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Role of Agent Banking Services in Promotion of Financial Inclusion in Nyeri Town, Kenya

Dr. Francis Ofunya Afande, PhD., FCIM (UK).
Dedan Kimathi University of Technology, P.O. Box 657,10100, Nyeri Kenya
offunya@gmail.com

Salome Wairimu Mbugua
Dedan Kimathi University of Technology, P.O. Box 657,10100, Nyeri Kenya
schoolofbusiness@dkut.ac.ke

ABSTRACT
Aims: This study explores the extent to which banks have been able to partner with agents, commercial entities whose primary objective and business is other than the provision of financial services. The study was guided by the following objectives: to evaluate the extent to which geographical coverage, security, agency banking and availability of liquidity of agency banking has promoted financial inclusion. **Methods:** For the purpose of this study a descriptive research design was used. The study focused on selected commercial banks in Nyeri County, Kenya and was completed in a period of three months. Data was collected by use of questionnaires, which were administered to bank branch managers and appointed agents of Equity Bank, Co-operative Bank and Kenya Commercial Bank, which have recently developed extensive networks of such agents, and then analyzed using descriptive and inferential statistics. **Results:** The findings of the study indicated as follows; customers were willing to forego the extra charge to procure banking services through agent banking outlets. Lack of liquidity and security concerns were found to be low. Regression analysis indicated that the four factors (availability of liquidity, geographical coverage, costs and security of agent banking services) have a positive ($F=19.34$) and significant ($P<0.05$) relationship to financial inclusion. In addition, the regression model revealed that 64.1% of financial inclusion can be explained by availability of liquidity, geographical coverage, costs and security of agent banking services. Geographical coverage ($P<0.05$) had the highest contribution to financial inclusion since a change in 1 unit of geographical coverage accounts for a 12.6% change in financial inclusion.**Conclusions:** The study concluded that greater geographical coverage brought about by agent banking is the strongest predictor of financial inclusion. This is because services are brought closer to the people and thus saves a lot of time which would have been used to queue in banking halls or ATMs. The researcher recommended that more agent banking outlets should be opened to offer more services to increase the geographical coverage and that agents should be fully vetted and monitored to avoid lack of liquidity and security breaches.
Keywords: Agent, Agent banking business, Costs, Financial inclusion, Geographical coverage, Liquidity, Security.

1.0 INTRODUCTION

1.1 Background of the Study

Financial inclusion is defined as the ability of an individual, household, or group to access a full range of responsibly delivered, affordably priced and reasonably convenient formal financial services. Without this ability, people are often referred to as financially excluded. People that are financially excluded might not be able to access affordable credit, and are financially at risk of not having home insurance, struggle to budget and manage money or plan for the unexpected and not know how to make the most of their money (FSD, 2010). Evidence shows that financial inclusion is key to reducing the economic vulnerability of households, promoting economic growth, alleviating poverty and improving the quality of peoples' lives (Christen, Lauer, Lyman & Rosenberg, 2011).

According to Financial Sector Deepening results for 2009, Kenya has made impressive strides over the past 5 years in financial inclusion. While formal exclusion has yet to match levels in Southern Africa, the proportion of the population which is completely excluded is lower in Kenya than any other East African country. Formally included people (defined as those using a bank, Postbank or insurance product) went up from 18.9% in 2006 to 22.6% in 2009 (FSD, 2010). Although this appears interesting a lot has to be done to bring more Kenyans to financial inclusion. On the same note, FinAccess in 2009 noted that 58.5% of users of formal financial services and 56% of users of other formal financial services also use informal financial services. On the other hand in 2009, rural Kenyans were less likely to use formal banking or other formal financial services, but were still more likely to use informal financial services (FinAcces, 2009). Financial inclusion data from Word bank shows that 42% of Kenyans aged 15 years and above had an account at a formal financial institution as at 2011 (World Bank, 2012). Moreover, recent evidence suggests that rising numbers of clients mask low levels of actual usage:

A growing share of new accounts is dormant (Stefan,2010) and Only 50 percent of registered M-PESA clients use the service at least once a year (FinAccess, 2009).

