.7% of the agents agreed that the gadgets used for agency banking were reliable.

On investigating how operational and technological challenges affect performance of financial services agents, the study revealed that lack of float (liquidity problem) and agency regulation challenge resulted in reduced monthly transaction. The findings also indicated that the more the agents experienced system down times and network unavailability, the lower the monthly transactions. Monthly transactions were used as a measure of performance.

From the findings, the study concluded although lack of training was not a challenge, the agents that received training for multiple financial institutions had difficulties keeping up with the trainings from different financial institutions. Operators of agency outlets had invested in physical security measures to securing their outlets and as a result few cases of insecurity were reported. Liquidity and Agency regulated laws were important challenges that affected performance, as one cannot transact if they lack float and if the regulations are too tedious then it becomes difficult to expand the business. Further the study concluded that system down times and network unavailability were a major hindrance to service delivery and that the presence of both operational challenge predictors (liquidity, insecurity and agency regulation) and technological challenge predictors (systems down times, network unavailability) resulted in reduced monthly transactions hence reduced performance.

As a remedy to these challenges the study recommends that Central Bank should consider revising current policies to allow a standard agency system platform for all financial institutions. The study also recommends setting up redundant network infrastructures to improve network accessibility and reliability. Finally the study recommended taking measures to reduce operational challenge predictors (liquidity, insecurity and agency regulation) as well as reduce network hitches as this would help financial agency operators increase their monthly transactions thus improving performance and as a result contribute to the success of agent banking in Kenya making the goal of financial inclusion as envisioned in Kenya’s Vision 2030 that agency banking is supposed to address achievable.
ACKNOWLEDGEMENT

Firstly, I would like to most importantly acknowledge God’s guidance and support in enabling me to finish this project.

My sincere appreciation goes to my supervisor Professor Paul Wachana for giving me the required guidance and wisdom throughout this process. His guidance advice, effective and prompt response at each stage in the preparation and execution of this research paper was very instrumental for successful completion of this research.

To Jairus Obuhatsa the CEO of Obulex business solutions, I extend special gratitude for the idea conceptualization as well as financial support in the data gathering process.

To my family, I am grateful for their prayers, encouragement and emotional support and always being a call away for advice.

Am also grateful to the United States International University management for their cooperation and enabling environment through the library facilities where I spent an enormous amount of time searching all necessary information required for the completion of this research.

Lastly, I would like to thank all the financial services agents who accorded me their time to respond to my questionnaires. Their cooperation and support is highly appreciated.
DEDICATION

I dedicate this work to my family especially for their guidance and support. Their encouragement and enthusiasm has driven me to attain this goal.
# TABLE OF CONTENTS

**STUDENT'S DECLARATION** ........................................................................................................... ii

**COPYRIGHT** ................................................................................................................................ iii

**ABSTRACT** ................................................................................................................................... iv

**ACKNOWLEDGEMENT** .................................................................................................................. vi

**DEDICATION** ................................................................................................................................. vii

**CHAPTER ONE** ............................................................................................................................... 1

1.0 **INTRODUCTION** ....................................................................................................................... 1

1.1 Background of the Problem ......................................................................................................... 1

1.2 Statement of the Problem ............................................................................................................ 5

1.3 Purpose of the Study ..................................................................................................................... 6

1.4 Research Questions ...................................................................................................................... 6

1.5 Significance of the Study .............................................................................................................. 7

1.6 Scope of the Study ......................................................................................................................... 7

1.7 Definition of Terms ....................................................................................................................... 8

1.8 Chapter Summary ......................................................................................................................... 9

**CHAPTER TWO** ............................................................................................................................ 10

2.0 **LITERATURE REVIEW** ........................................................................................................... 10

2.1 Introduction .................................................................................................................................. 10

2.2 Operational Challenges Affecting Agents in the Financial Services Industry ......................... 10

2.3 Technological Challenges Affecting Agents in the Financial Services Industry .................... 17

2.4 Operational and Technological Challenges on Financial Agents Performance .......................... 22

2.5 Chapter Summary ....................................................................................................................... 26

**CHAPTER THREE** ........................................................................................................................ 27
3.0 RESEARCH METHODOLOGY ................................................................. 27
  3.1 Introduction .................................................................................. 27
  3.2 Research Design ........................................................................... 27
  3.3 Population and Sampling Design .................................................. 28
  3.4 Data Collection Methods ............................................................... 30
  3.5 Research Procedures ................................................................... 30
  3.6 Data Analysis Methods .................................................................. 31
  3.7 Chapter Summary ......................................................................... 32

CHAPTER FOUR .................................................................................... 33

4.0 RESULTS AND FINDINGS ............................................................... 33
  4.1 Introduction .................................................................................. 33
  4.2 Operator Background Information ................................................. 33
  4.3 Agent Outlets Information ............................................................. 35
  4.4 Operational Challenges ................................................................. 40
  4.5 Technological Challenges .............................................................. 53
  4.6 Effect of Operational And Technological Challenges on Performance 55
  4.7 Chapter Summary ......................................................................... 59

CHAPTER FIVE ....................................................................................... 60

5.0 DISCUSSION, CONCLUSION AND RECOMMENDATIONS .............. 60
  5.1 Introduction .................................................................................. 60
  5.2 Summary ...................................................................................... 60
  5.3 Discussion ..................................................................................... 62
  5.4 Conclusion ..................................................................................... 68
  5.5 Recommendations ....................................................................... 69
REFERENCES ................................................................................................................................. 71

APPENDICES .................................................................................................................................. 77

Appendix 1: Questionnaire .............................................................................................................. 77
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFI</td>
<td>Alliance for Financial Inclusion</td>
</tr>
<tr>
<td>ANM</td>
<td>Agent Network Manager</td>
</tr>
<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
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<td>CCK</td>
<td>Communication commission of Kenya</td>
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<tr>
<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>G20</td>
<td>Group of Twenty Finance Ministers and Central Bank Governors</td>
</tr>
<tr>
<td>KCB</td>
<td>Kenya Commercial Bank</td>
</tr>
<tr>
<td>MFIs</td>
<td>Micro Finance Institutions</td>
</tr>
<tr>
<td>NGO</td>
<td>Non Governmental Organization</td>
</tr>
<tr>
<td>POS</td>
<td>Point of Sale</td>
</tr>
<tr>
<td>SACCO</td>
<td>Savings and Credit Co-operative</td>
</tr>
</tbody>
</table>
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

According to Kumar, Nair, Parsons and Urdapilleta (2006), a banking agent is a retail or postal outlet contracted by a financial institution or a mobile network operator to process client’s transactions. Rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds, pay their bills, inquire about an account balance, or receive government benefits or a direct deposit from their employer. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets and post offices among others.

Kumar et al. (2006), further observe that in a growing number of countries, banks and other commercial financial service providers are finding new ways to make money delivering financial services to unbanked people. Rather than using bank branches and their own field officers, they offer banking and payment services through postal and retail outlets, including grocery stores, pharmacies, and gas stations among others. For poor people retail agents may be far more convenient and efficient than going through a bank. Banking through retail agents uses information and communication technology through cell phones to transmit transaction details from the retail agent or customer to the bank.

Agalla (2014) notes that 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 agency banks covering more than 99% of the country’s municipalities. Other countries in Latin America have followed suit, including Mexico, Peru, Colombia, Ecuador, Venezuela, Argentina, and Bolivia. 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 (Agalla, 2014).

In Brazil, private and state owned banks deliver financial services through retail agents including small supermarkets and pharmacies, post offices, and lottery kiosks. These agents
are called banking correspondents (Kumar et al., 2006). In January 2006, India’s central bank issued a circular permitting banks to use post offices and specializes micro finance institutions (MFI), including nonprofit organizations (NGO), cooperatives, and for profit companies as retail agents. The circular calls these agents business correspondents (Harper and Marie, 2006).

Agent banking in Kenya was rolled out as a result of the amendment of the Finance Bill (Finance Act, 2009; Sect 2 of Cap. 488), which amended the Banking Act to allow the appointment of agents, by commercial banks (Kenya Gazette, 2009). The amendment enabled banks to begin using agents to deliver financial services. Using small shops, petrol stations, pharmacies and other retail outputs (essentially any profit-making entity that has been in business for at least 18 months and can afford to fund a float account to facilitate payment). According to a survey done by FinAcces (2009), use of agents has a dramatic impact on improving access to financial services, especially in rural areas.

Keeler (2011) notes that under the CBK regulations, agents can offer a number of banking services, including cash deposits and withdrawals, fund transfers, bill payments, loan payments, payment of benefits and salaries, and collection of account and loan applications. However, agents are limited to cash-only transactions and cannot assess applications. The CBK regulations require that agents have secure operating systems capable of carrying out real time transactions, generating an audit trail, and protecting data confidentiality and integrity. This is all driven by technology, Transactions can be made via mobile phone, a point of sale (POS) system, or internet banking, and must be reflected immediately on the bank’s side in the core banking system.

In order to speed up the development of the agent banking regulatory framework, the CBK made use of a knowledge exchange program supported by the Alliance for Financial Inclusion (AFI). In October 2009, six representatives from the CBK, Kenya Bankers Association, and the Ministry of Finance visited Brazil and Colombia, as these countries were identified as ‘champions’ of agent banking. Some of the learning points gained from this knowledge exchange and subsequently applied to the agent banking guidelines included the importance of a risk-based approach to the supervision and regulation of agents, the need to focus on the demand side, the importance of public private partnerships, the need to
involve key stakeholders in the development of an agent banking model, the importance of prioritizing and coordinating the national financial inclusion agenda and the need to discourage uncompetitive behavior by banks by promoting interoperability and non-exclusivity of agents (Mugo, 2010).

Following the roll out of the agent-banking model, commercial banks contracted varied retail entities as agents. As at December 2011, there were 8 commercial banks that had contracted 9,748 active agents facilitating over 8 million transactions valued at Ksh.43.6 billion. This represented 3 percent of the total deposit base in the banking industry (CBK, 2011). Kenya Commercial Bank (KCB), Co-operative Bank (Co-op Bank) and Equity Bank, all financial institutions with a large retail footprint, rolled out agent banking networks. KCB expected to have 2,000 agents by the end of 2011. Equity Bank recruited 8,000 agents, with 2,000 in operation. Co-op Bank saw its profits increase through partnerships with Savings and Credit Co-operative (SACCOs) that tap deposit pools in rural areas. Effectively, the agent-banking model provides an extension into a market already targeted. Co-op Bank and Equity have both succeeded with business models aimed at low-income customers (Kinyanjui, 2011).

Mobile Network Operator (MNO) mobile money transfer services had pioneered the use of agency services under a special license from CBK, whose conditions are more relaxed compared to those of banks and other financial institutions. Safaricom, a Mobile Network Operator in Kenya launched MPESA a mobile money transfer service in March 2007. There was quick adoption of the service by many Kenyans through subscription to MPESA (Liu and Mithika, 2009). The growth of MPESA users has been rapid over the years. According to Jenkins (2008), MPESA gained 2.37 million subscribers in about a year. In a 2008 survey of households in Kenya, about 43 percent indicated using MPESA and when the study was repeated in 2009, nearly 70 percent of households were MPESA users (Jack and Suri, 2011). In July 2012, Safaricom’s MPESA had over 185 billion KSH (Kenya Shillings, about 2.15 billion US dollars) and controlled 68 percent of the Kenya’s mobile money market (Wakoba, 2012). In 2010, Safaricom boasted of more than 12 million MPESA customers and 16,000 agents (Dias and McKee, 2010). The core business strategy for MPESA was to have senior level management put focus to grow MPESA to become a global model of mobile payment.
MPESA customers use the mobile phones to move money quickly and in a secure manner across long distances to other mobile users. MPESA is a transformative model in the sense that it is not required for customers to have bank accounts before they can move money. Customers turn their cash into electronic money (e-money) at MPESA participating dealers or agents. It is a secure money transfer with PIN number protection and 24/7 service support by the Safaricom (Hughes and Lonie, 2007). Since MNO’s are not banks, they must assure the Central Bank of Kenya (CBK) about their non-bank identity in order to continue receiving exemptions from the detail regulatory practices that banks face. Safaricom has taken great lengths to stress this position to the CBK however the ubiquity of mobile phones has allowed the unbanked to access financial services through MPESA as if it were a bank, making it qualify as playing the role of “branchless banking” (Jack and Suri, 2011; Martinez and Mckay, 2011).

In addition to the contradictory regulatory requirements that they have had to deal with, Hughes and Lonie (2007) explains that Safaricom had to “marry” the divergent cultures of global telecommunications companies, banks and microfinance institutions in order to effectively manage mobile money services to the unbanked. MPESA has also been adopted by most local commercial banks thus making it the highest growing network for financial transactions (Mbobua, Juma and Musiega, 2013). Other Mobile Network Operators have come up with their mobile money transfer services such as Airtel money and Orange money.

