An Investigation on Slow Adoption of Agent Banking Services in Kenya as Strategic Response by Commercial Banks: A Case Study of Roysambu Constituency

Zachary M. Mosoti\textsuperscript{ph.D.}, Rachel Wanja Mwaura

Received 14 February, 2014; Accepted 19 April, 2014 © The author(s) 2014. Published with open access at www.questjournals.org

ABSTRACT:- The purpose of study was to investigate on the factors influencing slow adoption of agent banking services by customers as a financial inclusion tool by commercial bank in Kenya. Financial inclusion has been one of the main objectives by the CBK and the commercial banks in Kenya to extend financial services to all the Kenyans, banked and unbanked.

The research design is descriptive in nature with specific bias on the banking industry in Kenya. The research design was descriptive in form of survey (questionnaire) which was developed and administered by the researcher. Random sampling technique was used to enhance statistical efficiency and provide sufficient information. Collected data was analyzed using Statistical Package for Social Sciences (SPSS) IBM software, and results presented in tables and figures. Data was processed using descriptive statistics (statistical indexes) such as frequency, percentage and means. Data was then analyzed using inferential statistics such as correlation and t-test which was used to extract meaningful analysis.

KEYWORDS: Agent banking; Slow adoption; customers; Financial inclusion; Commercial banks and banked and Unbanked.

I. BACKGROUND OF THE PROBLEM

Commercial banks in Kenya have introduced Agent Banking services which are expected to increase the usage of banking services as an objective to financial inclusion but also minimize the queues in the banking lobbies by the customers. Currently, the queues have continued to persist while the bank agents remain unutilized. These services are relatively new and hence very few researches have been carried out in this area, hence the need to carry out the study.

Agent banks provide regular banking functions such as deposit taking and withdrawals, loans disbursement and repayment, salary payments, pension payouts, funds transfer and mini statements issuance through shared infrastructures. In addition, the agents helps the banks in reaching out to new customers through account opening, credit and debit card applications and cheque book request (Central Bank of Kenya, 2013).

Agent Banking Model is the process whereby commercial banks provide financial services through non-bank agents, such as grocery stores, retail outlets, post offices, pharmacies, or any other retail outlets. This model helps in provision of banking services in areas where there are no sufficient incentives or capacity to establish a formal branch for example in rural and poor areas there is a high number of unbanked population (Lee and Mexico, 2012).

Commercial banks have quickly recognized that Agent Banking is a viable strategy for expanding formal financial services into the unbanked regions of the country such as urban, rural or the marginalized areas. Over the past few years a number of developing countries especially in Latin America have adopted and implemented Agent Banking Model. Brazil was a global pioneer as an early adopter of this model which over the years has matured with a network of agent banks covering more than 99% of the country. Other Latin American countries include Bolivia, Venezuela, Mexico, Colombia and Argentina. Other countries around the world include: Kenya, Uganda, South Africa, Philippines, India and Pakistan which have adopted this form of model (Lee and Mexico, 2012).

In Kenya, as the country continues to lay the road map to achieving Vision 2030 development, Central Bank of Kenya (CBK) as part of this reform agenda has positioned financial inclusion as the core agenda. Therefore, CBK has been on the forefront in supporting the growth of Agent Banking in the country’s banking...
An Investigation on Slow Adoption of Agent Banking Services in Kenya as Strategic Response by Commercial …

industry. CBK issued Prudential Guideline that regulates Agent banking which became operational on 1st May 2010. A number of banks have been currently approved by CBK to roll out agency networks around the country (Central Bank of Kenya, 2013).

Agent banking guidelines, implementation and strategies differ across borders. Variations have been brought about as a result of various services offered by agents, different forms of businesses acting as agents, the types of banks which have engaged agents and business structures employed to manage them. These variations cause disparities making agent banking to bridge the gap in financial inclusion (Lee and Mexico, 2012).

Financial services provision in the developing nations has been impeded by the high costs characterized by conventional banking methods. The costs incurred by the commercial banks serving poor customers with small balances that are likely to make few transactions are huge. The huge costs are like to hinder banks to open up bank branches where the customers can readily access. This therefore, makes it impossible for these customers to access financial services offered by the banks or customers having to travel long distance to access these services (Veniard, 2010).

Therefore, this has triggered the emergence of new delivery models as a way to avail financial services to the poor or the unbanked population. This has triggered the emergence of agent banking or ‘cash merchants’ concepts which has been adopted by a number of banks. This has considerably changed the economics of banking for the poor which is a viable commercial way of reducing fixed costs and enticing the customers to use or access financial services readily which results into delivering additional revenue to the banks (Veniard, 2010).

Since May 2010 agent banking has continued to revolutionize the banking industry in Kenya. Kenyan bank’s profits have increased in the effort to reaching to the bank-less population. In the light of all this evolution the main objective that agent banking was set to achieve is yet to be realized. It has helped to raise banks’ profits and spread reach of financial services in Kenya, but one thing that agent banking has failed to do in the East Africa nation is to decongest banking halls (Xinhua, 2012).

Although agent banking has brought about substantial benefits in Kenya’s banking sector, a number of challenges or risks have equally resulted from adoption of this model. These challenges are operational, technological, legal or compliance, reputational risks (Lauer, Dias and Tarazi, 2011).

Operational risks arise from use of non-bank employees to service bank customers, lack of capacity and system, poor training. Fraud or theft by agents, abuse of service by agent or misrepresentations of agent’s role, loss of customer assets and records, data entry errors, lack of sufficient cash at hand resulting to poor cash management by the agent hence interrupting cash deposits and withdrawals, customer complaints might not be resolved or forwarded to the bank, agents may also be victims of theft and third-party fraud (Lauer et al, 2011).