Kenya's current development blueprint; Vision 2030, aims to bring in more Kenyans under financial inclusion, In pursuit of this strategy, the CBK in 2009 come up with Agent Guidelines as a means of addressing financial inclusion and enable more Kenyans access banking services. A banking agent is a retail or postal outlet contracted by a financial institution or a mobile network operator to process clients' 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 a direct deposit from their employer. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices, and many more. This model of banking allows Kenyans access financial services from bank-appointed agents, away from the traditional banking halls.

1.1.1 Agent Banking

In 2009, the Central Bank of Kenya (CBK) commenced measures to open up banking channels to non-bank agents. An amendment to the Banking Act (passed as part of the Finance Act, 2009) allowed banks to start 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) as agents could have a dramatic impact on improving access to financial services, especially in rural areas (FinAcces, 2009).

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 (Keeler, 2011).

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. The particular learning points gained from this knowledge exchange and subsequently applied to the agent banking guidelines were: The importance of a risk-based approach to the supervision and regulation of agents, in Brazil and Colombia, the banks are responsible for managing the risks associated with using agents; The need to focus on the demand side, both countries ensure consumer protection and financial education of customers; 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 co-ordinating the national financial inclusion agenda; and the need to discourage uncompetitive behavior by banks, for example by promoting interoperability and non-exclusivity of agents (Mugo, 2010).

Following the roll out of the agent banking model, commercial banks have been able to contract varied retail entities. These entities, such as security companies, courier services, pharmacies, supermarkets and post offices act as third party agents to provide cash- in -cash-out transactions and other services in compliance with the laid down guidelines. 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 has recruited 8,000 agents, with 2,000 in operation. Co-op Bank has already seen 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).

1.2 Statement of the Problem

Finance serves a long and often-recited list of goals. It mobilizes savings, allocates funds to their most productive uses, and facilitates exchange. It is central to risk management: allowing firms to manage risk, protect

against the loss of productive assets, and insure against productivity shocks such as drought or flood. It allows households to smooth consumption, invest in their children's education, and facilitates investment. With these goals in mind, access to finance is widely considered to be a critical component in the development process based on the accepted belief that it directly improves welfare and encourages growth. Individuals are often defined as having access based entirely on whether or not they currently maintain a formal deposit account. In some cases, average distance from households to an ATM serves as a measure of financial access.

Every governments dream is to have an efficient and inclusive financial system for purposes of resource mobilization. In Kenya, Vision 2030 is premised on a safe, efficient and inclusive financial system where savings and investment rates will more than double. However, Kenya has a relatively sparse financial infrastructure by international standard and more than half of the Kenya's bankable population is still totally out of the financial services orbit. The government through the central bank has therefore been trying exploring and implementing innovative models that will deepen Kenya's financial sector to support savings and investment growth. One of the initiatives has been the agent banking model. More than three years since its commencement in 2010, empirical evidence on the role agent banking model has played in promoting financial inclusion in Kenya is scanty. Therein lays a knowledge gap. Therefore, the purpose of this study was to analyze the role played by agent banking in promoting financial inclusion in Kenya, with emphasis on the factors contributing to financial exclusion, such as geographical coverage of agents, security, liquidity of agents and cost of financial services via agents.

1.3 Purpose of the Study

The purpose of this study was to evaluate role of agent banking services in promoting financial inclusion in Kenya.

1.4 Objectives of the Study

The study was guided by the following objectives:

i. To evaluate the extent to which geographical coverage of agency banking has promoted financial inclusion.
ii. To assess the extent to which security concerns associated with agency banking affect financial inclusion.
iii. To analyze the extent to which agency banking has reduced the cost of financial services by commercial banks.
iv. To assess the extent to which agency liquidity affects financial inclusion.