Success of agent banking can be attributed to technological advancement. The technology adapted is mainly a point of sale (POS) and a phone. Clients that transact at the agent use a chip bankcard or their mobile phone to access their bank account. Identification of customers is normally done through a PIN, and personal documents. With regard to the transaction verification, authorization, and settlement platform, banking agents are similar to any other remote bank channel. Agent banking has enabled bank customer to access the banking services within the comfort of their neighbor-hood. Agent banking can dramatically reduce the cost of delivering financial services to unreached people (Yobes, David, Ben and Eric, 2012). In as much as the introduction of agent banking in Kenya has addressed issues of low financial inclusion, financial services agents face a number of challenges, which this research seeks to uncover.
1.2 Statement of the Problem

For many years, banking and access to financial services was a preserve of a few in Kenya. Even those who had access to these services had to face quite a number of hardships including distance and convenience. The situation has now greatly improved with the roll out of agent banking in 2009 (Kenya Gazette, 2009). Kenya has made tremendous progress in improving access to financial services throughout the country. In a study conducted by FinAccess in 2009, the share of the population excluded from any financial service decreased from 41.3% in 2006 to 32.7% in 2009.

One of the reasons that attributed to the low financial inclusion in especially rural areas is the long distance that people needed to travel to access financial services. Sometimes, the amount of money someone wanted to withdraw from the bank was equivalent, or even less than the transportation cost, while others found the new ultra modern banking halls intimidating. Thus avoided formal financial services and opted for informal financial services that were readily accessible in rural areas (Wainaina, 2011).

Ivatury and Timothy (2006) alluded to the benefits of agency banking which include; lower transaction cost, closer to client’s home hence customers are able to withdrawal or deposit little amounts without incurring extra costs like transport to a bank branch, longer operating hours, shorter queues and easily accessible for illiterates and the very poor who might feel intimidated in branches. According to Kitaka (2001), agencies help financial institutions to divert existing customers from crowded branches providing a complementary often more convenient channel. Other financial institutions especially in developing markets use agents 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, agents lower set up and running costs and 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 agent than walking into a brick and mortar bank (Adera, 1995). Rutere (2014) notes that non-conventional banking transactions offered through agency banking and alternative business channels have overtaken the transactions done at the brick and mortar banks in Kenya. Brazil has been successful with
using agents to expand access to financial services. This has been as a result of many years of experience, evolving from more restricted possibilities to less stringent licensing conditions, without loosening the monitoring capacity of the supervision authority. This important achievement has been possible because of coordination among different stakeholders, such as financial system regulators, private institutions and other governmental entities, which together supported financial inclusion with the overall goal of meeting customer’s needs (Fadel & Dias, 2009).

Despite the enormous role played by financial services agents, they are affected by various challenges that act as impediment to their smooth and effective operations. In Kenya, there have been a number of limitations in the capacity of agents in offering the desired services due to several challenges such as inferior network availability, liquidity, security amongst others. These challenges have constrained the widespread, adoption and the success of agent banking making the goal of financial inclusion as envisioned in Kenya’s Vision 2030 that agency banking is supposed to address remain elusive. This research was designed to identify and assess the extent to which these challenges have affected financial services agents in Nairobi County and propose remedies to address the challenges.

1.3 Purpose of the Study

The purpose of the study was to investigate the challenges facing financial services agents in Nairobi County.

1.4 Research Questions

The study was guided by the following research questions:

1.4.1 What operational challenges affect agents in the financial services industry?

1.4.2 What technological challenges affect agents in the financial services industry?

1.4.3 How do operational and technological challenges affect performance of financial services agents?
1.5 Significance of the Study

The study is expected to be of help in identifying the key challenges faced by financial services agents in Nairobi County. The results of this study will be useful to the following stakeholders:

1.5.1 Policy Makers

The regulators and policy makers in the financial services industry will benefit from the findings of this study in that it will help them come up with policies that will effectively address problems faced by financial services agents. These may relate to regulating those aspects that threaten to adversely impact on their operations.

1.5.2 Banking and MNO’s Offering Agency Services

The study will be significant to the banking and mobile network operators that offer agency services in that it will help identify challenges that affect effective operations by their agents hence providing useful insights especially to decision makers involved in implementation of electronic services delivery strategies for their institutions. Necessary improvements identified could be undertaken to enhance agent banking usage.

1.5.3 Financial Services Agents

The study will be beneficial to financial services agents in that in outlining the challenges they face, solutions for the challenges will be proposed to make their operations more effective enhancing their overall business success.

1.5.4 Academicians

The findings of this study will enrich existing knowledge and hence will be of interest to both researchers and academicians who seek to explore and carry out further investigations. It will provide basis for further research.

1.6 Scope of the Study

The study was carried out Nairobi County, which comprises of 17 parliamentary constituencies. The research focused on only five financial services agents namely MPESA agents, Airtel money agents, KCB Mtaani agents, Equity agents and Coop kwa Jirani agents. Collectively all above financial services agents have a population of about 7800 agency
outlets in Nairobi County from which a sample was drawn from. In conducting this study, the limitations that were experienced included the willingness of respondents to provide required information, the quality of data collected especially on financials and interviewer errors. These limitations were mitigated by use of introductory statements to clearly explain the purpose of the study while at the same time guarantee the respondents of utmost confidentiality of their personal and business information. Training of research assistants was also done to minimize interviewer errors ensuring data quality. The study took place between July and August 2016.

1.7 Definition of Terms

1.7.1 Agent

An agent is an entity contracted by an organization and is duly approved by the Central Bank to offer the services of the organization on behalf of the organization (CBK Agency Guideline, 2010).

1.7.2 Agent Banking

The provision of banking services by a third-party agents to customers on behalf of a licensed, prudentially-regulated financial institution, such as a bank or other deposit-taking institution (CBK, 2016). A business of performing as an agent or intermediary in the act of either accepting deposits or installments, lending of funds or discounting notes receivables or concluding contracts of exchange transactions (Burgessy & Wong, 2005).

1.7.3 Agent Network Manager

Any business or individual, which helps a provider identify, vet, train, monitor and manage agents. It may be an in-house team, or outsourced (CGAP, 2011).

1.7.4 Financial Institution

Refers to a company, other than a bank, which carries on, or proposes to carry on, financial business (The Banking Act CAP 488, 2010).
1.7.5 Financial Inclusion

The process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream Institutional players. (CGAP, 2016)

1.7.6 Float

This is the cash at hand and bank balances set aside by the agent for agent banking operations. (CGAP, 2011)

1.7.7 Policies

This refers to legislative and regulatory instruments and bodies such as banking act, telecommunication act. Bodies such as Central Bank (CBK) and Communication commission of Kenya (CCK) make government regulations.

1.7.8 Security

This refers to the ability of agents to assure safety of customers’ liquid cash at their disposal through use of physical security and confidentiality

1.7.9 Liquidity

Refers to the availability and access to or convertibility of cash.

1.8 Chapter Summary

This chapter presents the background of the study in line with challenges facing financial services agents in Nairobi County. The chapter is structured into sections starting with the problem statement, purpose of the study, research objective, significance, scope of the study and then lastly definition of terms used in the chapter. Chapter two presents literature review in regards to research objectives. Chapter three presents the research methodology applied in the study while chapter four presents the results and findings of the study. Finally chapter five provides the discussion, conclusions and recommendations of the study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature on the challenges facing financial services agents in Nairobi County. The first section reviews literature on the operational challenges that affect agents in the financial services industry. The second section examines the technological challenges and the third section discusses the effect of operational and technological challenges on financial agency performance. The chapter ends with a summary of the literature review.

2.2 Operational Challenges Affecting Agents in the Financial Services Industry

2.2.1 Training

All types of financial institutions are increasingly using agents to distribute financial services. These agents require adequate training to be able to successful execute their mandate. In a report by George, Narain and Shukla (2012), an Agent Network Manager (ANM) received feedback from an agent supervisor that the agents were not properly trained as most of them had to go back to the supervisors to understand how to do transactions. George et al. (2012) further note that the reason why these and other training programmes too often fail to meet expectations, and trainees rate the content as irrelevant and the training method as unsuitable is that the training needs for agent categories differ.

George et al. (2012) distinguishes three types of agents in a bid to demystify their training needs. Transaction agents are those who conduct transactions on behalf of the bank, and usually handle one or two products. For example, Eko agents in India who handle only Tatkal, an agent-to-bank account remittance service and MPESA in Kenya which is a money transfer service where most of the agents offer service transactions (deposits, withdrawals, and transfers). Transaction agents require a “products and processes” focus, plus liquidity management and security training. Full Service Agents are those that provide all services, including enrolment/account opening. They usually offer two or more products, rather than a single product. Equity Bank Kenya, agents fall under this category as they are expected to handle both account opening and servicing of accounts, in addition to managing more than five bank products and services. Full-service agents need a more comprehensive training that
covers all aspects of agency banking—including processes, marketing, risks, technology and relationship management. Finally there are Super agents who supervise the activities of transaction and/or full service agents under them, providing a link between the ANM and the agent. The super agent support agents in cash management and front-end operations. Super agents or agent supervisors, need training on managing the agent network under them and the processes involved.

In a study conducted by MicroSave (2011) on mobile banking agents in Bihar, India awareness levels of agents across six categories namely; Technology, Client Communication, Communication with Banks, Operations Management, Product/Process Awareness and Financial Inclusion pointed to significant gaps in the understanding of issues central to the delivery of electronic/mobile-banking services. While 64% of the agents understood the objective of providing electronic/mobile -banking banking services promoted by banks; 68% were completely unaware of the clientele they need to target. Similarly, 61% of the agents knew about the products and processes, but only 24% could handle customers’ frequently asked questions.

According to George et al. (2012) agent training is an essential foundation of a robust, trusted and ultimately successful agent network. They suggest that although a needs assessment is recommended before designing any training program, there are certain important fundamentals that the training should cover. First is Products and Processes; Agents need to be well-versed in the various services their financial institution offers, restrictions, fees, and key selling points, along with their ANM requirements. This helps agents adhere to regulatory norms, reduce fraud and expedite successful customer applications. Agents should also know what new products are expected to soon be available in order to help promote them. As they are usually a point of contact for customers, their knowledge needs to be both current and accurate in order to handle customer queries. Second is Technology Platform and Troubleshooting; Technology is at the core of electronic/mobile-banking operations, and agents are expected to understand at least the basics so they can troubleshoot common errors. This is important since most agents are located in remote places and it is time-consuming and costly for a technician to visit them and resolve technology issues.
Third George et al. (2012) observe Compensation Structure as an important aspect that training should cover. Not surprisingly, agents care most about their compensation and incentives, as well as how their remuneration is calculated and credited. They also want to know how to make money as agents, since many in rural areas do not. Since revenues and profits are too often skipped over, or insufficiently explained, in their training, some agents lose interest or even quit. Forth is Electronic/Mobile-banking Operations; agents who understand their roles and responsibilities—specifically, good record keeping and liquidity management—will also better understand overall financial institution operations. Knowing why and how banking regulations affect daily operations is also useful. Finally, they noted the need for agents to be updated about developments in the industry with regard to regulation, technology, and new players, as these have an impact on their business.

2.2.2 Liquidity

Cracknell (2010) explains that mobile banking works through the use of float accounts; each agent is required to maintain a balance of electronic money (e-money) in their agent account. When a customer wishes to send money to someone, the customer exchanges cash for e-money through paying cash to an agent. The agent’s e-money balance reduces by the amount of the transaction, and the customer’s e-money value increases. The customer then transfers their e-money to their intended recipient. Correspondingly, when a customer makes a withdrawal, the agent receives e-money and pays out cash, and the agent’s e-money balance increases by the amount of the transaction. The agent can continue to make transactions until their e-money balance is exhausted. At this moment the agent has effectively exchanged all their e-money for physical cash, and the agent then needs to replenish their e-money account by paying in cash to their e-money account before any further cash deposits can be made by customers. Ensuring agents have either e-money or cash when customers require it, is the critical challenge of mobile banking liquidity management. Cracknell (2010) further notes that a situation where agents run out of cash may occur when agents do not have the physical cash for customers to make significant withdrawals. Conversely when there is too much cash there may be a problem, as one cannot deposit cash into their e-money accounts.

According to CGAP (2011), the operation of an agency is such that a customer deposits at the agent meaning that the customer gives cash to the agent and the transaction is accounted
by the bank through debiting the agent’s account and crediting the customer’s account. It is therefore not possible for an agent to receive a deposit unless the agent has sufficient credit (float) in the bank. A customer withdrawal at the agent means that the agent gives cash to the customer and the bank accounts by debiting the customer’s account and crediting the agent’s account. An agent then can only pay out a withdrawal if he has cash in his till at the shop. This means that the agent has to have both cash in the bank and cash in till. This is a key challenge as most agents are not able to balance the cash holding or have inadequate capital. The situation of float is even worse for agents in remote areas who have to travel far distances to the banks to replenish their deposits when balance runs low.

Afande and Mbugua (2015) refer to agents as the touch-points where the subscribers of the service can get money into and out of the system. At times there are instances where a subscriber wishes to withdraw a large amount of money and the agent does not have enough cash to satisfy the cash-out request. This leads to the subscriber being frustrated and is one of the reasons why take-up of these systems is slower than expected (Afande and Mbugua, 2015). Erratic nature of finance services daily cash limits are also to be considered as part of anti-money laundering initiative by CBK, agents cannot transact above certain limit. Hitting this limit means the agent can only close for the day unless they have applied for higher limits. In Brazil many agents complain about downtime-POS-frozen by bank once cash limit reached, pending deposit of cash at branch, but often with a lag until POS is unfrozen (CGAP, 2011). Lehman (2010) notes that agents will not provide quality service to customers when they are not liquid.