Technological risks relate to electricity disruptions, systems failure such as software or hardware malfunctioning which can cause interruption of services delivery or information loss. Legal and compliance risks are brought about by legal suites by customers as a result of theft by agent or violation of privacy laws as a result of misuse of confidential customer data. Agents may also sue the bank for breach of contract or other claims. For example Brazil is facing these risks where banks are being sued by the agents as they would want to be accorded the same benefits as those of the bank staff because the duties that they perform are equal to what the bank staffs are doing such as salaries and leave (Lauer et al, 2011).

Compliance risks relate to fines or civil actions are a result of an agents not complying with law or regulation, such as anti-money laundering, bank reporting requirements, or applicable consumer protection rules. Credit risks are intertwined to operational risks, this may occur when the bank is not able to receive the money owed by the agent as a result of robbery of the agent or agent theft. In Brazil, some agents don’t hold bank accounts with the contracting bank and therefore losses can occur. To reduce losses agents are required to make deposits regularly during business days. In Mexico unlike in Brazil it is a requirement that each agent holds an account with the contracting bank (Lauer et al, 2011).

Major challenges are being faced in remote areas such as Northern Kenya to ensure agent banking systems are working. For example, due to lack of power or electricity and wireless signals for the Point of Sale devices required to work off-line in remote areas. Rough terrains, lawlessness, distrust among ethnic groups have caused further complication in agent banking operations. Some of the agents are skilled enough to operate the model and savvy enough to manipulate it as noted by Equity Bank therefore making it agents monitoring a huge challenge especially in these areas of the country (Oxford Policy Management, 2011).

II. STATEMENT OF THE PROBLEM

This study investigated on the factors contributing to slow adoption of agent banking by customers. In Kenya, customers are yet to appreciate and use agent banking services as compared to the use of mobile banking. A number of issues have been highlighted that are likely to cause an impediment into rapid adoption of Agent Banking services in the country. According to a research by Dupaset al (2012) Challenges in Banking the
Rural Poor: Evidence from Kenya’s Western Province, they highlighted one of the issues impeding financial inclusion in Western Kenya as lack of reliability and quality of financial services offered by the bank agents. While commercial banks in Kenya engage into aggressive uptake of Agent Banking Model keen to take advantage of the cost saving and accessibility as a result of this model. It has emerged that agents lack capacity to operate or handle large cash transactions and unutilized security measures. It has also been noted that finding agencies that can provide funds to entrepreneurs is a challenge. Recent CBK statistics show that over 10,000 have been licensed as bank agents, Equity having the highest number at 5,000 active outlets. It has become a major challenge to identify agents with the capacity to handle cash transactions efficiently. Entrepreneurs have reported there is often cash scarcity due to insecurity at the outlets (Nyaboga, Basweti, Miyienda and Onsongo, 2012).

III. RESEARCH METHODOLOGY

The researchers adopted descriptive design which was in form of survey. Surveys were informal of questionnaires issued to bank customers by the researcher this was to help in investigating factors influencing slow adoption of agent banking services by customers.

The descriptive research design was used for questionnaires to agent banks/bank customers. The study was carried out in Roysambu constituency which has a population size of over 202,284 people covering 48.80 Square Kilometers as per 2009 census. The target population (of a 100 respondents) of this research comprised of adult population holding bank accounts (specifically the ‘banked’ population). (IEBC, 2012).

The research was based on probability sampling and used simple random sampling which involved selecting the sample at random from the sampling frame. For this study, the researchers used Roysambu population for the people using agency banking services or holding a bank account with the banks providing Agent Banking services. The researchers wanted to know why the customers are adopting these services at a very slow pace unlike how it was first anticipated when the model was rolled out.

The research sample was obtained using the coefficient of variation as proposed by Nassiuma (2000) asserts that in most surveys or experimentation, the coefficient of variation of 30% is acceptable; therefore, this study used a coefficient of variation of 30% and a standard error of 5% (0.05). Sample size was calculated using formula (Nassiuma, 2000).

The researchers worked with a 95 per cent level of certainty. Saunders et al (2003) provides a table with the margin of error as a rough guide to the different minimum sample sizes required from different sizes of population at the 95 per cent level of certainty (Saunders, Lewis and Thornhill, 2003).

Using sample size computation formula, sample size with standard error of ±3%, ±5%, ±7%, and ±10% where Confidence Level is 95% and P=.5 (Israel, 2012)

<table>
<thead>
<tr>
<th>Size of Population</th>
<th>Standard Error of:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>±3%</td>
</tr>
<tr>
<td>100,000</td>
<td>1,099</td>
</tr>
<tr>
<td>&gt;100,000</td>
<td>1,111</td>
</tr>
</tbody>
</table>

Using formula: \( n = \frac{N}{1 + N(e)^2} \)  
Sample Size Formula

Where \( n \) is sample size, \( N \) population size and \( e \) standard error (Israel, 2012).

Primary data was used for data collection of the study. Survey or questionnaires were used by the researchers to obtain information or data from the respondents (Cooper and Schindler, 2001).

IV. RESULTS AND FINDINGS

Respondent Awareness of Various Agent Banking Services Offered

The respondents were asked if they were aware of various Agent Banking Services offered. 12.2% of the respondents strongly disagreed, 41.5% disagreed, 4.9% had no idea, 35.4% agreed and 6.1 strongly agreed. Majority of the respondents were not aware of various services offered through Agent Banks on behalf of their banks.
An Investigation on Slow Adoption of Agent Banking Services in Kenya as Strategic Response by Commercial ...