1.5 Significance of the Study

The research findings will be of paramount benefit to various individuals and institutions.

i. Since agency banking is still a new concept in Kenya, this research will help highlight issues that might emerge in the implementation and even after implementation. This will help commercial institutions to come up with policies and procedures to handle such issues before they become big problems so as to gain full potential of this innovation, on the other hand, the regulatory authority will be able to adopt proper guidelines to regulate and offer advice on such issues.
ii. This information will be important for decision making to individuals investors who intend to engage in agent banking.
iii. The research findings will contribute to the body of knowledge since it looks at a relatively new area which is constantly growing and empirical literature is limited.

1.6 Definitions of Significant Terms

Agent: an entity that has been contracted by an institution and approved by the Central Bank to provide the services of the institution on behalf of the institution in the manner specified by the CBK Guideline.

Agent banking business: business carried out by an agent on behalf of an institution as permitted under CBK guideline.

Costs: refers to the cost of financial services like cash withdrawal and deposit and balance inquiry through agents.

Financial inclusion: refers to the policy goal of reaching both banked and unbanked households with a full range of responsibly delivered, affordably priced and reasonably convenient formal financial services.

Geographical coverage: The ability of agency bankers to bring financial services closer to customers.

Liquidity: Availability and access to or convertibility of cash.

Security: The ability of agents to assure safety of customers' liquid cash at their disposal through use of physical security and confidentiality.

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents the theoretical as well as the empirical literature, the theoretical literature focuses on the relationship that exists between the principal and the agent and the agency theory. Empirical literature focuses on what previous researchers have found out in the area, it is guided by the research variables i.e. liquidity, security and cost associated with agency banking. This chapter also analyzes the status of agency banking in other countries like Brazil, India, Peru and Mexico who are the pioneers of agent banking.

2.2 Structure of the Banking Sector in Kenya

As at 31st December 2011, the banking sector comprised of the Central Bank of Kenya, as the regulatory authority, 44 banking institutions (43 commercial banks and 1 mortgage finance company - MFC), 4 representative offices of foreign banks, 6 Deposit-Taking Microfinance Institutions (DTMs), 118 Forex Bureaus and 2 Credit Reference Bureaus (CRBs). Out of the 44 banking institutions, 31 locally owned banks comprise 3 with public shareholding and 28 privately owned while 13 are foreign owned. The 6 DTMs, 2 CRBs and 118 forex bureaus are privately owned. The foreign owned financial institutions comprise of 9 locally incorporated foreign banks and 4 branches of foreign incorporated banks. The number of bank branches increased by 98 from 1,063 in 2010 to 1,161 branches in 2011 indicating increased access to banking products and services. Nairobi County registered the highest number of branches representing 40 percent of the total branches in 2011, which may be attributed to a higher level of economic activities compared to the other counties. Each of the 47 counties had banks branches with the Nairobi County recording 465 bank branches. Nyeri County has 25 banks branch accounting for only 2 percent of the total branches in 2011. The number of banks Automated Teller Machine (ATM) increased by 226 from 1,979 in December 2010 to 2,205 in December 2011 representing an increase of 11.4 percent. The increase demonstrated initiatives by banks to increase provision of their services by adopting cost effective channels (CBK, 2011).

2.3 Status of Agency Banking in the World

Brazil's success with using agents to expand access to financial services is 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. However, this important achievement has been only 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 customers´ needs. But there is still much work ahead to maintain and expand innovations achieved to date. New challenges include claims by agents for the same labor rights as banking employees and discussions about agents' security requirements. These will require a coordinated approach, involving different authorities (Fadel and Dias, 2009).