In a study conducted by Afande and Mbugua (2015) to determine the Role of Agent Banking Services in Promotion of Financial Inclusion in Nyeri town, Kenya the researchers sought to find out the extent to which agency liquidity has affected financial inclusion by firstly examining the frequency of cash shortages at the agent banking outlets; secondly determining whether some customers avoided banking agents due to shortage of cash and finally establishing whether the parent banks monitored the liquidity of the agents to avoid cash shortages. On frequency of cash shortages at the agent banking outlets, the researchers found that majority (59%) indicated that cash shortages never occurred. This shows that lack of liquidity was not a major problem at agent banking outlets. These findings are in agreement with Musau (2013) who in a similar study found that lack of cash at cash points did not
appear to be a widespread problem at the time. On determining whether some customers avoided banking agents due to shortage of cash, the researchers found that majority (73%) of the bank agents’ operators disagreed that some customers avoid agents because of perennial cash shortages. This shows that liquidity was not a problem for the agency banking agents. It also shows that the vetting procedures for by the bank for agents were successful.

Finally on determining whether the parent banks monitored the liquidity of the agents to avoid cash shortages, the questioned bank branch managers (KCB, Equity bank, Co-op) confirmed that their respective banks had put in place a monitoring system for agents to ensure that cash shortages did not occur. They in addition had appointed agent network managers to foresee operations of agents by providing banking materials, monitoring their activities, ensuring that agents are liquid (Afande and Mbugua, 2015). These findings are in agreement with Collins (2010) who found that liquidity in agent banking is often approached in a way where the system keeps track of the actual cash available in the drawer of each agent in order to guide subscribers where they can withdraw big amounts. Furthermore Afande and Mbugua (2015) noted that 75% of bank branch managers indicated that availability of liquidity affected financial inclusion to a great extent because there were instances where a subscriber needed to withdraw a large amount of money but the agent did not have enough cash to satisfy the cash-out request.

In a separate study by Chiteli (2013) while investigating Agent Banking Operations as a Competitive Strategy of Commercial Banks in Kisumu City, he identifies Liquidity as an operational challenge in agent banking operations whereby retail agents especially those that are relatively small, unsophisticated, and remote, may not have enough cash to meet customers’ requests for withdrawals and lack experience in the more complex liquidity management required for offering financial services. Chiteli (2013) advices that in order to manage liquidity effectively, retail agents must balance several variables including turnover cash, ease of access to the retail agent’s bank account, and processing time of transactions, among others.
2.2.3 Security

Stephens and Kevin (1998) note physical security as a common concern for regulators. In Brazil, for example, agents must deposit the cash received from clients in a bank branch no more than every other business day. This intended to limit cash accumulation that can lead to robbery by third parties or even by the agents themselves. The Mexican regulator, by requiring every agent transaction to be made against the agent’s account at the contracting bank, does not reduce the risk of third-party robbery but eliminates the risk of agents misappropriating the accumulated cash, since the cash is in fact the agent’s own. The simplest measure to reduce cash accumulation and its related risks may be requiring providers to set daily and monthly transaction limits for each agent and client.

Flaming, McKay and Pickens (2011) report that as agency-banking service grows, agents attract increasing interest from criminals. In Brazil, 93% of agents interviewed by CGAP report that being an agent increases the risk of being robbed while 25% say they have been robbed at least once during the past three years losing on average more than US$500 of their own money. Agents are advised to manage their existing physical security risks to sufficient standard so as to protect their stock and cash just the same way banks do. Short-term insurance is widely available and already bought by banks to cover various risks, including loss of cash in branch or in transit due to robbery and loss of money through fraud. The banks’ short term insurance also covers direct monetary loss arising from failure of electronic information systems to capture transactions in real time and accurately and loss resulting from fire, theft or damage to physical property (Regulation and Supervision of Bank Channels: Policy Options for Kenya, 2012).

According to Tarazi (2010) when damages are not easily quantified or agent behavior that is not easily monitored, this results in an unknown risk that principal service providers are not well equipped to mitigate for example, violations of data privacy. In this case, damages could be indirect and punitive – and therefore quite high. And yet, a principal service provider is ill equipped to stop such agent behavior. Some would argue that this problem is easily solved by keeping the principal institution liable, which will take recourse against its own agent for any damages it is forced to pay as a result of such agent’s misconduct. This would work where agents are large well-capitalized retail chains but not the simple agents such as those at
modest corner shops whose independent behavior is most difficult to control and whose ability to “pay back” a principal for paid damages is most limited. A principal is unlikely to take comfort that in the idea that it can sue the sole proprietor of a modest fruit stand to recover unknown liabilities.

Mobile devices lack the firewalls and other security measures that are found on computers. This makes the phone vulnerable to malicious software that tracks keystrokes and compromises sensitive personal information, usernames, and passwords. These vulnerabilities demand advanced analytics that monitor mobile device usage to detect fraud. These in the Kenyan landscape do not exist and users occasionally bear all the risk as banks and the MNOs have clauses which leave the risk to the user be it the customer or the agent and most of the times advise victims to seek police assistance which occasionally is futile (Mulwa and Ndati, 2013).

2.2.4 Policies and Regulations on Provision of Agent Services

Regulation of Agency related laws 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. According to Mberia, Ofafa, Muathe and Muli (2013) agent banking sits at the intersection of a number of important policy issues. Each issue is complex and is often associated with different regulatory domains. As many as five regulators including telecommunication regulator, payment regulator, competition, anti-money laundering, payment may be involved in crafting policies and regulations that affect the sector. Coordinating all the regulators poses a risk of failure.

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 Agent Banking. Central Bank issued the first Agent Banking prudential guidelines (CBKIPGI15 under section 33(4) of the Central Bank Act in 2011. CBK needed to address the development of the Agent banking model, the legal and regulatory framework, the model of agency banking and the branching regulations in the guidelines. The Kenya Vision 2030 Economic Pillar has an economic strategy to bank the unbanked and therefore it's the government and auxiliary institution responsibility to achieve this. In the effort to
to achieve this, deposit taking Micro -Finances were in April 2011 licensed to rollout Agent banking too (central bank press statement on 12th April 2011 & Business daily dated 13th April 2011). Banks will tap from the network of SACCOs & Microfinance institutions to access their front office services while guaranteeing Customers deposits. Bank supervision Department of Central Bank is charged with the responsibility of supervising the Commercial banks, micro-finances and the agent banks. In addition to vetting of the Agents by Central bank, a contract agreement is signed between the Commercial banks and Agent 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 Agent banking guidelines outlines the following: The activities that 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 Agent Banking standards); Approval of application for agent 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 Agent 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.

In February 2011, the Central Bank of Kenya (CBK) released regulations to govern a new agency-banking model. The regulations allow banks to offer services through third party agents approved by the CBK. Agents can be telecom outlets, SMEs, retail chains, savings and credit co-operatives (SACCOs), or even dukas (corner shops) – essentially any profit-making entity that has been in business for at least 18 months and can afford to fund a float account and facilitate payments. Under the CBK regulations, agents can offer a number of banking services, including cash deposits and withdrawals, fund transfers, bill payments, loan payments, payment of benefits and salaries, and collection of account and loan applications.

2.3 Technological Challenges Affecting Agents in the Financial Services Industry

The revolution of information technology has influenced almost every facet of life including the banking sector. Technology adoption especially, in banking systems has shown a great
momentum and spread at an unprecedented pace across the world. Considering the importance of banking system’s high presence and affordability, there is great potential of using this in agent banking for provision of banking services to unbanked community (Arora and Ferrand, 2007). The Kenya Bureau of Statistic Report (2011) indicates that more than 7 million adult rural Kenyans are either under-banked or unbanked. This is partly because of the high cost of maintaining the bank branches and the low nature of business transactions in rural Kenya – a situation that makes opening of new branches in the rural areas a less productive venture. Technology has therefore created greater opportunities to service providers to offer great flexibility to the customers. Agent banking involves a number of technologies in order for the financial institutions to keep track of the transactions done by the retail outlet (Mwando, 2013). The technology channels automate basic transactions, reduce processing costs, and give customers added convenience.

The CBK regulations require that agents have secure operating systems capable of carrying out real time transactions, generating an audit trail, and protecting data confidentiality and integrity. This is all driven by technology, Transactions can be made via mobile phone, a point of sale (POS) system, or internet banking, and must be reflected immediately on the bank’s side in the core banking system (Keeler, 2011). According to Ivatury (2006), POS devices typically are used to handle payments transactions. The device can be a card reader, mobile phone, personal computer (PC), barcode scanner, or any hardware that can identify customers and receive instructions for the transfer of value. Where transaction volume is expected to be high, or where wirelesses Internet access is available, PCs may be used, although most POS devices are card-reading terminals. Each POS device uses a telephone line, mobile phone connection, or the Internet to send instructions for transferring value from one account to another.

Ivatury (2006) further notes that a POS device is not a banking channel on its own. A human attendant must be available to count and store cash and to use the POS device to identify the customer such as by having the customer swipe a debit card and input a personal identification number PIN. The bank or MNO also relies on this person to answer customer queries, explain product features, and do other tasks. Mobile phones and other types of POS devices may be used to deliver a wide range of financial services when paired with a human
attendant. However, technology systems have associated data and network security risks, which make them susceptible when conducting financial transactions.

2.3.1 System Failure

Systems failure relates to risks such as software or hardware malfunctioning, which can cause interruption of services delivery or information loss. As the technology changes rapidly, banks have been greatly affected in its operation, whereby application of the technology ensures quick and effective services to the clients. However, financial agents do not change their system as frequent often leading to system failure and the consequent delays in transaction execution (Lyman, Pickens & Porteous, 2008). This leads to customer inconvenience and trust over the security/safety of transaction lodged with agent banks. Moreover, these constant systems failure makes transactions with banking agents vulnerable to fraud. System failure related risks should be recognized, addressed and managed by financial institution such as banking agent in a prudent manner according to the fundamental characteristics and challenges of agent banking services (Chellappa, 2001). To create confidentiality to the customers the technology service provider should have proper technology infrastructure backup, disaster recovery plan and technical security infrastructure in place to ensure timely services availability to all clients (Wilmot, 2009).

2.3.2 Customer Exposure to Fraud

Appropriate customer protection against risks of fraud, loss of privacy and even loss of service is needed for establishing trust among consumers as trust and customer confidence is the single most necessary ingredient for growth of agent banking (Arora and Ferrand, 2007). To be effective, banks should implement and continuously evaluate competence and effectiveness of their customer and agent service providers in application of technology whenever they are transacting. Methods to evaluate a program’s effectiveness include tracking the number of customers who report fraudulent attempts to obtain their authentication credentials such as ID/password, the number of clicks on information security links on websites and the number of inquiries (Bold, 2011). By ensuring adequacy in skills will minimize on errors and therefore improving overall service quality, which in turn will build customer satisfaction and reliability in the service.
2.3.3 Data Security Risk

As transaction and personal data are transmitted increasingly through means such as mobile phone networks, handled more often by third parties such as agents, and accessed remotely by customers and financial institution employees, the risk of inappropriate access and usage rises. Besides the technological aspect, consumers’ lack of education and lack of experience with formal financial services and technology may raise data security risks. For example, research conducted by Collins (2010) found that some MPESA clients were giving account passwords to agents, and while there is no evidence this has led to loss of funds or misuse of customer information, the risk could be significant (Ignacio and Siedek, 2008).

A majority of the attacks against web servers are through network firewalls and through the http (hypertext transfer protocol) (80) or https (443) ports (Jon, 2011). Some of the most commonly used hacking techniques include denial of service, leakage, cross-site scripting, SQL (structured query language) injection and disclosure (Jon, 2011). Data security is the biggest factor slowing down the growth of ecommerce worldwide. The issue of computer and data security is the biggest hurdle in the growth of mobile money transfer. Web servers also face this security threat. Programs that run on a server have the potential to damage databases, abnormally terminate server software or make changes in the information placed there. A number of international organizations have been formed to share information and combat security threats to computers and computer networks (Jon, 2011).

Mutong’wa and Khaemba (2014) note some potential attacks on mobile money transfer which include Back Doors and Trojan horses; viruses and worms; hackers; Eavesdropping/sniffing/snooping; Password attacks; IP address spoofing and finally Man in the middle attacks. Mutong’wa and Khaemba (2014) further demystify the potential attacks explaining that Back Doors are those hostile programs which, when run on a machine, install hidden services in order to give attackers remote access capabilities to a compromised machine while Trojan horses are those programs that appear harmless but actually have some malicious purpose. Viruses and Worms on the other hand are malicious programs that can travel between computers as attachments on email or independently over a network. They also identify hackers as those individuals who write programs or manipulate technologies to
gain unauthorized access to computers and networks or diverge data or direct computers and networks to unauthorized access.

Eavesdropping/sniffing/snooping is a type of attack where a hacker has the ability to monitor network traffic using some kind of network monitoring software. For example, a hacker may install some backdoor or Trojan horse that can monitor the keystrokes of a user while typing and send the typed information to the hacker. Password attacks involve hacking to gain access to the network and gathering information such as user names, passwords etc. IP address spoofing involves seizing the control of the router, changing the IP address of the source/sender on data packets thus redirecting the destination machine to send the information to a different machine. Man in the middle attacks are those such that the attacker is able to monitor, capture and control data between sending and receiving machines (Mutong’wa and Khaemba, 2014).