Use of Agent Banking Services Regularly
The respondents were asked if they use the Agent Banking Services regularly. 25.6% strongly disagreed, 52.4% disagreed, 1.2% had no idea, 18.3% agreed and 2.4% strongly agreed. Majority of the respondents rarely use or do not use Agent Banking Services.

Bank Agent Inform Customers of Agent Bank Services
The respondents were asked if the Bank Agents ever inform them of various services the Agent Banks provide. 24.4% strongly disagreed, 58.5% disagreed, 3.7% no idea, 12.2% agree, 1.2% strongly agreed.

Agent Banks Provide Adequate Banking Services
The respondents were asked whether they felt that the Agent Banks provide adequate banking services to the customers. 13.4% strongly disagreed, 46.3% disagreed, 12.29% no idea, 26.8% agreed, 1.2% strongly agreed. Majority of the respondents did not believe Bank Agents provide adequate services, the respondent highlighted that the Bank Agents might not be able to provide adequate services since some of these services were technical and lack of immediate feedback in case customers had queries.

Is it Possible to Establish Whether Bank Agents are Genuine
The respondents were asked if it was possible to establish if the Bank Agents they were dealing with were genuine. 12.2% strongly disagreed, 37.8 disagreed, 15.9% no idea, 29.3% agreed, 4.9 strongly agreed.

One Sample Test
The findings on the customer’s awareness level of the existence of Agent Banking services show that the Agent Banks are easily identifiable from the way they are branded and majority of the respondents can easily identify an Agent Bank in their neighborhood hence the mean of 3.8 which was the highest. Majority of the respondents confirmed that there were Agent Banks in their neighborhood hence depicted by a measure of a mean of 3.7. However, the respondents disagreed that Bank Agents inform them of various Agent Bank services offered hence depicted by a measure of 2.0 which was the lowest followed by use of Agent Bank services regularly which was measured by a mean of 2.1.

The findings on customer awareness levels of existence of Agent Banking services was that although the respondents were able to identify an Agent Bank (reflected by a t-value of 32.7 which is the highest), it is evident many of the respondents did not use these services (reflected by the t-value of 17.0 which is the lowest) or neither were they familiar with the sort of services that these Agent Banks can be able to offer instead of walking into a banking hall and spending a lot of time queueing to transact.

Correlation of Variables
The results from the findings are represented on table below. The following was There is a strong positive correlation between use Agent Banking services and awareness of various services Agent Banking offers (0.225), regular use of these services (0.602), if the services are adequate (0.462) and if it is possible to establish if the bank agents are genuine (0.292).

There is a strong positive correlation between the awareness of existence of Agent Banks in the respondent’s residence to if the Agent Banks are easily identifiable or recognizable (0.311) and Awareness of Agent Bank Services offered by the respondents (0.313).

There is a strong positive correlation (0.290) between the easily identifiable Agent Banks to awareness of Agent Banking Services offered. It is clear that the respondent although they were able to recognize Agent Banks in their neighborhood, they were not aware of various services Agent Banks offers this is because majority of the respondents never use Agent Banking Services.

There is a strong positive correlation between Awareness of the Agent Bank services to regular use of Agent Banking Services (0.351), where the bank agents informed the agent bank users on various services offered (0.378), if the Agents provided adequate banking services (0.422), if it was possible for the customer to be able to establish if they were dealing with a genuine Bank Agent (0.440). Although the respondents seem to be aware of Agent Banking services neither used the services, they were not aware of the services offered nor were they able to establish if the Agent Banks were genuine.

Challenges Facing Customers Using Agent Banking Services
Agent Banking Services Costs are High
The respondents are asked if they felt that the Agent Banking Services costs are high. The responses were: 2.4% strongly disagreed, 34.1% disagreed, 18.3% had no idea, 34.1% agreed, 11% strongly agreed. Majority of the respondent were agreement that Agent Banking services charges were costly.

*Corresponding Author: Zachary M. Mosoti
Agent Banking Services Costs are Higher than Normal Bank Charges
The respondents were asked whether they felt that the Agent Banking services charges were higher than normal bank charges. The results were: 2.4% strongly disagreed, 31.7% disagreed, 14.6% no idea, 37.8% agreed, 13.4% strongly agreed. Majority of the respondents were in agreement that Agent Banking services charges were higher than normal banking charges. Most respondents indicated they preferred using ATM which are readily available since the charges were lower.

Agent Banking Transaction Costs are Clear to Customers
The respondents were asked if Agent Banking Services costs were clear to them. The results were: 8.5% strongly disagreed, 41.5% disagreed, 17.1% no idea, 29.3% agreed, 3.7% strongly agree. Majority of the respondents indicated that they did not understand how much the Agent Banks service charged hence charges unclear.

Customers Incur Transport Costs when Visiting Agent Banks
The respondents were asked if they incur transport costs in case they visit Agent Banks. The results were: 20.7% strongly disagreed, 57.3% disagreed, 7.3% no idea, 13.4% agreed, 1.2% strongly agreed. Majority of the respondent did not incur transportation costs while visiting an Agent Bank. This was proof that Agent Banks were available in the respondent’s neighborhood or place of residence.

Agent Bankers are Trustworthy
The respondents were asked if they felt whether they trusted Agent Bankers. The results were: 9.8% strongly disagreed, 29.3% disagreed, 9.8% no idea, 46.3% agreed, 4.9% strongly agreed. Majority of the respondent indicated that they have trust Agent Bankers and although a good percentage of the respondents had reservations about the credibility of the bank agents. The respondents felt that they were not comfortable with bank agents handling their financial information or details.