A study of trends in Brazil, Peru and Colombia indicates a slow implementation of agent banking during the first two years followed by an increase in the third or fourth year. However, data after Mexico's first year of allowing agent banking leads to the prediction that there will be a rapid increase in banking agents in the initiative's second year, one that is comparable to increases in Colombia's fourth year and Peru's sixth. Mexico's new regulations to allow more types of financial institutions to operate through bank agents and to allow the opening of savings accounts will have a significant impact on financial inclusion and place Mexico among the leaders in agent banking in Latin America (Celina, 2012).

In Brazil in 2008, agents transacted 75% of the volume (agents made 1.6 billion transactions) and 70% of the value (agents transacted a total of US $ 105 billion) of total bill payments (Banco in CGAP, 2010). Again in Brazil, rural agents transact more deposits and withdrawals as a percentage of total transactions (38%) than their urban counterparts (8%) (CGAP, 2010). Also in Brazil, although permitted to offer several types of services less than 30% agents actually handle bank accounts. Most 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. Only 0.16% of transactions are account opening and 7.3% are government transfers (CGAP, 2010 C). In Peru, agents carry out approximately 3-8 million transactions per

month. Also in Peru in 2010, less than 50% of the total financial system transactions were conducted through traditional bank branches; ATMS and POS terminals accounted for 36% of total transactions (SBS and CGAP, 2010).

In Colombia from August 2010 to July 2011, collections of utility bill payments through agency banking made up the majority of transactions averaging $1.8 million in July2011, followed by mandatory payments, such as loan repayment and official government payments, such as tax accounting for over $ 800,000 in July 2011. Although there were reported more withdrawals than deposits, the number of these two transaction types were typically and consistently close. Yet, the number of credit applications, money transfer and opening of savings accounts were negligible.

In India, an average of 8.4 deposits and 3.1 withdrawals were carried out by individuals FINO (a technology firm and one of the first pioneers of agency banking in India) agents each day in 2010. With 10,000 agents Nationwide this translates to approximately 84000 deposit and 31800 withdrawals each day. With an average deposit size of USD 3.5 and withdrawals size of USD 7.39 per agency this translates to USD 301,000 worth of deposits and USD 221,000 of withdrawals processed each day (CGAP, 2010f).

In Kenya, Combined total transactions through mobile network operators (MNO) amounted to Kshs 2.45 billion (US $ 24 million) per day (CBK, 2011). Again in Kenya so far Equity bank, Post bank, Co-operative bank and Kenya commercial bank have launched forays into the agency banking segment, with some already claiming that identifying agencies that are able to provide cash to customers is becoming an industry challenge. Recent data from CBK reveals that over 10,000 agencies have been licensed, with Equity claiming 50% market share (CBK 2011).

2.4 Empirical Review

There are several research studies which have been done in the past which have tried to explain the role of agency banking in promotion of financial inclusion, this section describes these studies in line with the study objectives namely liquidity, geographical coverage, security and costs.

2.4.1 Geographic Coverage

Kenya has made tremendous growth 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% 2009 percent of the population. Although this appears interesting a lot has to be done to bring more Kenyans to financial inclusion. On the same note, FinAccess in 2009 noted that 58.5% of users of formal financial services and 56% of users of other formal financial services also use informal financial services. On the other hand in 2009, rural Kenyans were less likely to use formal banking or other formal financial services, but were still more likely to use informal financial services (FinAcces, 2009). In addition, those not using any financial services have grown in absolute numbers. Moreover, recent evidence suggests that rising numbers of clients mask low levels of actual usage: A growing share of new accounts is dormant (Stefan,2010) and Only 50 percent of registered M-PESA clients use the service at least once a year (FinAccess, 2009).

One of the reasons which can be attributed to the low financial inclusion in rural areas is the long distance they need to travel to access financial services. Sometimes, the amount of money someone wants to withdraw from the bank is equivalent, or even less than the transportation cost, while others find the new ultra modern banking halls intimidating. Thus they avoid formal financial services and opt for informal financial services which are readily accessible in rural areas (Wainaina, 2011).