2.3.4 Technology Versus Infrastructure Constraint

Kitali, Chepkulei, and Shibairo (2015) observe that the CBK regulations require that agents have secure operating systems capable of carrying out real time transactions, generating an audit trail, and protecting data confidentiality and integrity. This is all driven by technology: Transactions can be made via mobile phone, a point of sale (POS) system, or internet banking, and must be reflected immediately on the bank’s side in the core banking system. Orange Money does this by operating on a shared real-time platform with its agents that allows customers to deposit cash into their Orange Money account and then access it immediately at an Equity branch or ATM. Shared infrastructure protects data integrity, reduces operation costs and keeps transaction fees low.

So far, spotty mobile connectivity and electricity supply in rural areas have not interfered with the real time system. All transactions are currently conducted via the mobile banking platform, which means no need for a constant power supply. When POS systems are put in place, those will also connect through the mobile network. The developments of technologies have enabled organizations to provide superior services for customers’ satisfaction (Surjadja, 2003)
2.4 Effect of Operational and Technological Challenges on Financial Agents Performance

According to Ndungu and Njeru (2014), the key measure of performance at the agency is the commissions earned at the end of the month. Agents are usually more at ease discussing the number of transactions than the commissions earned. This is because first nobody wants to discuss their earnings especially if they are too high or too low and second the agent has to calculate or rely on memories since the cumulative commissions are paid once in a month. However number of transactions per day can easily be obtained with ease from the agent records. Commissions earned are a factor of number of transactions done in a given period. If an agent remains closed for a day for various reasons then the agent earns zero on such a day.

2.4.1 Operational Challenges on Financial Agents Performance

The independent variables under investigation are likely to influence the agent performance as follows: training – when the agent is well trained they are likely to satisfy their customer’s needs who in turn gain confidence in the agent resulting in customer retention and growth in number of customers who are attached to the agent. This also has a direct relation in increasing the number of transactions translating to higher commissions. The availability of network is key to an agent performance while poor connectivity constraints the number that are handled at the agent location.

Liquidity is one of agent’s top concerns. Atandi (2013) in his study on Challenges of agent banking experiences in Kenya focusing on Pokot county also identifies liquidity/float related problems as a challenge on agent banking. He notes that agents have to constantly rush to the bank and replenish their accounts held with the principal institution which is time consuming thus interrupting the operations of agency. From Atandi’s study an average of 7.14% of clients are not served by agents per week and hence turned away due to lack of float. Out of those turned away only 1.428% come back to find out later if the problem has been sorted so as to transact, 5.712% never return to the agent location. It is clear from the findings that float related problems affects transaction numbers at agent locations by affecting a significant 5.712% of clients transacting at agent locations, who never transact again at the agent due to one time lack of services as a result of lack of float. Lack of float has a negative impact on the number of transactions, which also reduces performance of the agency business.
Mwangi (2013) in an evaluation of the role of agency banking in the performance of commercial banks in Kenya concluded that infrastructure cost and security influence the performance of commercial banks attributable to agency banking to a very great extent. Agency banking should be given more attention on security measures including risk based approach and that the banks should find better ways of screening their agents to ensure that the large cash transactions handling is effectively carried out on their behalf. Banker (2011) notes that financial institutions ought to audit the security measures being taken by the agencies to ensure the customer can transact confidently without having to look behind their backs. Proper security would boost the number of transactions hence high performance. In a study on innovations and challenges in banking industries in India, Jayakumar and Anbalagan (2012) found out that a number of banking agents under spend on security measures. This affects the performance of the banking agents negatively since it interferes with both existing as well as potential client’s confidence in conducting businesses with them.

A study Conducted by Bold (2011) in Brazil found that some countries restrict the location of agents, though such restrictions are sometimes eased when regulators recognize that the regulations create obstacles to financial inclusion. For example, due to concerns that agents could threaten bank branches, Bold also found that Indian regulators initially required agents to be located within 15 kilometers of a “base branch” of the appointing bank in rural areas, and within 5 kilometers in urban areas. This policy intended to ensure adequate bank supervision of its agents, limited the use of agents by banks with only a few branches. According to the study overly restrictive location requirements can complicate the business case for viable agent-based banking and ultimately work against financial inclusion goals. In addition, the real-time nature of most agent services has enabled remote supervision, thereby obviating one of the central arguments for location restrictions.

In a study to establish the reasons for commercial banks venturing into agent banking and to determine the challenges faced by the commercial banks in agent banking operations, Chiteli (2013) concluded that banks employ agent-banking operations as a competitive strategy. Control policies and procedures, technological advancement, and regulations put in place both by the agents and commercial banks have made agent-banking operations viable.
2.4.2 Technological Challenges on Financial Agents Performance

Network availability is another top concern for financial services agents (Ndungu and Njeru, 2014). In a study conducted by Ndung’u, Okibo and Nyang’au, (2015) to establish the prevalence of the aspects of network capability and the subsequent effect on the performance of banking agents; the study revealed that most agents were affected by internet connection when processing agent transactions. Kinyanjui (2011), also reports that although Kenyan financial institutions have embarked on an aggressive entry into branchless banking keen to take advantage of the cost-saving and accessibility brought about by the agency banking model, many of them are finding that agents lack capacity to handle large transactions of cash and under-spend on security measures. He further notes that identifying agents who are capable of handling cash transactions efficiently has been a challenge for the institutions, with consumers reporting that cash is often scarce even as rising fears of security mount at the outlets. When customers sense insecurity at the outlets they are less likely to transact at the agent outlets, which lowers agent’s performance.

Ndungu and Njeru (2014) in their study on Factors Influencing Adoption of Agency Banking in Kajiado North Sub County concluded that there was a significant relationship between total commissions earned against the device in use for connectivity when both the POS and the phone were in use simultaneously. The relationship was however not significant where the POS or the phone was in use alone. This bogs down to the issue of service reliability. When one device is in use alone service disruptions are devastating as no customer can be served but when the two gadgets are in use together then the agent and the customer are able to switch from one to the other with a less repercussion on the customer experience. The findings by Ndungu and Njeru (2014) indicate that where both phone and POS were in use the POS account to between 85% and 95% while the phone accounts between 5% and 15% of the total commissions. Reliability of gadgets used results in high agent’s performance.

Agency banking success largely depends on reliability. Agents use point-of-sale (POS) devices and/or mobile phones and must have access to the bank’s core banking system so that the clients’ transactions are reflected in real time as per the CBK guidelines. One of the major measurements of reliability is the system availability (Ndungu and Njeru, 2014). In Brazil many agents complain about downtime POS frozen by bank once cash limit reached,
pending deposit of cash at branch but often with a lag until POS is unfrozen and poor GPRS connection for some agents. If one is unable to transact for 2 days, monthly profit margin may cut by more than half (CGAP, 2010). By its very nature the ICT phenomenon is relatively new in the developing world. Available data, suggest that the majority of developing countries such as Kenya in Sub-Saharan Africa are lagging behind in the information revolution (Zhao and Frank, 2003). The system being the only connectivity between the customer and the bank will determine whether a customer request is frustrated or satisfied at the agent location. System safety and malfunction can frustrate the agent reconciliation or even facilitate fraud against the bank, customer or the agent.

Banks and their agents have to contend with customers complaints in cases such as, customer being debited with cash he did not receive because of incomplete withdrawal transactions, an urgent deposit hangs somewhere else other than the beneficiary account due to system failure, where the agent has erroneously entered the wrong account number or bill account. Ndungu and Njeru (2014) note that system down time affect commissions earned by agents negatively. In a study by Berry et al. (1994) with more than 1,900 customers of five large famous US corporations, they found that 32% of the respondents placed emphasis on reliability, followed by responsiveness 22%, assurance 19%, empathy 16% and tangibles 11%. Reliability is thus essential for quality service, which improves performance.

2.4.3 Protection Against Technological Attacks that Impede Performance

According to Mutong’wa and Khaemba (2014), there are a number of measures that can be taken to cub against technological challenges that affect data security and in turn improve financial services agents performance. These include use of firewall which is a combination of hardware and software that sits between the internet and internal network of an organization to protect the network from outside attack; proxy server which sits between an internal trusted network and the untrusted network – the internet; cryptography which is the technique of converting a message into unintelligible or none understandable form such that even if an unauthorized or unwanted person was to intercept the message he/she would still not be able to make any sense out of it.
2.5 Chapter Summary

This chapter covered the literature review on the three research questions. Literature review examined the operational and technological challenges that affect financial services agents. It further examined the effect of operational and technological challenges on financial agency performance. From literature review, liquidity and insecurity account for the main operational challenges while lack of network and system failures account for the main technological challenges experienced by financial services agents. Exposure to any of the identified main challenges results in reduced agency performance. The next chapter presents the research methodology that was used in the study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology used in the study. The chapter explores the research design, target population, sample size, sampling techniques, data collection methods, research procedures as well as data analysis methods used in the study.

3.2 Research Design

According to Sekaran and Bougie (2013), research design is the blueprint for data collection, measurement and analysis; based on the research questions of the study. Research design expresses the structure of the research problem – the framework, organization, or configuration of the relationships among variables of the study and the plan of investigation used to obtain empirical evidence on those relationships (Blumberg, Cooper & Schindler, 2014). The study employed a descriptive research design. Descriptive research involves collections of quantitative information that can be tabulated along a continuum in numerical form; it involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data collection (Glass & Hopkins, 1984). Descriptive studies are aimed at finding out "what is," so observational and survey methods are frequently used to collect descriptive data (Borg & Gall, 1989). Mugenda and Mugenda (2008) also suggest that a descriptive study can be used to explain two or more variables at a given point in time. They define a survey as an attempt to collect data from the members of the population with respect to one or more variables. Descriptive studies report summary data such as measures of central tendency including the mean, median, and mode, deviance from the mean, variation, percentage, and correlation between variables. Descriptive research can include multiple variables for analysis and might employ methods of analyzing correlations between multiple variables by using tests such as Pearson's Product Moment correlation, regression, or multiple regression analysis (Earlbaum, 2001).
3.3 Population and Sampling Design

3.3.1 Population

A population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate and from which they can make inferences based on the sample statistics (Sekaran & Bougie, 2013). A target population according to Ngechu (2004) is the specific population about which information is desired. For this study, financial service agents from three banks (KCB, Cooperative bank and Equity bank) and two Telco’s (Safaricom and Airtel) constituted the target population.

Table 3.1: Total Population Distribution (Agents)

<table>
<thead>
<tr>
<th>Institution</th>
<th>Number of Agents in Nairobi</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safaricom – MPESA Agents</td>
<td>4000</td>
<td>51.3</td>
</tr>
<tr>
<td>Airtel – Airtel Money Agents</td>
<td>177</td>
<td>2.3</td>
</tr>
<tr>
<td>KCB – KCB Mtaani Agents</td>
<td>67</td>
<td>0.9</td>
</tr>
<tr>
<td>Cooperative Bank – Coop kwa Jirani Agents</td>
<td>2556</td>
<td>32.8</td>
</tr>
<tr>
<td>Equity Bank – Equity Agents</td>
<td>1000</td>
<td>12.8</td>
</tr>
<tr>
<td>Total</td>
<td>7800</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher computation (2016)

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

Sekaran and Bougie (2013) define a sample frame as the total number of elements in the entire population from which subjects are selected to represent the rest of the population. Blumberg, Cooper and Schindler (2014) also observe that a sample frame must include the complete list to ensure that all elements have an equal chance of selection. According to the CBK Guidelines of Agent banking (2010), institutions are required to publish an updated list of all their agents and locations in their websites and such other publications as deemed appropriate. The publications containing the list of institution agents and locations should be disseminated to all the institution’s branches and agents. The list of agents located in Nairobi County from the institutions KCB, Cooperative bank, Equity bank, Safaricom and Airtel constituted the sampling frame for the study.
3.3.2.2 Sampling Technique

Mugenda and Mugenda (2008) define sampling technique as the process by which individuals are selected for a study. The selection is such that it represents the larger group from which the individuals are drawn from. Sampling technique enables researchers to cut down the volume of data to be collected by considering a sample instead of the entire group due to the limited resources of time, money and the population size involved (Sekaran & Bougie, 2013). The study adopted Stratified Sampling technique. Stratified sampling is a probability sampling technique where the population is divided into non-overlapping subgroups called strata and final subjects randomly selected from each stratum. The selections in the different strata are independent (Särndal, Swensson & Wretman, 2003). The sample constituted of 5 strata representing the five institutions; KCB, Cooperative bank, Equity bank, Safaricom and Airtel. From each stratum a proportionate sample was selected randomly. The research was conducted in various agent outlets across Nairobi. The figure below shows the distribution of the area covered.

Figure 3.1: Distribution of Agent Outlets Visited

3.3.2.3 Sample Size

A sample size is a subset of the population. According to Bryman & Bell (2011) the sample size must be carefully selected to be a representative of the population. Sampling errors
should as much as possible be avoided or at worst minimized by keeping the sample size at an adequate size after considering issues such as population, sampling error, non-response bias and the extent to which sub groups in the sample will be analyzed (Gill & Johnson, 2010). There are about 7800 agents within the institutions under study. Using the rule of thumb for this population size, a sample size of 400 is sufficient in line with Walliman (2011) observation that when the population (N) is beyond 5000, the population size is almost irrelevant meaning a researcher will get exact response from many respondents.