Customers Visit Specific Agent Banks
The respondents were asked if they visit specific agent banks, this was to ascertain whether the respondents felt comfortable using a particular bank agent or they were trusted any agent bank to carried out their transactions. The results were: 19.5% strongly disagreed, 45.1% disagreed, 4.9% no idea, 25.6% agreed, 4.9% strongly agreed. Majority of the respondent indicated they don’t visit any specific agent bank hence they would be comfortable to transaction with no specific agent banker.

Banks Have Created Awareness of Agent Banking Services
The respondents were asked if the financial institutions (banks) have created public awareness of Agent Banking Services (advertisement) to inform the public of these services. The results were: 23.2% strongly disagreed, 43.9% disagreed, 2.4% no idea, 24.4% agreed, 6.1% strongly agreed. Majority disagreed that the banks have created enough Agent Banking Services and hence many bank customers were unaware of these services. It was indicated that increased advertisement and campaigns would help in rapid adoption of Agent Banking Services.

Agent Banking Services are Reliable
The respondents were asked whether Agent Banking Services were reliable, this was to ascertain whether these services are consistent or dependable. The results were: 13.4% strongly disagreed, 48.8% disagreed, 4.9% no idea, 30.5% agreed, 2.4% strongly agreed. Majority disagreed these services are not dependable as compared to the actual banks.

It is Secure to Deposit or Withdraw Using Agent Banking Services
The respondents were asked whether they felt secure depositing or withdrawing using Agent Banking Services. This was to ascertain whether the costumers would be comfortable in depositing or withdrawing money from these agent banks. The results were: 12.2% strongly disagreed, 46.3% disagreed, 8.5% no idea, 30.5% agreed, 2.4% strongly agreed. Majority were in agreement that they did not feel secure making deposits or withdrawals from an agent bank.

Agent Banking Services Affected By Power/System Failure
The respondents were asked whether they have ever been affected or barred from using agent banking services due to power or system failure when visiting an agent bank. This was to ascertain whether the customers have ever faced challenges in transacting due to power blackouts or system breakdown and hence they were not able to carry out the transactions. The results were: 15.9% strongly disagreed, 35.4% disagreed,

*Corresponding Author: Zachary M. Mosoti
18.3% no idea, 29.3% agreed, 1.2% strongly agreed. Majority disagreed that they have ever been barred from using these services due to power failure or system breakdown. This is a

Agent Banking Services Lack of Sufficient Float
The respondents were asked whether they have ever been barred from using agent banking services due to lack of float when visiting an agent bank. This was to ascertain whether the customers have ever faced challenges in transacting due to liquidity issues. The results were: 15.9% strongly disagreed, 35.4% disagreed, 18.3% no idea, 29.3% agreed, 1.2% strongly agreed. Majority disagreed that they have ever been barred from using these services due to lack of float. This is a result of majority not using Agent Banking Services.

One Sample T-test
The One-Sample T Test procedure tests whether the mean of a single variable differs from a specified constant. Based on the findings, the findings on the challenges facing customers using agent banking services costs charged due to use of these services reflected by a mean of 3.2 and 3.1 for the costs and costs which are higher than the normal banking charges such as ATM charges. However the challenges of trust as a result of visiting specific agent banks and banks creating awareness showed are the least of the challenges resulting to slow adoption of these reflected by a mean of 2.25 and 2.19 respectively.

As per the T-test below, agent banking services charges or costs seem to be the biggest challenges facing adoption as reflected by the as Agent Banking services cost and the higher charges than normal banking charges (T-test of 26.155 and 26.4). Other major challenges facing slow adoption of Agent Banking Services include Charges not being clear (23.367), transport costs incurred to use the services (20.62), Agent Bankers to be trustworthy (23.923), in security when transacting (21.488), Power and System failure challenges (21.704) and Liquidity issues (20.764).

Correlation of Variables
From the results, there is a strong positive correlation between Agent Banking Services cost and these costs compared to what the bank is charging (0.770). Strong Positive correlation is also evident between Agent Banking Service costs not being clear to Transport costs incurred (0.313), Agent Banker's trustworthiness (0.279), use of specific bank agents by customers (0.286), Agent Banking Services reliability (0.291) and on whether Agent Banking services are secure (0.366).

There is a strong negative correlation between inability to access Agent Banking services due to power or system failure to Agent Banking services charges being high (-0.286) and these charges being higher than what the banks are charging (-0.267).

Factors Affecting Adopting of Agent Banking Model Agent Banking Services Beneficial to Customers
The results from the findings on whether the respondents felt that Agent Banking Services were beneficial to the customers: 8.5% strongly disagreed, 17.1% disagreed, 3.7% no idea, 45.1% agreed, 25.6% strongly agreed. Majority of the respondents were in agreement that Agent Banking Services is beneficial for the customers, if all the challenges were looked at by the financial institutions (banks) offering these services.

Agent Banks Cater Customers Banking Needs
The results from the findings on whether the respondents felt that Agent Banking Services catered for their banking needs: 13.4% strongly disagreed, 52.4% disagreed, 9.8% no idea, 18.3% agreed, 6.1% strongly agreed. Majority of the respondents did not agree to this statement, they indicated that they were not likely to get the same quality of services from Agent Bankers and the experience would not be the same as compared to using an ATM or visiting the bank.

Customers Experiencing Fraud or Incorrect Transactions
The results from the findings on whether the respondents could have experience fraud or incorrect transaction while transacting using Agent Banking Services: 18.3% strongly disagreed, 61% disagreed, 9.8% no idea, 9.8% agreed, 1.2% strongly agreed. Majority of the respondents did not agree to this statement, they had never experience fraud (such as deposits not been credit in their accounts) or transactions going to the wrong accounts.