3.4 Data Collection Methods

The research adopted a structured closed and open-ended questionnaires administered face to face as the main instrument for data collection. Open-ended questions were used to solicit respondent’s insight information while closed ended questions were used so as to standardize the responses. Close-ended questions were accompanied by a list of possible alternatives from which respondents selected the answer that best described their situations. Orodho (2005) notes that questionnaires are commonly used to obtain important information about the population especially when the respondents can be reached. The study was concerned with views, opinions, perceptions, feelings and attitudes of financial services agents regarding the challenges they face in relation to performance. The questionnaires were organized based on the research questions. Secondary data was obtained from the concerned financial institutions reports and publications. Secondary data sources were not in themselves used to answer the research questions but to complement the primary data collection. For example secondary data sources informed the population distribution of agents as well as other regulatory information specific to the financial institutions.

3.5 Research Procedures

The questionnaire was pre-tested through pilot study to ascertain the reliability of instrument in collecting required information for the study. Sharma (1989) defines reliability as the ability of research instruments to consistently yield the same results when repeated measurements are taken under the same conditions. Reliability of the data collection instrument was established through a test and re-test method. The questionnaire was first administered to a sample of 10 agents and responses evaluated and necessary changes made. After 2 weeks the amended questionnaire was again administered to the same sample and the
responses of the first and second administration of the questionnaires compared. Validity and reliability of research instruments ensure scientific usefulness of the findings arising from the study. Validity refers to the degree of success of an instrument in measuring what it is set out to measure so that differences in individual scores can be taken as representing true references in the characteristics under study (Nachimias & Nachimias, 1996). Oso and Onen (2005) noted that validity of instrument is critical in all forms of reserves and the acceptance level largely depends on logical reasoning experience and professionalism of the researcher who should have a good understanding of the various quality control techniques. After the pre test, research assistants were sent to the intended sample population to personally fill questionnaires, which were preloaded in a mobile data collection tool called “Poimapper” The collected data could be accessed in real time and was geo-tagged for easy verification of exact outlet locations where the data was collected. Introductory statements were used to clearly explain the purpose of the study and guarantee the respondents of utmost confidentiality of their personal and business information. In addition the fact that the questionnaires were personally filled by the research assistants after making the necessary enquires was instrumental in ensuring high response rates as well as data quality.

3.6 Data Analysis Methods

Blumberg, Cooper and Schindler (2014) define data analysis as a process of gathering, modeling and transforming data with an aim of retrieving useful information, suggesting conclusions and supporting decision making. Jackson (2009) notes that before data can be analyzed and presented it has to be organized. Organization involves putting the data into some systematic form. Data analysis software Statistical Packages for Social Sciences (SPSS) was used to aid in data analysis. Both descriptive and inferential statistics method were used in the study. Descriptive statistics, including frequencies, mean, and standard deviation was used to summarize data. Inferential statistics such as correlation and multiple regressions were used to show the relationship between both operational and technological challenges on performance.

The data was presented in tables and figures. Tables and figures were preferred as they give a clear understanding of the research interpretation for easy understanding of the phenomenon under study (Blumberg, Cooper & Schindler, 2014). Tables were used to present data in form
of frequencies and percentages. Figures were used to indicate the number of occurrence of responses to particular questions graphically.

3.7 Chapter Summary

This chapter describes the research methodology that was applied in analyzing the research questions. It provided details of the target population, how a sample was obtained and the data collection method utilized. It also provides the research procedure as well as details on data analysis methods. The next chapter will present the data analysis findings.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results and findings of the study and their discussion in relevance to the objectives and past studies carried out in the same area. Presentation was done using tables, charts and graphs for easy and effective communication. Data analysis aimed to answer the following questions: What operational challenges affect agents in the financial services industry? What technological challenges affect agents in the financial services industry? and How do operational and technological challenges affect performance of financial services agents?

The researcher administered questionnaires to 400 operators of financial services agents. Of the 400 questionnaires issued 38 of them had errors and missing data. This accounts for a response rate of 90.5%.

The table 4.1 summarized the response rate from the data collection exercise.

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Description</th>
<th>Target population</th>
<th>Response No</th>
<th>Response Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondents</td>
<td>400</td>
<td>362</td>
<td>90.5%</td>
</tr>
</tbody>
</table>

4.2 Operator Background Information

The researcher collected background data of the operators of financial agency outlets. This was in order to establish the characteristics of the people offering these services. This was achieved by evaluating the respondents’ gender, age and level of education.

4.2.1 Gender of Respondents

The researcher sought to find out the gender of the various operators of financial agency outlets who were the respondents in the study. Findings in Figure 4.1 below indicate that majority (57%) of the financial agency outlet operators were female.
4.2.2 Age Bracket of Respondents

The researcher sought to find out the age of the various operators of financial agency outlets who were the respondents in the study. Findings in Figure 4.2 indicate that most (95.6%) of the financial agency outlet operators were aged between 19 and 40 years with a larger majority of 56.6% within the 19 to 29 age bracket. This shows that young people run a large part of financial agency operations.

Figure 4.1: Gender of Financial Agency Outlet Operators

Figure 4.2: Age Groups of Financial Agency Outlet Operators
4.2.3 Education Level of Respondents

The researcher sought to find out the highest academic qualifications achieved by the various operators of financial agency outlets who were the respondents in the study. The findings in Figure 4.3 indicate that majority (30.7%) of the operators of financial agency outlets had a diploma as their highest level of education while 29.8% of the operators of financial agency outlets had a degree as their highest level of education. This shows that majority of financial services agent operators were well educated to understand the information sought by the study.

![Figure 4.3: Level of Education of Financial Agency Outlet Operators](image)

4.3 Agent Outlets Information

The researcher sought to establish the characteristics of the establishments that had financial agency services as part of their operations. This was achieved by evaluating the number of years a business has been in operation, the duration in years that the business has operated a financial services agency and whether or not the agency business included services for multiple financial institutions.

4.3.1 Years of Operation for Businesses Offering Financial Agency Services

According to the CBK regulations that govern the agency-banking model, agents can be telecom outlets, SMEs, retail chains, savings and credit co-operatives (SACCOs), or even
dukas (corner shops) – essentially any profit-making entity that has been in business for at least 18 months and can afford to fund a float account and facilitate payments. In this light the researcher sought to find out how long the establishments offering financial agency services have been in operation. The findings in Figure 4.4 indicate that most of the businesses offering agency services had been in operation for more than 18 months with the majority (78.5%) having operated for 2 – 4 years. This shows that most of the establishments that offered financial agency services complied with the government regulations. The minority 11.6% that had been in existence for a year or less may have been outlets owned by dealers who chose to expand the number of outlets they run.

![Years of Operation for Businesses Offering Financial Agency Services](image)

**Figure 4.4: Years of Operation for Businesses Offering Financial Agency Services**

### 4.3.2 Duration in which Business Establishment has Operated Financial Agency Services

The researcher further sought to find out the duration in which the business establishments had operated financial agency services. Findings in figure 4.5 indicate that most (68.2%) of the business establishments had operated agency services for 2 – 4 years. This can be attributed to the fact that the Competition Authority of Kenya (CAK) abolished the agent exclusivity clause in July 2014, which prohibited exclusivity in agent contracts of mobile money providers. This ruling was later gazetted on 1st August 2014 in the Kenya Gazette.
Supplement No. 119. After the removal of the exclusivity clause, the financial services agency business received a boost hence the increase of agents within this period.

Figure 4.5: Duration in which Businesses have Operated Financial Agency Services

4.3.3 Operation of Multiple Agency Services

The researcher sought to find out if the various operators of financial agency outlets operated agency services from multiple financial institutions. Findings in Figure 4.6 indicate that most (59.9%) of the financial services agents operated agency services for more than one financial institution. This can be attributed to the guidelines by CBK on exclusivity issuing that no contract between an institution and an agent shall be exclusive and that an agent may provide services for agent banking to multiple institutions provided that the agent has separate contracts for the provision of such services with each institution and provided further that the agent has the capacity to manage the transactions for the different institutions, (Guideline-on-Agent-Banking CBKPG15, 2015).
Figure 4.6: Agents Running Services for More Than One Financial Institution

4.3.3.1 Agent Services by Those Operating More Than One Financial Institution

The researcher further sought to find out the specific agencies run by outlets that operated agency services from multiple financial institutions. The findings in figure 4.7 indicated that MPESA was most popular, followed by Airtel then Equity. This can be attributed to the fact MPESA pioneered mobile money transfer back in 2007 and thus gathered a larger portion of the market segment. Other agency services that were not part of this study offered included those from institutions such as Family Bank, National Bank, Orange Money, Diamond Trust Bank and Chase bank.
4.3.3.2 Single Operator Agent Willingness to Include More Services

Of the operators that offered agency services from only one financial institution, the researcher sought to find out if they would be interested in expanding their business to offer services from other institutions in future. The findings in figure 4.8 indicate that 86.9% of the single financial service operator agents are willing to expand their business to include services from other financial institutions while 13.1% of the agents are satisfied with operating agent services from one financial institution.

Figure 4.8: Single Operator Agent Willingness to Include More Services
4.4 Operational Challenges

This section presents findings related to the first objective of the study, which sought to investigate the operational challenges that affected agents in the financial services industry in Nairobi County. This was achieved by evaluating staff training, liquidity, insecurity and regulation of agency related laws.

4.4.1 Training

The researcher sought to find out if the various operators of financial agency outlets who were the respondents in the study perceived lack of training as a challenge. As such the researcher sought to find out whether or not the agents received training from the concerned financial institution, whether the training was sufficient, their perception on ease of access to training or retraining on demand, their perceptions on the ease of keeping up with trainings from different financial institutions and whether they perceive it would be easier if they only had to train on one standard agency system for all financial institutions.

Table 4.2: Agent Perception on Lack of Trained Staff as a Challenge

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 -not important</td>
<td>344</td>
<td>95</td>
</tr>
<tr>
<td>2 -important</td>
<td>9</td>
<td>2.5</td>
</tr>
<tr>
<td>3 -fairly important</td>
<td>8</td>
<td>2.2</td>
</tr>
<tr>
<td>4 -very important</td>
<td>1</td>
<td>0.3</td>
</tr>
<tr>
<td>Total</td>
<td>362</td>
<td>100</td>
</tr>
</tbody>
</table>

On the perception of lack of training as a challenge, the findings indicated a majority (95%) of the agents did not find lack of training as an important challenge. This shows that the agents had a good understanding of agency banking.

4.4.1.1 Agency Training Acquisition

The researcher further sought to find out if the agents had received training from the concerned financial institution. The findings indicate that 97% of the agents had received
training. This finding contrasted with Agalla (2014) who noted in his research on challenges facing the implementation of agency banking in Mombasa County that 70% of the agents had not received any training from the bank on agency banking. However the findings are consistent with Chiteli (2013) who found that 91.2% of the agents had been trained.

![Figure 4.9: Agency Training Acquisition]

4.4.1.2 Agency Training Sufficiency

Of those that received training, the researcher sought to find out if the training received was sufficient. The findings indicated that most (98%) of the agents agreed that the training received was sufficient.
4.4.1.3 Agents Ease in Keeping up with Trainings from Different Financial Institutions

From the agents that had received multiple institution training, the researcher sort to find out if they had difficulties keeping up with trainings from the different financial institutions. Most of the agents (66.6%) agreed that they had difficulties keeping up with the trainings from different financial institutions.
4.4.1.4 Agents Perception on Training for One Standard Agency System for All Financial Institutions

The researcher also sought to find out from the agents that had received training from more than one financial institution; if they perceived receiving training for one standard agency system which allowed one to transact the different financial institutions, would improve their business. Most of the agents (97.7%) agreed that receiving training on one standard agency system for all financial institutions would improve their business.

Figure 4.12: Training on One Standard Agency System For all Financial Institutions

4.4.2 Liquidity

The researcher sought to find out if the various operators of financial agency outlets who were the respondents in the study perceived having inadequate cash in agent tills (lack of float) as a challenge. As such the researcher sort to find out the most common services offered by agents, the agent’s perception on customers opting for alternatives due to serial cash shortages in their outlets and for those running multiple agency services if they frequently had to transfer float from one institution to another.
Table 4.3: Agent Perception on Lack of Float as a Challenge

<table>
<thead>
<tr>
<th>Perception</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 -not important</td>
<td>88</td>
<td>24.3</td>
</tr>
<tr>
<td>2 -important</td>
<td>16</td>
<td>4.4</td>
</tr>
<tr>
<td>3 -fairly important</td>
<td>18</td>
<td>5</td>
</tr>
<tr>
<td>4 -very important</td>
<td>240</td>
<td>66.3</td>
</tr>
<tr>
<td>Total</td>
<td>362</td>
<td>100</td>
</tr>
</tbody>
</table>

On the perception of lack of float as a challenge, the findings indicated that most of the agents (66.3%) found lack of float to be a very important challenge. This finding contrasted with Afande and Mbugua (2015) who found that 59% of the banking agents in a similar study in Nyeri Town indicated that cash shortages never occurred hence lack of liquidity was not a major problem at agent banking outlets.

4.4.2.1 Commonly Used Agent Services

The researcher further sought to find out the most common services offered by agents. The findings in Figure 4.13 show that cash withdrawal (72.4%) and cash deposit (66.9%) are the most common services offered by agents while loan repayment (99.4%) and payment of utilities (95.3%) are the least common services offered by agents. These findings are consistent with Afande and Mbugua (2015) who in a similar study in Nyeri town found that 57% of the banking agents indicated that cash withdrawal was the most popular banking service sought by customers at the agent banking outlets. The findings contrast with (CGAP, 2010) where a study conducted in Brazil in 2008 found that most agents specialize in receiving bill payments, which account for approximately 75% of all agency transactions. Withdrawals and deposits account for 12.6% and are nearly equally divided into savings and current accounts. The contrast between Kenya and Brazil can be attributed to the fact that in Kenya nearly all mobile money providers include Paybill services which offer much more convenience in making bill payments hence the low uptake of the service in the agent outlets.
4.4.2.2 Impact of Cash Shortages on Customers

The researcher sought to find out agent’s perception on customers avoiding agent outlets due to serial cash shortages. The findings indicated that most (74.6%) of the agents agreed that some customers avoided agent outlets due to serial cash shortages. This finding contrasted with Afande and Mbugua (2015) who in a similar study in Nyeri town found that 73% of the bank agents’ operators disagreed that some customers avoid agents because of perennial cash shortages.
Figure 4.14: Some Customers’ Avoidance of Agent Outlets Due to Serial Cash Shortages

4.4.2.3 Transfer of Float Between Institutions

For agents running multiple agency services the researcher sought to find out if they frequently had to transfer float from one institution to another. The findings indicated that most (83.9%) of the agents that run multiple agency services rarely transferred float from one financial institution to another.

Figure 4.15: Transfer of Float from One Institution to Another
4.4.3 Security

The researcher sought to find out if the various operators of financial agency outlets who were the respondents in the study perceived insecurity as a challenge. As such the researcher sort to find out if the agents had had fears of insecurity, whether their customers had reported fears of insecurity, the frequency of which the security scares occurred, whether the agents had lost customers or banking equipment as a result of insecurity and the physical security measures the agents had taken to secure their business premises.

Table 4.4: Agent Perception on Insecurity as a Challenge

<table>
<thead>
<tr>
<th>Perception</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 -not important</td>
<td>85</td>
<td>23.5</td>
</tr>
<tr>
<td>2 -important</td>
<td>10</td>
<td>2.8</td>
</tr>
<tr>
<td>3 -fairly important</td>
<td>24</td>
<td>6.6</td>
</tr>
<tr>
<td>4 -very important</td>
<td>243</td>
<td>67.1</td>
</tr>
<tr>
<td>Total</td>
<td>362</td>
<td>100</td>
</tr>
</tbody>
</table>

On the perception of lack of insecurity as a challenge, the findings indicated that most of the agents (67.1%) found insecurity to be a very important challenge.

4.4.3.1 Agent Insecurity Fears

The researcher further sought to find out if the agents had fears of insecurity. The findings indicated that despite the agents’ perception of insecurity as an important challenge, a relatively low percentage (14.6%) of them had fears of insecurity.

Table 4.5: Agent Insecurity Fears

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>53</td>
<td>14.6</td>
</tr>
<tr>
<td>No</td>
<td>309</td>
<td>85.4</td>
</tr>
<tr>
<td>Total</td>
<td>362</td>
<td>100</td>
</tr>
</tbody>
</table>
4.4.3.2 Customer Insecurity Fears

The researcher also sought to find out if customers of agency banking had reported fears of insecurity. The findings indicated that majority (99.7%) of the customers had not reported fears of insecurity. This finding agreed with Atandi (2013) who in his study on Challenges of agent banking experiences in Pokot County found that 80% of the agents were satisfied with security within their working environment and there were no responses indicating number of robberies either on agents or on customers. The low incidents of insecurity fears by both the agents and their customers indicated that the agents had taken sufficient measures to curb insecurity in their work premises and that most of the outlets were probably situated in relatively secure areas.

Table 4.6: Customer Insecurity Fears

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>1</td>
<td>0.3</td>
</tr>
<tr>
<td>No</td>
<td>361</td>
<td>99.7</td>
</tr>
<tr>
<td>Total</td>
<td>362</td>
<td>100</td>
</tr>
</tbody>
</table>

4.4.3.3 Physical Security Features Adopted

The researcher further sought to investigate the physical security features that had been adopted by the agents in their business premises. The findings indicated that all the agents had adopted some form of security feature with hard steel metal bars (339) being the most commonly adopted feature. This finding agrees with Afande and Mbugua (2015) who in a similar study conducted by in Nyeri town found that all (n=37) the agent banking outlets had installed steel metal bars as a security measure.

Table 4.7: Physical Security Features Adopted

<table>
<thead>
<tr>
<th></th>
<th>CCTV</th>
<th>Security Alarms</th>
<th>Hard Steel metal bars</th>
<th>Hiring a watchman</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>106</td>
<td>47</td>
<td>339</td>
<td>61</td>
</tr>
</tbody>
</table>
Close to half (40.6%) of the agent outlets had adopted more than one security feature. This indicated a relatively good investment in security measures, which strengthened the earlier assertion that agents took sufficient measures to curb insecurity in their work premises. The heavy investment in security measures hoped to mitigate the perceived important challenge of insecurity thus safeguarding the agent’s businesses from potential threats which from the findings seemed to be working given the low incidents of insecurity fears reported by both the agents and their customers.

Figure 4.16: Agent Implementation of Security Features

Of the agents that adopted multiple security features, CCTV and Hard steel metal bars amounted to the highest (40.1%) combination of security features implemented while 5.4% of the agents implemented all the four security features.
Table 4.8: Multiple Security Features Implementation

<table>
<thead>
<tr>
<th>Security Features Implementation</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCTV and Alarm and Steel metal and Watchman</td>
<td>8</td>
<td>5.4</td>
</tr>
<tr>
<td>CCTV and Alarm and Steel metal</td>
<td>10</td>
<td>6.8</td>
</tr>
<tr>
<td>CCTV and Alarm and Watchman</td>
<td>1</td>
<td>0.7</td>
</tr>
<tr>
<td>CCTV and Steel metal and Watchman</td>
<td>16</td>
<td>10.9</td>
</tr>
<tr>
<td>Alarm and Steel metal and Watchman</td>
<td>1</td>
<td>0.7</td>
</tr>
<tr>
<td>CCTV and Alarm</td>
<td>1</td>
<td>0.7</td>
</tr>
<tr>
<td>CCTV and Steel metal</td>
<td>59</td>
<td>40.1</td>
</tr>
<tr>
<td>CCTV and Watchman</td>
<td>6</td>
<td>4.1</td>
</tr>
<tr>
<td>Steel metal and Alarm</td>
<td>17</td>
<td>11.6</td>
</tr>
<tr>
<td>Watchman and Alarm</td>
<td>3</td>
<td>2.0</td>
</tr>
<tr>
<td>Steel metal and Watchman</td>
<td>25</td>
<td>17.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>147</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

4.4.3.4 Frequency of Security Scares

Of the agents that reported fears of insecurity associated to either themselves or their customers, the researcher sought to find out how frequent the security scares occurred. The findings indicated that security scares rarely (59.3%) occurred. This can be attributed to the fact that all the agents had taken certain measures to safeguard their business premises.
4.4.4 Regulation of Agency Related Laws

The researcher sought to find out if the operators of financial agency outlets perceived the regulation of agency related laws as a challenge. As such the researcher sort to find out the agents perception on the tediousness of the procedures of becoming an agent and their perception on the ease of starting an agency business if they were not required to seek approval from multiple institutions.

Table 4.9: Agent Perception on Regulation of Agency Related Laws as a Challenge

<table>
<thead>
<tr>
<th>Perception</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 -not important</td>
<td>89</td>
<td>24.6</td>
</tr>
<tr>
<td>2 -important</td>
<td>14</td>
<td>3.9</td>
</tr>
<tr>
<td>3 -fairly important</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>4 -very important</td>
<td>248</td>
<td>68.5</td>
</tr>
<tr>
<td>Total</td>
<td>362</td>
<td>100</td>
</tr>
</tbody>
</table>
On the perception of regulation of agency related laws as a challenge, the findings indicated that most of the agents (68.5%) found regulation of agency related laws to be a very important challenge.

4.4.4.1 Agent Perception on Procedures of Becoming an Agent

The researcher further sought to find out if the agents perceived the procedures of becoming an agent too tedious. The findings indicated that most (81.3%) of the agents agreed that the procedures of becoming an agent were too tedious.

![Bar Chart: Tediousness of the Procedures of Becoming an Agent]

**Figure 4.18: Tediousness of the Procedures of Becoming an Agent**

4.4.4.2 Agents Perception on Starting an Agency Business when Not Required to Seek Approvals

Of the agents that operated multiple agency services, the researcher sought to find out their perception on the ease of starting an agency business if they were not required to seek approval from multiple institutions. The findings in Figure 4.19 indicated that most of the agents (95.3%) agreed that it would be much easier to start agency businesses if the regulations did not require them to seek approvals from multiple institutions.
Figure 4.19: Ease of Starting Agency Business Without Seeking Multiple Approvals

4.5 Technological Challenges

This section presents findings related to the second objective of the study, which sought to investigate the technological challenges that affected agents in the financial services industry in Nairobi County. This was achieved by evaluating agent system down times experiences, network hindrances and reliability of gadgets used for agent banking.

4.5.1 System Down Times

The researcher sought to find out if the various operators of financial agency outlets who were the respondents in the study experienced system down times. The findings indicated that most (75.1%) of the agents experienced system down times.

Table 4.10: Agent system down time experiences

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>272</td>
<td>75.1</td>
</tr>
<tr>
<td>No</td>
<td>90</td>
<td>24.9</td>
</tr>
<tr>
<td>Total</td>
<td>362</td>
<td>100</td>
</tr>
</tbody>
</table>
4.5.2 Network Unavailability

Of the agents that experienced system down times, the researcher sought to find out if they perceived network unavailability to be a major hindrance to service delivery. The findings indicated that most (95.3%) of the agents agreed that network unavailability to be a major hindrance to service delivery. This finding agreed with Atandi (2013) who in his study on Challenges of agent banking experiences in Pokot County found that all (100%) the respondents interviewed admitted to experiencing serious network challenges, which meant that most clients were turned away due to network challenges.

![Figure 4.20: Agent Perception of Network Unavailability as a Hindrance](image)

4.5.3 Reliability of Gadgets Used for Agency Banking

Of the agents that experienced system down times, the researcher sought to find out if they perceived the gadgets used for agency banking reliable. The findings indicated that most (71.7%) of the agents agreed that the gadgets used for agency banking were reliable. This finding agreed with Agalla (2014) who noted in his research on Challenges facing the implementation of agency banking in Mombasa County that 85% of the respondents believed that the gadgets used for agency banking were reliable.
4.6 Effect of Operational And Technological Challenges on Performance

This section presents findings related to the third objective of the study, which sought to investigate how operational and technological challenges affected the performance of financial services agents in Nairobi County. The number of transactions conducted in a month was used as a measure of Performance. Although commissions earned at the end of the month constitute the key measure of performance, Ndungu and Njeru (2014) note that agents are more at ease discussing number of transactions than they would on the commissions earned. This is because agents generally would rather not discuss their earnings especially if they are too high or too low. The number of monthly transactions was easily obtained from the agent records and since commissions earned are a factor of number of transactions, this would give a good inference to performance.

It was expected that agent outlets operating multiple agency service would perform better than those operating only one agency service. An independent-sample t-test was conducted to test whether there was a significant difference in number of transactions means between agent outlets that offered multiple financial service and those that did not. The findings indicated that there was a significant difference in the number of transactions for agency outlets that offered multiple agency services (M=2456.47, SD=2043.726) and those that
offered only one agency service (M=1302.34, SD=1032.892) Conditions; t (360) = 7.076, p = 0.00.

**Table 4.11: Independent Sample T test**

<table>
<thead>
<tr>
<th>Group Statistics</th>
<th>Do you run agency services for more than one financial institution?</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Transactions</td>
<td>Yes</td>
<td>217</td>
<td>2456.47</td>
<td>2043.726</td>
<td>138.737</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>145</td>
<td>1302.34</td>
<td>1032.892</td>
<td>85.777</td>
</tr>
</tbody>
</table>

**Independent Samples Test**

<table>
<thead>
<tr>
<th>Levene's Test for Equality of Variances</th>
<th>F</th>
<th>.000</th>
</tr>
</thead>
<tbody>
<tr>
<td>t-test for Equality of Means</td>
<td>t</td>
<td>6.283</td>
</tr>
<tr>
<td></td>
<td>df</td>
<td>360</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Mean Difference</td>
<td>1154.13</td>
</tr>
<tr>
<td></td>
<td>Std. Error Difference</td>
<td>183.69</td>
</tr>
<tr>
<td></td>
<td>95% Confidence Interval of the Difference</td>
<td>Lower</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Upper</td>
</tr>
</tbody>
</table>

**4.6.1 Relationship Between Operational Challenges and Monthly Transactions**

A correlation to examine the relationship between monthly transactions and operational challenge predictors was done. The findings in table 4.12 reveal that there is a significant negative correlation between total transactions and liquidity challenge, (r=−.266, p> 0.01). Total monthly transactions and insecurity challenge are also negatively correlated (r=−.268, p> 0.01). A negative correlation is also observed between total monthly transactions and
agency regulation challenge (r=-.281, p> 0.01). The findings indicated that an increase in liquidity, insecurity and regulatory challenges results in reduced monthly transactions.