The Errors/Fraud Corrected Immediately
The results from the findings on whether the respondents who were in agreement for statement 4.5.4, if the errors or fraud was corrected immediately: 22% strongly disagreed, 51.2% disagreed, 23.2% no idea, 3.7% agreed. Majority of the respondents disagreed with this statement this is because majority of the respondents
were not using the services hence it would be have been possible for them to experience any fraud or incorrect transactions.

**Agent Banks are Secure to Carry out Transactions**

The results from the findings on whether the respondents felt that the Agent Banks premises were secure for conducting banking services: 18.3% strongly disagreed, 50% disagreed, 7.32% no idea, 22% agreed, 2.4% strongly agreed. Majority of the respondents did not believe that Agent Banks are secure for carrying out banking transactions such as withdrawing money from their accounts.

**Agent Bankers have Demonstrated Sufficient Knowledge of ABS**

The results from the findings on whether Agent Bankers have demonstrated sufficient knowledge operating Agent Banking Services: 18.3% strongly disagreed, 42.7% disagreed, 11% no idea, 26.8% agreed, 1.2% strongly agreed. Majority of the respondents did not believe that Agent Banker demonstrated sufficient knowledge in Agent Banking Services; this could be as a result of perception because as the results majority of the respondents did not use Agent Banking Services and the response could have been as a result of perception and not experience.

**Agent Bankers have provided Sufficient Customer Services**

The results from the findings on whether Agent Bankers provided sufficient customer services: 13.4% strongly disagreed, 53.7% disagreed, 11% no idea, 20.7% agreed, 1.2% strongly agreed. Majority of the respondents did not agree that Agent Bankers provided sufficient customer services. This again, could have been influence more on the perception by the respondents than experience since majority of the respondents did not or have never used these services.

**Agent Banking Services are Reliable/Efficient**

The results from the findings on whether Agent Banking Services were reliable or efficient: 13.4% strongly disagreed, 45.1% disagreed, 7.3% no idea, 32.9% agreed, 1.2% strongly agreed. Majority of the respondents did not agree that Agent Banking Services were reliable or efficient. Majority of the respondents felt that Agent Banks lacked the capacity to operate efficiently or reliable this is because of the various challenges that the model is facing.

**Agent Banks Ask for Identification Documents**

The results from the findings on whether Agent Banking Services were reliable or efficient: 7.3% strongly disagreed, 31.7% disagreed, 17.1% no idea, 35.4% agreed, 8.5% strongly agreed. Majority of the respondents either did not agree or had no idea whether were asked for identification documents such as national identity card, passport or driving license.

**One Sample T-test**

The One-Sample T Test procedure tests whether the mean of a single variable differs from a specified constant. Based on the findings below, the findings on the factors affecting adoption of agent banking model Agent Banking model was viewed to be beneficial to the customer (mean 3.6) and Identification of the customer to ascertain authenticity or genuineness of the customer (mean 3.1) were the major factors that emerged that affect slow adoption of Agent Banking Services.

Other factors affecting adoption of Agent Banking Services included Reliability or efficiency of Agent Banking Services (mean 2.6), Agent Banking services meeting customer’s needs (mean 2.5), Agent Bankers demonstrating sufficient knowledge on the services (mean 2.5), Agent Banker providing sufficient customer services (mean 2.4) and security of the Agent Bank premises (mean 2.4). The least factors include: errors or incorrect transaction (mean 2.1) and correction of these errors or incorrect transactions (mean 2.1).

**Correlation of Variables**

From the results, there is a strong positive correlation between Agent Banking is beneficial to the customers to if the services cater for the need of the customers (0.232), this show that as much as the services are deemed to be beneficial to the customers they do not cater for the need of its customers.

There strong positive correlation between Agent Banking services catering for the need of its customers and whether the customers have experienced any fraud or incorrect transactions (0.236), Agent Bankers demonstrating sufficient knowledge (0.236) and Agents providing sufficient customer services (0.230). Majority of the respondents indicated that the services do not cater for their needs although majority had not tried to use the services hence could not be able to ascertain whether they had experienced fraud or errors, agent bankers demonstrated knowledge on these services or if they provided sufficient services.

*Corresponding Author: Zachary M. Mosoti*
From the findings there is a strong positive correlation between customers who have experienced fraud or incorrect transactions to time taken to correct the erroneous transactions (0.309), Agent Banks being secure (0.310), Agent bankers demonstrating sufficient knowledge (0.278), agent bankers providing sufficient customer services (0.286) and request of identification document by the agent banker (0.245). This is as a result that respondents had not experienced erroneous transactions since they were not using the services although they had reservations that the agent banks were not secure, agent bankers did not demonstrate sufficient knowledge or provide sufficient customer services.

There is a strong positive correlation between Agent Banks Premises not being secure to , Agent bankers demonstrating sufficient knowledge (0.752), agent bankers providing sufficient customer services (0.613) and if the services are reliable or efficient (0.645). There is a strong positive correlation between Agent Banker demonstrating sufficient knowledge on the services to agent bankers providing sufficient customer services (0.677), if the services are reliable or efficient (0.635) and agent bankers asking for identification documents from the customers (0.246).

There is a strong positive correlation between Agent Banker providing sufficient customer services to if the services are reliable or efficient (0.670) and agent bankers asking for identification documents from the customers (0.276). There is a strong positive correlation between if the services are reliable or efficient to agent bankers asking for identification documents from the customers (0.335).

Overall on the finding of this section, the respondents were in agreement that indeed Agent Banking Services was a noble venture by the financial institution (banks) but there is still so many areas that need to be streamlined in order the services to win the confidence of the current and future customers.

IV. DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

Summary

The purpose of this study was to investigate the factors contributing to slow adoption of Agent Banking services by customers in Kenya. The study was guided by the following research questions: what are the customer awareness levels of existence of Agent Banking services; what are the challenges facing customers using Agent Banking Services and what factors are influencing adoption of Agent Banking Services by customers?

The research adopted a descriptive research design. The sample size comprised of 100 people operating bank accounts with the major banks providing Agent Banking Services. The study adopted probability sampling and used simple random sampling which involved selecting the sample at random from the sampling frame. For this study, the researcher used Roysambu constituency population for the people using Agency Banking Services or those holding a bank account with the banks providing Agent Banking services. The researcher issued questionnaires to the respondents and which were entered in on Statistical Package for the Social Sciences (SPSS) software for analysis of the data. The data was analyzed using descriptive statistics and the statistical indexes used were mean, percentages and frequency whereas inferential statistics used were sample t-test and correlation for analysis to be able to interpret the findings. Data output was presented in form of tables and figures as per the research questions.

The first research question was looking at customers awareness level of existence of Agent Banking Services, majority of the respondents admitted that they did not use these services although many had access or aware of the services in their neighborhood; they were in agreement that the banks were easily identifiable to the brand although they had no idea of various services being offered or were they able or confident to know if the agent bank they were dealing with was genuine or not. The respondents were in a position to establish whether agent banks were providing adequate services or whether these agents are in a position to give them more information regarding Agent Banking Services because they do not visit them.

Second research question, dealt with challenges facing customers using Agent Banking Services, cost of the services came up as one of the biggest challenge on the adoption of these services compared to the normal banking services such as ATM charges. Agent banking is not so popular because most of the respondents indicated that ATMs, mobile banking and internet banking services were being offered by their banks which were far much reasonably priced compared to Agent Banking services. However the challenges of trust as a result of visiting specific agent banks and banks creating awareness proved to be the least of the challenges. Other major challenges facing adoption of Agent Banking Services include Charges not being clear, transport costs incurred to use the services, Agent Bankers to be trustworthy, in security when transacting, Power and System failure challenges and Liquidity issues.

The last research question addressed factors affecting adoption of Agent Banking Services. In general the respondents were in agreement that Agent Banking Model is beneficial to the customer and it’s a major factor that can be considered in implementation and sustenance of this product by financial institutions. However, the financial institutions should implement mechanisms to ensure KYC regulations are adhered to

*Corresponding Author: Zachary M. Mosoti
through identification of the customer to ascertain authenticity or genuineness of the customer. Other factors include: reliability or efficiency of Agent Banking Services, Agent Banking services meeting customer’s needs, Agent Bankers demonstrating sufficient knowledge on the services, Agent Banker providing sufficient customer services and security of the Agent Bank premises, errors or incorrect transaction and correction of these errors or incorrect transactions.

V. DISCUSSION

Customer Awareness Level of Existence of Agent Banking Services

The findings on the customer’s awareness level of the existence of Agent Banking Services indicated that although many people were familiar or aware of the existence of Agent Banking Services which are easily identify in their neighborhood given the branding of these shops (agent banks) and awareness made by financial institutions through advertising, people are yet to warm up to the idea of Agent Banking Services in Kenya.

According to the results of the findings CBK objective is yet to be met. According to statistics from the Central Bank of Kenya (CBK), over 10,000 agent banks had been licensed, most of which are run by Equity, KCB and Co-operative banks. This was as a bid by CBK to increase financial services outreach and promote financial inclusion to the un-banked and under-banked population without risking the safety and soundness of the banking system. The regulator noted that banks are to use agents in the provision of banking services to reduce the cost of financial services and to foster financial inclusion, reach and depth (Mengo, 2011).

According to the results more than 57% of the respondent do not use Agent Banking services, 79% of the respondents were in agreement that there are Agent Banking Services where they reside 84% of the respondents were in agreement that Agent Banks were easily identifiable although more than 50% of the respondents were not familiar on the various services offered by Agent Banks neither did they use these services regularly. This confirmed a previous study carried out by Dupas et al (2012) in Kenya’s western region (a rural region) where an observation was made on low rate of formal banking in the country. The people in this region had very low knowledge of financial institution activities/operations. Therefore, this was evidence that marketing activities rolled by commercial banks have not been effective. Banks had not been successful due to low number of people with knowledge of the services offered by the banks. The findings in their research indicated that reduction of account opening fees and account opening hassle would influence people to save more hence trigger an increase in agent banking services. The same people rarely used their accounts this reflecting the low use of banks and therefore less need for Agent Banking Services (Dupas, Green, Keats and Robinson, 2012).

More than 86% of the respondents did not agree that the agents inform the customers of Agent Banking Services offered. 72% of the respondents did not agree that Agent Banks provided adequate services to the customers. Although some of the respondents confirmed having agent banks in their neighborhood, this agent banks were mainly for two major banks (Co-Operative Bank and Equity Bank) hence most of the customers who bank with other banks have limited or no access to Agent Banking Services because their banks do not offer these services or agent banks are not available in their neighborhood. According to Cohen, Hopkins and Lee (2008) access of agency banking services still remains limited to a small percent of the sub-Saharan population despite the high growth of the model in the banking industry. Less than 10 percent of all agent banking customers are poor and new to banking and are using the branchless services Cohen, Hopkins and Lee, 2008).

Challenges Facing Customers Using Agent Banking Services

The results of the findings indicated that one of the major challenges facing customers is the costs charged due to use of these services and which they felt were higher than normal banking charges such as ATM charges, as indicated by 45% of the respondents who agreed that the charges were high while 51% of the respondents agreed the charges while higher than normal bank charges. This was a confirmation to the concern raised by Lee and Mexico (2012) that cost is one of the major impediments to financial inclusion. The costs can be inform of serving low balance or value accounts, expansion of physical infrastructure in the unbanked regions and costs in terms of customer money and time in these regions or remote areas. It is evident that Agent banking is rapidly growing and its regulations plays a critical role of enhancing and controlling its growth. Regulation is required to create a balance between promoting financial inclusion and financial system integrity (Lee and Mexico, 2012).