**Table 4.12: Correlation Between Operational Factors and Total Transactions**

<table>
<thead>
<tr>
<th>Operational Challenges</th>
<th>Liquidity Challenge</th>
<th>Insecurity Challenge</th>
<th>Agency Regulations Challenge</th>
<th>Total Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Transactions</td>
<td>Pearson Correlation</td>
<td>-.266**</td>
<td>-.268**</td>
<td>-.281**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>362</td>
<td>362</td>
<td>362</td>
<td>362</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

**4.6.2 Relationship Between Technological Challenges and Monthly Transactions**

A correlation to examine the relationship between monthly transactions and technological challenge predictors was done. The findings in table 4.13 reveal that there is a significant negative correlation between total monthly transactions and experience system down times, (r=-.186, p> 0.01). Total monthly transactions and network unavailability hindrance to service delivery are also negatively correlated (r=-.176, p> 0.01). The findings indicated that an increase in system down times, network unavailability results in reduced monthly transactions.
### Table 4.13: Correlation Between Operational Factors and Total Transactions

<table>
<thead>
<tr>
<th></th>
<th>Experience system down times</th>
<th>Network unavailability hindrance to service delivery</th>
<th>Total Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pearson Correlation</strong></td>
<td>-.186**</td>
<td>-.176**</td>
<td>1</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.000</td>
<td>.001</td>
<td></td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>362</td>
<td>362</td>
<td>362</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

#### 4.6.3 Regression Analysis

A multiple linear regression was done to predicts performance (total monthly transaction) based on systems down times, network unavailability hindrance and operational challenges. A significant regression equation was found ($F (3, 358) = 15.106, p < .000$), with an $R^2$ of .112 which means that 11.2% of the variation in total transactions can be explained by the combined factors of systems down times, network unavailability hindrance and operational challenges. Operational challenges variable was computed by combining the means of liquidity, insecurity and regulatory challenges variables.

Participants predicted performance (total monthly transaction) = $3749.784 - 1373.419 \times X_1 + 686.619 \times X_2 - 889.808 \times X_3$ where;

$X_1 = $ Experience system down times  

$X_2 = $ Network unavailability hindrance to service delivery  

$X_3 = $ Operational Challenges
The regression model illustrates that when all variables are held at zero (constant) the number of monthly transactions would be 3749.784. However, holding other factors constant, a Unit increase in operational challenges would lead to a 889.808 decrease in number of monthly transactions, a unit increase in system down times leads to 1373.419 decrease in number of monthly transactions and a unit increase in network unavailability leads to 686.619 increase in number of monthly transactions.

**Table 4.13: Regression Analysis**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>(Constant)</td>
<td>3749.784</td>
<td>276.211</td>
<td></td>
</tr>
<tr>
<td>Experience</td>
<td>-1373.419</td>
<td>775.419</td>
<td>-.330</td>
</tr>
<tr>
<td>system down times</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Network unavailability</td>
<td>686.619</td>
<td>216.972</td>
<td>.691</td>
</tr>
<tr>
<td>hindrance to service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>delivery</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational Challenges</td>
<td>-889.808</td>
<td>159.117</td>
<td>-.617</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Total Transactions

**4.7 Chapter Summary**

In this chapter the researcher presented the analyzed findings of the study accordingly as issued by the respondents. The first section provides the findings on the operator background information followed by agent outlets information. Both the operator background information and the agent outlets information provided analysis of the individual operators of agency banking as well as the outlets they operate. The second section provided the findings on operational challenges faced by financial services agents. This was then followed by presentation of findings on technological challenges faced by financial services agents. Finally, the chapter presented findings on the effect of operational and technological challenges on performance.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings of the study and makes conclusions upon which recommendations are drawn. Suggestions for further study are also captured to fill the gaps identified in the study. The study is concluded on the basis of the research objectives.

5.2 Summary

The general purpose of the study was to investigate the challenges facing financial services agents in Nairobi County. The study was guided by the following research questions: What operational challenges affect agents in the financial services industry? What technological challenges affect agents in the financial services industry? and How do operational and technological challenges affect performance of financial services agents?

The study targeted financial services agents from three banks (KCB, Cooperative bank and Equity bank) and two Telco’s (Safaricom and Airtel). A questionnaire constituted the data collection instrument used. The questions were structured to derive the objectives of the study. A quantitative descriptive research design was adopted.

From a population of 7800 agent associated with the targeted financial institutions within Nairobi County, a sample of 400 agents was drawn through stratified sampling technique. Data was analyzed using descriptive statistics like frequencies, percentages. Pearson correlation and regression analysis were used to determine the influence of independent variables on the dependent variable. Independent sample t test was used to establish difference in means. Of the 400 administered questionnaires 38 of them had errors and missing data. This represented a response rate of 90.5%. This response rate was favorable for analyzing data and making conclusions according to Mugenda and Mugenda (2003) who assert that a 50% response rate is adequate, 60% is good and above 70% rated very well.

An overview of the responses from the operator background information section revealed that the majority of the respondents were female. The most prevalent age of respondents was between 19 to 29 years. All the respondents had some form of formal education with the majority attaining diploma certification. The agency background information revealed that a
The majority of business establishments had operated agency services for 2 – 4 years. Most (59.9%) of the outlets offered multiple agency services with MPESA being the most common agency service offered. Of those that offered only one agency service 86.9% of them indicated willingness to diversify and offer multiple agency services.

The results of the study as regards to the first research question on the operational challenges that affect agents in the financial services industry indicated that lack of training was not an important challenge with 97% of the agents reporting to having received training from the concerned financial institution however most of the agents running multiple agency services (97.7%) agreed that receiving training on one standard agency system for all financial institutions would improve their business. On liquidity, lack of float to be a very important challenge with 74.6% of the agents agreeing that some customers avoid agent outlets due to serial cash shortages. Though insecurity was perceived as a very important challenge as noted by 67.1% of the agents, all the agents had adopted some form of security feature hence low incidents of insecurity fears were reported by both the agents and their customers as the agents had taken sufficient measures to curb insecurity in their work premises. Finally, most of the agents (68.5%) found regulation of agency related laws to be a very important challenge with 95.3% of the agents that operated multiple agency services agreeing that it would be much easier to start agency businesses if the regulations did not require them to seek approvals from multiple institutions.

The results of the second research question on the technological challenges that affect agents in the financial services industry reveal that 75.1% of the agents experienced system down times with 95.3% of them agreeing that network unavailability was a major hindrance to service delivery. The system down times were however not attributed to the gadgets used for agency banking as 71.7% of the agents agreed that the gadgets used for agency banking were reliable.

Finally on the third research question, which sought to find out how operational and technological challenges affect performance of financial services agents, the study revealed that an increase in liquidity challenge and agency regulation challenge resulted in reduced monthly transaction. The findings also indicated that an increase in system down times, network unavailability resulted in reduced monthly transactions. Monthly transactions were
used as a measure of performance. A multiple linear regression was done to predicts performance (total monthly transaction) based on systems down times, network unavailability hindrance and operational challenges. The findings were consistent to the correlation results.

5.3 Discussion

5.3.1 Operational Challenges and Performance

For an agency business to operate successfully meeting its optimal performance in terms profitability, it must be free of hindrances that inhibit its successful operation. This study chose to investigate a number of perceived hindrances, which included lack of staff training, liquidity (lack of float), insecurity and regulation of agency related laws. Agalla (2014) notes lack of training as a perceived risk due to lack of understanding the business benefits. Understanding credit, operational and compliance risks are the major worries hindering implementation of Agency banking (Mberia, 2009). The study revealed that lack of training was not an important challenge with 97% of the agents reporting to having received training from the concerned financial institution. This finding contrasted with Agalla (2014) who noted in his research on challenges facing the implementation of agency banking in Mombasa County that 70% of the agents had not received any training from the bank on agency banking. However the findings are consistent with Chiteli (2013) who found that 91.2% of the agents had been trained.

Although a majority of the respondents had received trained from the concerned financial institutions, more than half (66.6%) of those that had received training from multiple financial institutions found it difficult keeping up with the trainings from different financial institutions. There is therefore need to standardize the agent banking procedures to enable a plug and play environment whereby transitioning from one institution to the other becomes almost seamless. Better yet would be to introduce a standard agency system where all financial institutions would plug in to enabling a seamless environment. The standard agency system would be highly welcome as evident by 97.7% of the respondents who from the study were of the opinion that receiving training on one standard agency system for all financial institutions would improve their business.
Regarding liquidity, the study revealed that most of the agents (66.3%) found lack of float to be a very important challenge with 74.6% of the agents agreeing that some customers avoid agent outlets due to serial cash shortages. This finding contrasted with Afande and Mbugua (2015) who found that 59% of the banking agents in a similar study in Nyeri Town indicated that cash shortages never occurred hence lack of liquidity was not a major problem at agent banking outlets. Afande and Mbugua further found that majority (73%) of the bank agents operators disagreed that some customers avoid agents because of perennial cash shortages. Musau (2013) observed that lack of cash at cash points did not appear to be a widespread problem according to her in-country studies it appeared that low-income clients were willing to tolerate occasional liquidity shortfalls in exchange for continuity of service in the long run and the convenience of an extensive network. Lehman (2010) noted that agents will not provide quality service to customers without ongoing, on-site and in-store supervision to ensure the agents are liquid, consistently branded, and following the prescribed business processes.

For agents running multiple agency services, most (83.9%) of them confirmed that they rarely transferred float from one financial institution to another. Cash withdrawal and cash deposit were the most prevalent services offered while loan repayment and payment of utilities were the least prevalent. These findings are consistent with Afande and Mbugua (2015) who in a similar study in Nyeri town found that 57% of the banking agents indicated that cash withdrawal was the most popular banking service sought by customers at the agent banking outlets. The findings contrast with (CGAP, 2010) where a study conducted in Brazil in 2008 found that most agents specialize in receiving bill payments, which account for approximately 75% of all agency transactions. Withdrawals and deposits account for 12.6% and are nearly equally divided into savings and current accounts. The contrast between Kenya and Brazil can be attributed to the fact that in Kenya nearly all mobile money providers include Paybill services which offer much more convenience in making bill payments hence the low uptake of the service in the agent outlets.

In as much as insecurity was perceived as a very important challenge as noted by 67.1% of the agents, only 14.6% of them had fears of insecurity. Further only one customer had reported fears of insecurity in relation to the agency services. This finding agreed with
Atandi (2013) who in a similar study in Pokot County found that 80% of the agents were satisfied with security within their working environment. The low incidents of insecurity fears by both the agents and their customers indicated that the agents had taken sufficient measures to curb insecurity in their work premises and that most of the outlets were probably situated in relatively secure areas. All the agents had adopted some form of security feature with hard steel metal bars being the most commonly adopted feature. With close to half (40.6%) of the agents having adopted more than one security feature in their outlets, it’s little wonder that low incidents of insecurity fears by both the agents and their customers were reported.

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 issued the first Agency Banking prudential guidelines CBKIPGI15 under section 33(4) of the Central Bank Act (CBK, 2011). 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. On the perception of agency related laws being a challenge, the study revealed that most of the agents (68.5%) found regulation of agency related laws to be a very important challenge. 81.3% of the agents agreed that the procedures of becoming an agent were too tedious.

These findings agreed with Agalla (2014) who in a similar study in Mombasa county found that 90% of the agents were of the opinion that the vetting procedure and due diligence was tedious with 80% confirming that document witnessing by the lawyers and bank took too long. This indicated that the turn around time to set up an agency business and get it running was not business friendly thus it did not create the environment that would shorten or even encourage agency-banking implementation. The situation would even be worse for agents running multiple agency services as they are be required to seek approval from different institutions. This study revealed that 95.3% of agents running multiple agency services were
of the opinion that it would be much easier to start agency businesses if the regulations did not require them to seek approvals from multiple institutions.

5.3.2 Technological Challenges and Performance

Technology involves application of knowledge, tools and skills to solve problems and extend human capacity (Mberia, 2009). Agency banking is a modern technology, which heavily relies on good network connectivity as well as gadgets such as mobile phones and POS to operate. As technology plays an important role in agency banking this study sought to investigate the technological challenges that affect agents in the financial services industry. To achieve this system down times, network hindrances and reliability of gadgets used for agent banking was evaluated. The study revealed that 75.1% of the agents experienced system down times with 95.3% of them agreeing that network unavailability was a major hindrance to service delivery. This finding agreed with Atandi (2013) who in a similar study in Pokot County found that all (100%) the respondents interviewed admitted to experiencing serious network challenges, which meant that most clients were turned away due to network challenges. Agalla (2014) also noted in a similar study in Mombasa County that 80% of the respondents were of the opinion that technical problems such as network failure, operation of the system were a major hindrance to service delivery.

The study further revealed that system down times were not attributed to the gadgets used for agency banking as 71.7% of the agents agreed that the gadgets used for agency banking were reliable. This finding agreed with Agalla (2014) who noted that 85% of the respondents believed that the gadgets used for agency banking were reliable. Technological problems according to Agalla (2014) can also be linked to constant changes in technology as well as low level of development of ICT infrastructure and the road network. Being the main link between the financial institutions and its agents, the institutions need to constantly update the technology that links the POS or mobile devices to the main banking system so as to address the various technological hitches experienced in the network and ensure smooth operation and delivery of agency banking services.