Lack of clarity and understanding of how much is charged to using Agent Banking Services was indicated where 67.1% of the respondents disagreed that the charges were clear. Cohen et al (2008) in their report mentioned that customers are highly confused regarding transactions fees, and very few people know how much it costs to perform such transactions. Customer’s frustration occurs when transactions fail, such as funds withdrawal since customers do take into account the charges for different transactions. Such as charges relating to balance inquiries or transferring money. Some customers in Kenya are unsure of the fees incurred when using a debit card to make purchases (Cohen, Hopkins and Lee, 2008).
From the findings 69.5% of respondents indicated they did not understand Agent Banking Model. This confirms the finding in M-Crill’s report that lack of information about the services offered by the financial institutions is an impediment to the growth of agent banking model in the banking industry. Customers literacy level and especially on the remote or rural setting where people are usually illiterate or semi-literate. These customers are unlikely to take advantage of the facilities. Financial institutions should introduce literacy centers for providing counseling to the target customers is important (M-CRIL, 2012).

Lack of trust and insecurity emerged as an impediment to the adoption of agent banking services from the findings. 49% of the respondents indicated they had an issue in trusting the agent bankers or were insecure in transacting using agent banking services. Agent banking model’s security and trustworthiness was termed as one of the most important factors within every target customer segment when deciding on the use of a banking service delivery channel (State Bank of Pakistan, 2008).

Results of the findings indicated that although 69.5% of the respondents did not experience inaccessibility of Agent Banking Services due to power and system failure some of the respondents had however experienced these challenges. Technological risks relate to electricity disruptions, systems failure such as software or hardware malfunctioning which can cause interruption of services delivery or information loss. Legal and compliance risks are brought about by legal suites by customers as a result of theft by agent or violation of privacy laws as a result of misuse of confidential customer data. Agents may also sue the bank for breach of contract or other claims. For example Brazil is facing these risks where banks are being sued by the agents as they would want to be accorded the same benefits as those of the bank staff because the duties that they perform are equal to what the bank staffs are doing such as salaries and leave (Lauer, Dias and Tarazi, 2011).

The findings also indicated that 35% of the respondents had in one way or another been unable to withdraw from agent banks due to lack of float by the agents. According to Lyman et al (2008) report bank agents especially those that are small-scale, unsophisticated, and remote, may not have enough cash to meet customers’ requests for withdrawals and may lack experience in the more complex liquidity management required for offering financial services. To manage liquidity effectively, retail agents must balance several variables, including turnover of cash, ease of access to the retail agent’s bank account, and processing time of transactions, among others. When retail agents underperform or are robbed, banks’ public image may suffer. Many operational risks mentioned e.g. loss of customer records or the leakage of confidential customer data also can cause reputational risk, as well as illiquidity or lack of float by the bank agents (Lyman, Ivatury and Staschen, 2008).

Factors Affecting Adoption of Agent Banking Model

From the results, 71% of the respondents were in agreement that Agent Banking is beneficial to the customers. However, customers need to be sensitized on the services hence financial institutions cannot rely on agents to market their products or services. The banks will therefore incur costs to ensure that customers are aware and sensitized about the availability of their products. In order to profit from increased transactions customer sensitization is vital additional cost will be incurred in marketing and deploying sales forces, including branch employees, to cross-sell additional financial products to agent customers (Veniard, 2010).

Findings indicate that 76% of respondents indicated that the services do not cater for their needs although majority were yet to attempt to use the services hence could not be able to ascertain whether they had experienced fraud or errors, agent bankers demonstrated knowledge on this services or if they provided sufficient services. According to Citibank (2012), financial institution should be ready and proactive to shoulder greater accountability of improvement of management systems, working procedures and customer service at the agent’s network. This will enable the bank customers to benefit from the program. Awareness and social mobilization of an unprecedented scale would be required to fully exploit the financial infrastructure that is being created. If carefully rolled out, agent banking model has the potential to pave way a second banking revolution in a country in order to achieve a near total Financial Inclusion (Citigroup, 2012).

11% of the respondents who had experienced fraud or incorrect transactions indicated that for 96% of them it has taken time taken to correct the erroneous transactions. According to Okuthe (2012) good infrastructure means a high degree of interoperability. It also depends on effective delivery channels. In order to ensure that welfare grants were distributed to the unbanked in Brazil, especially in the rural areas, it required infrastructure be adopted such as that in Kenya, Bolivia, Colombia, India, Mexico, Pakistan, Peru, and South Africa. A stable and efficient agent banking model depends on technology which facilitates the interaction of banks and customers remotely. POS card readers, mobile phone, barcode scanners should be provided to the banking agents to facilitate scanning of bills for bill payment, PIN pads, and personal computers (PCs) that connect to bank’s server using personal dial-up or other data connection (Okuthe, 2012).

According to George and Venkata (2012) in their research in India, customers consider attributes in agent in order to use their services. Character and education were considered to be vital and most preferred and

*Corresponding Author: Zachary M. Mosoti
this influences their usage of agent banking services. Character, refers to honesty which is what the customers look for who is not expected to defraud the customers especially on the savings mobilization. Some customers fear fake services. Education, is a must have for agent because customers consider banking to involve complex processes, like book keeping. Domicile, refers to familiarity which is also a vital attribute in establishing credibility, the more familiar an agent is to his or her people the higher the level of confidence a customer will have especially in using the services. Property Ownership, customers preferred agents who owned property as a reassurance that their money was safe, the fact that customers prefer an agent who owns a property is deterrent to fraud and flight (Denny and Venkata, 2012).