Mulwa and Ndai (2012) in a study on the barriers to uptake and use of agency banking products targeting poor and marginalized populations in Kenya found that one of the disappointments users experienced was a poor network service. Sometimes it was impossible
to transact as systems were totally down, other times initiated transactions could not be completed, as messages confirming whether transactions had gone through were not generated. As a result transactions remained hanging; a situation that frustrated users for the value was neither with the user nor the agent. Unsuspecting agents or users occasionally lost money when apparently transactions were completed minus messages and the receiving partners proceeded to access the money. The study recommended that users needed to have ample network coverage enjoy the services anytime everywhere.

Notably in Kenya, non-conventional banking transactions offered through agency banking have overtaken the transactions done at the brick and mortar banks. There however has been a limitation in the capacity of agents to offer the desired services due to inferior network capability (Rutere, 2014). This is a major hindrance to performance and therefore ought to addressed as financial services agents depend on Internet connection and telecommunication network in order to process transactions. The network strength affects the integrity of the systems used to transact business.

5.3.3 Operational and Technological Challenges and Performance

In investigating how operational and technological challenges affected performance of financial services agents the number of transactions conducted in a month was used as a measure of performance. As expected agent outlets that operated multiple agency service had a statistically significantly higher number of transactions mean (2456.47) than those that operated only one agency service (1302.34) at t (360) = 7.076, p = 0.00. In July 2014, the Competition Authority of Kenya (CAK) abolished the agent exclusivity clause, which prohibited exclusivity in agent contracts of mobile money providers. This ruling was later gazetted on 1st August 2014 in the Kenya Gazette Supplement No. 119. Further the guidelines by CBK on exclusivity issued that no contract between an institution and an agent shall be exclusive and that an agent may provide services for agent banking to multiple institutions provided that the agent has separate contracts for the provision of such services with each institution and provided further that the agent has the capacity to manage the transactions for the different institutions, (Guideline-on-Agent-Banking CBKPG15, 2015).

With the removal of the exclusivity clause, financial services agency business received a boost as agents could now serve multiple financial institutions. However the agency business
is yet to reach it’s full potential because of the tedious regulations around the vetting procedures of becoming an agent which result in barriers to entry and the difficulties associated with keeping up with trainings from multiple institutions. These combined operational factors make it difficult for agents to expand their businesses and as a result not realizing the growth and profitability they may desire. Serving multiple agents creates more business opportunities, more transactions, greater profitability and higher performance.

A correlation to examine the relationship between monthly transactions and operational challenge predictors revealed that an increase in liquidity (lack of float), insecurity and regulatory challenges results in reduced monthly transactions. The study also revealed that a correlation to examine the relationship between monthly transactions and technological challenge predictors revealed that an increase in system down times, network unavailability results in reduced monthly transactions. The findings clearly indicated a combined factors of operational and technological challenges negatively affected performance and it was prudent that those challenges were addressed. According to CGAP. (2011), the top concerns among agents were liquidity management and network availability.

The liquidity situation (lack of float) was even worse for agents in remote areas as they had to travel long distances to the banks to replenish their deposits when balances run low. Atandi (2013) in a similar study in Pokot County found lack of float to be a big problem because of the long distances agents had to travel to the nearest branch to top up their float. He also noted that it took a lot of their time and clients give up along the way in waiting. Ndungu and Njeru (2014) in their study in Kajiado North Sub County also noted that over 95% of the agents indicated that they were affected by the distance of the from their outlets to branches hence had difficulties replenishing their float. Agents near branches indicated they benefit from reduced cost of float replenishment. Atandi (2013) further noted that on average agents lost five customers everyday due to lack of float. Of the five customers lost due to float one of them could return later to check if services have resumed, the other four however never come back. This impediment can be mitigated by institutions advancing credit to their agents incase the daily limit is reached. The credit can be defined as a percentage of their limit to avoid cases of fraud. This would alleviate client disappointment, increase transactions and improve performance.
The availability of network is key to an agent performance while poor connectivity constraints the number of transactions handled at the agent outlets. With every client turned away due to network unavailability, the agent performance dwindles. Although technology cannot be 100% fool proof, the number of incidents where network unavailability is experienced ought to be minimal. Even if they do occur, they ought to be handled within the shortest period possible. The most ideal situation would have been to take proactive measures to ensure the network is never completely down at any one time. Agalla (2014) noted that there were extended times frames in addressing technological hitches. Both operational and technological challenges noted in this study need to addressed in order to improve performance of the agents.

5.4 Conclusion

5.4.1 Operational Challenges and Performance

From the findings, the study concluded although lack of training was not a challenge the agents that received training for multiple financial institutions had difficulties keeping up with the trainings from different financial institutions and perceived that receiving training on one standard agency system for all financial institutions would improve their business. Liquidity was a very important challenge with 74.6% of the agents agreeing that some customers avoid agent outlets due to serial cash shortages. Insecurity though a very important challenge, operators of agency outlets had invested in physical security measures securing their outlets and as a result few cases of insecurity were reported. Agency regulated laws were equally a very important challenge with 81.3% of the agents agreeing that the procedures of becoming an agent were too tedious. The agents perceived that it would be much easier to start agency businesses if the regulations did not require them to seek approvals from multiple institutions.

5.4.2 Technological Challenges and Performance

From the findings, the study concluded that although the gadgets used for agency banking were found to be reliable, system down times and network unavailability were a major hindrance to service delivery.
5.4.3 Operational and Technological Challenges and Performance

From the findings, the study concluded that there was a significant negative correlation between total monthly transactions and operational challenge predictors (liquidity, insecurity and agency regulation). The findings indicated that an increase in the operational challenge predictors resulted in reduced monthly transactions. A multiple linear regression to predict performance (total monthly transaction) based on systems down times, network unavailability hindrance and operational challenges confirmed the correlation findings.

5.5 Recommendations

5.5.1 Recommendation for Improvement

5.5.1.1 Operational Challenges and Performance

The study recommends that Central Bank should consider revising current policies to allow a standard agency system platform for all financial institutions. The standard agency system would allow agents to operate multiple agency services with ease as keeping up with trainings from different financial institutions will no longer be a challenge. Barriers to entry of financial agency business resulting from the tedious procedures of seeking approvals from multiple institutions will be eliminated. Liquidity challenge would also be minimized, as one float value would be required to serve any of the subscribed financial institution resulting in better management of float.

5.5.1.2 Technological Challenges and Performance

The study further recommends setting up redundant network infrastructures to improve network accessibility. This will enhance network reliability drastically reducing system down times and network unavailability thus improving service delivery.

5.5.1.3 Operational and Technological Challenges and Performance

The study recommended taking measures to reduce operational challenge predictors (liquidity, insecurity and agency regulation) as well as reduce network hitches by implementing the above stated recommendations with emphasis on the suggested standard agency system, which would help financial agency operators increase their monthly
transactions thus improving performance as a result of reduced operational and technological challenges.

### 5.5.2 Recommendation for Further Studies

The research was carried out within the Nairobi County where the researcher sought information from agents associated with five institutions (KCB, Cooperative bank and Equity bank, Safaricom and Airtel). Further studies could be carried out in frontier region of the country with a wider scope examining more financial services agents in other institutions that were not part of this study. This is to ensure the perspective and picture of the entire country is captured as the city residents’ pattern of consuming financial services tends to vary a great deal with that of the rural populations in the different parts of the country.
REFERENCES


Agalla. T. O. (2014). The challenges facing the implementation of agency banking in Kenya a case study of KCB Limited Mombasa County. IOSR Journal of Business and Management (IOSR-JBM), 16(11), 76-95.


CGAP (2010), Update on Regulation of Branchless Banking in Kenya, Nairobi, Kenya.


APPENDICES

Appendix 1: Questionnaire

The researcher is a postgraduate student at the United States International University pursuing a degree in Masters Degree in Organizational Development. This questionnaire seeks to collect information on challenges facing financial services agents. Please provide information frankly and honestly. All information received will be treated confidentially.

Section A: Operator Background Information

Please tick (✓) where appropriate

1. Gender
   a) Male [  ]                                b) Female [  ]

2. Age (years)
   a) Below 18 [  ]
   b) Between 19-29 [  ]
   c) Between 30-40 [  ]
   d) Between 41-50 [  ]
   e) 50 and Above [  ]

3. Level of education
   a) Primary [  ]
   b) Secondary [  ]
   c) College certificate [  ]
   d) Diploma [  ]
   e) Degree/Masters [  ]
   f) Postgraduate [  ]

Part B: Agency Information

Please tick (✓) where appropriate

1. Do you run agency services for more than one institution?
   Yes [  ]                                No [  ]
2. If No would you be interested to run agency services for multiple institutions?
   Yes [ ] No [ ]

3. Which agency/agencies you operate?

<table>
<thead>
<tr>
<th>MPESA</th>
<th>Airtel Money</th>
<th>Coop Kwa Jirani</th>
<th>KCB</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. How long has your business been in operation?

<table>
<thead>
<tr>
<th>1 year or less</th>
<th>2-4 years</th>
<th>5-7 Years</th>
<th>8-10 Years</th>
<th>More than 10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. How long have you been an agent?

<table>
<thead>
<tr>
<th>1 year or less</th>
<th>2-4 years</th>
<th>5-7 Years</th>
<th>8-10 Years</th>
<th>More than 10 Years</th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
</tr>
</tbody>
</table>

**Part C: Operation Factors**

Please tick (√) where appropriate.

What operational challenges do you face as an agent? Rank in a Likert scale of 1 – 4 where 1 is very important, 2 is fairly important, 3 is important, 4 is not important,

a) Untrained staff [ 1 ][ 2 ][ 3 ][ 4 ]

b) Inadequate cash in the agents till [ 1 ][ 2 ][ 3 ][ 4 ]

c) Insecurity [ 1 ][ 2 ][ 3 ][ 4 ]

d) Regulation of agency related laws [ 1 ][ 2 ][ 3 ][ 4 ]

e) Others (specify)
**Training**

1. Did you receive any agency training?
   - Yes [  ]
   - No [  ]

2. If yes which agency/agencies were you trained for?

<table>
<thead>
<tr>
<th>MPESA</th>
<th>Airtel Money</th>
<th>Coop Kwa Jirani</th>
<th>KCB</th>
<th>Equity</th>
</tr>
</thead>
</table>

3. Was the training sufficient?

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
</table>

4. Do you perceive that it is difficult to access training / retraining for yourself or staff members on demand?

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
</table>

5. If you have received training from more than one financial institution, is it difficult to keep up with the different agency systems trainings?

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
</table>
6. If you have received training from more than one financial institution do you perceive that training on one standard agency system for all financial institutions would improve your business?

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
</tr>
</tbody>
</table>

**Security**

1. Do you have fears of insecurity?
   - Yes [  ]  No [  ]

2. Have your customers reported fears of insecurity?
   - Yes [  ]  No [  ]

3. How many of your customers have reported being a victim of fraud or crime in direct relation to your agency services? [ integer value ]

4. How frequent do security scares occur if any?

<table>
<thead>
<tr>
<th>Very Often</th>
<th>Often</th>
<th>Rarely</th>
<th>None</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Have you lost some customers due to insecurity?
   - Yes [  ]  No [  ]

6. If yes please explain [ text ]

7. Have you lost any agency banking equipment?
   - Yes [  ]  No [  ]

8. What physical security features have you installed in your business premises?
Liquidity

1. To what extent do you agree with the statement that some customers avoid agents because of serial cash shortages?

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Don’t know</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. How often does the business suffer from lack of cash for withdrawals and deposits?

<table>
<thead>
<tr>
<th>Very Often</th>
<th>Often</th>
<th>Rarely</th>
<th>None</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. If you serve multiple financial services institutions, how often do you have to transfer cash float from one institution to another?

<table>
<thead>
<tr>
<th>Very Often</th>
<th>Often</th>
<th>Rarely</th>
<th>None</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

4. Which is the most commonly used service among the ones listed below? Rank in a Likert scale of 1 – 4 where 1 is most common, 2 is fairly common, 3 is common, 4 is least common.

a) Cash withdrawal [1][2][3][4]
b) Cash deposit [1][2][3][4]
c) Loan repayment [1][2][3][4]
d) Payment of utilities [1][2][3][4]
Regulation

1. To what extent do you agree with the statement that the procedures of becoming an agent are too tedious?

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Don’t know</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

2. Do perceive that it would be much easier to start your agency business if you were not required to seek approval from multiple institutions?

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Don’t know</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
</tbody>
</table>

Part D: Technological Factors

Please tick (√) where appropriate.

1. Do you experience system down times?
   Yes [ ]    No [ ]

2. To what extent do you agree with the statement that some network availability is a major hindrance in service delivery?

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Don’t know</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>

3. To what extent do you agree with the statement Gadgets used for agency banking are reliable.
### Part E: Performance

1. How many transactions do you conducted in a month?

<table>
<thead>
<tr>
<th>Transaction</th>
<th>50 and Below</th>
<th>50-100</th>
<th>101-150</th>
<th>151-200</th>
<th>201 and Above</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash withdrawal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Deposit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan Repayment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment of utilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. How many customer visits do you encounter in a month?

<table>
<thead>
<tr>
<th>Transaction</th>
<th>50 and Below</th>
<th>50-100</th>
<th>101-150</th>
<th>151-200</th>
<th>201 and Above</th>
</tr>
</thead>
<tbody>
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<td>MPESA</td>
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<td></td>
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<td>Airtel Money</td>
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<td></td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

3. Do you consider your business profitable?

Yes [ ]

No [ ]

*Thank you for your support*