The findings indicated that 76% of the respondents were conscious Agent Banking Services security, it was evident that they had no confidence with the agent’s knowledge in banking and did not deem their knowledge has sufficient, neither were they confident on the agents competency to provide sufficient customer services. This can be realized if financial institutions implement proper system in place such as infrastructure backup, disaster recovery plan and technical security infrastructure to ensure timely services availability to all clients. Financial infrastructure has the potential to enhance financial inclusion. Key elements of financial infrastructure are credit information systems, collateral enforcement of collateral and functioning payment, remittance, and securities settlement systems are vital are key to facilitating greater access to finance, improving transparency and governance, and safeguarding financial stability. Proper financial infrastructure demonstrates that greater number of customers can be reached. It is estimated that over 390 million people in developing nations are covered by financial institutions while over 700 million are affected by remittances, and over one billion by payment systems. Future growth prospects of the financial infrastructure are likely to increase these figures and where the unbanked population will have been increased (Stein, Randhawa and Bilandzic, 2011).

VI. CONCLUSION

Customer Awareness Level of Existence of Agent Banking Services

The findings on the customer’s awareness level of the existence of Agent Banking services indicate that respondents are aware of the existence of these services and were able to identify agent banks but they were not keen in using these services. Also, for those who use these services they did not use them regularly. Respondents were in agreement that Bank Agents did give them information on various Agent Bank services offered. There is no clear way for the customers to know that they are dealing with genuine agents so as to enhance their confident in order to increase usage of these services. Therefore, the agent banks still remain under utilized as customers continue to prefer to walk into a banking hall and spending a lot of time queuing to transact

Challenges Facing Customers Using Agent Banking Services

From the findings, respondents indicated the challenges facing customers using agent banking services include: costs charged due to use of these services were high this is because they were much higher compared to normal bank charges such as ATM charges, respondents indicated that they were not familiar or it was not clear how much it costs to use these services. Transport also an issue to especially those respondent whom their bankers did not have wide network coverage, trustworthiness of the bank agent was also an issue, respondents were also apprehensive on security of transacting, infrastructure challenges such as system and power failure, liquidity concern was also raised due to lack of float. . The Agent Banking Services might not be a concept that is likely to be adopted fully by the customers and unbanked persons, this is because banks are offering other services which are competing with these services (Agent Banking) and which are far much convenient, reliable, guarantees confidentiality and which operate for 24 hours such as ATMs, M-Pesa, Internet Banking and Mobile Banking, hence the creating a slow adoption of these services.

Factors Affecting Adoption of Agent Banking Model

Agent Banking Model is beneficial to the customer and it’s a major factor that can be considered in implementation and sustenance of this product by financial institutions. However, the financial institutions should implement mechanisms to ensure KYC regulations are adhered to through identification of the customer to ascertain authenticity or genuineness of the customer. Other factors include: reliability or efficiency of Agent Banking Services, Agent Banking services meeting customer’s needs, Agent Bankers demonstrating sufficient knowledge on the services, Agent Banker providing sufficient customer services and security of the Agent Bank premises, errors or incorrect transaction and correction of these errors or incorrect transactions.

Recommendations

Customer Awareness Level of Existence of Agent Banking Services

The financial institution should embark on intense campaigns or advertising of creating awareness to the customers and the public in general is aware of these services. The financial institution should ensure that
safety and soundness of the banking system especially Agent Banking Services. These services are believed to provide banking services at a lower cost and to foster financial inclusion. CBK should ensure that the guideline to financial institutions of carrying out sensitization of their agents, customers and about their agent banking business to the public is being implemented. The banks should also embark on regular training of the agents to ensure they are familiar they understand Agent Banking services. This can be through public awareness campaigns, brochures and other programs as the nature of the institution’s products may require. The financial institution should also embark on expanding their network coverage of these Agent Banks around the country to ensure that customers have easy access to these services.

Challenges Facing Customers Using Agent Banking Services

Financial institutions should introduce literacy centers for providing counseling to the target customers which is very important. Financial education may be a necessary requirement for dealing with natural complexity that comes with a new product or service so that the product can appeal to the customer. It is therefore clear that financial literacy and education fully adopted in future in order to achieve full financial inclusion. Financial institutions have the responsibility of formulating clear, well documented ADD policy and procedures. The guidelines should provide at minimum agent application requirement, initial due diligence and regular due diligence checks to be performed at specified intervals and a list of early warning signals and corrective actions to ensure proactive agent management. Regulators should therefore be mindful of imposing costly burdens that threaten the agent banking models they are regulating. Fit and proper tests implemented by the regulators should go beyond requirements in specifying other qualifications, such as citizenship, literacy, minimum age, or technical or operational capability. These regulations are termed important as a way of ensuring that there is appropriate customer service, security, and reliability.

Factors Affecting Adoption of Agent Banking Model

CBK has been on the forefront in spearheading the regulation of agent banking model which they have used open and flexible approach. In agency banking regulations should be implemented which distinguish between pure transactional outlets and full service bank branches. Financial institution should be ready and proactive to shoulder greater accountability of improvement of management systems, working procedures and customer service at the agent’s network. This will enable the bank customers to benefit from the program. Awareness and social mobilization of an unprecedented scale would be required to fully exploit the financial infrastructure that is being created.

REFERENCES


*Corresponding Author: Zachary M. Mosoti
An Investigation on Slow Adoption of Agent Banking Services in Kenya as Strategic Response by Commercial ...


*Corresponding Author: Zachary M. Mosoti