With just over 2.5 branches per 100,000 people, Kenya remains with a relatively sparse financial infrastructure by international standard. Expansion of ATM networks has continued to grow strongly during the year with few signs of a slackening in the pace of deployment. However at only 4.7 ATMs per 100,000, again the penetration remains low by international comparison (FinAcces, 2009). Portfolios of the poor by Collins *et al.* (2009), documents how poor people struggle to manage their financial lives given the lack of services suitable to their tiny, highly viable and uncertain income. According to Ivatury and Timothy (2006), agency banking could be of benefit to the clients in the following ways; lower transaction cost (Closer to clients home), customers can therefore withdrawal or deposit little amounts without incurring extra costs like transport to a bank branch, longer opening hours since this businesses operate for longer hours than banks, shorter lines than in branches, more accessible for illiterates and the very poor who might feel intimidated in branches. Therefore customers save on time they have to travel to a bank branch, and the time they have to wait in line to be served.

Banking 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 (Kitaka P, 2001). In such environments, banking agents that piggy back on existing retail infrastructure – and lower set up and running cost- can play a vital role in offering many low income people their first-time access to range of financial services. Also, low – income clients often feel more comfortable banking at their local store than walking into a marble branch (Adiera, 1995).

2.4.2 Security

Physical security is another common concern of 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 agent itself. 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 (Stephens and Kevin, 1998).

Evidence from the four country studies suggests that technical failures (e.g., equipment malfunctioning and other errors occurring during a transaction) are not a major issue in branchless banking. Similarly, research on consumer experience in Brazil shows that less than 5 percent of users have made a mistake and paid the wrong bill at an agent, sent money to the wrong account, or noticed that a payment or a deposit was never processed or received (Collins, 2010).

Kinyanjui (2011), reports that Kenyan financial institutions have embarked on an aggressive entry into the segment keen to take advantage of the cost-saving and accessibility brought about by the agency banking model, but many are finding that agents lack capacity to handle large transactions of cash and under-spend on security measures. 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. Flaming, McKay and Pickens (2011), reports that as a branchless banking service grows, agents attract increasing interest from criminals. In Brazil, 93 percent of agents interviewed by CGAP report that being an agent increases the risk of being robbed, and 25 percent say they have been robbed at least once during the past three years losing on average more than US$500 of their own money.

While bank staff maintain a higher level of training, and are directly supervised, real time IT systems with adequate controls are the key risk management device in both cases. Agents must also manage their existing physical security risks to sufficient standard 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).

Tarazi (2010), observes that where damages are not easily quantified and agent behavior not easily monitored – resulting 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 – keep the principal institution liable and it will take recourse against its own agent for any damages it is forced to pay as a result of such agent's misconduct. That could work where agents are large well-capitalized retail chains. But to reach the very poor, agents are often the simple, modest corner shops – the ones 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.

Continuity in the long run is highly valued by financial services users. Threats to continuity can arise from problems with the business models that reduce customer confidence (e.g., inadequate technological platforms) and from forces outside the scope of financial regulators. Institutions should therefore, at all times monitor the safety, security and efficiency of the equipment being used to prevent any tampering or manipulation by any

person. As trust is the single most necessary ingredient for growth of agent banking, appropriate consumer protection systems against risks of fraud, loss of privacy and loss of service shall be put in place by institutions for purposes of establishing trust among consumers of agent banking services.

2.4.3 Cost

Gardeva and Rhynea (2011), in a survey report on opportunities and obstacles to financial inclusion observes that, product cost-structures and branching costs were ranked 7th and 12th respectively viewed as significant obstacles to financial inclusion, especially by providers, high branching costs in rural areas are associated with poor physical infrastructure – roads, electricity, etc. – that branchless banking is able to leapfrog. Such infrastructure barriers ranked surprisingly high, at 9th on the obstacles list. Agent banking drastically reduces the cost of setting up points of contact with customers, allowing MFIs, banks and other providers to reach out into areas where building branches would be too expensive.

Muriungi (2012), reports that banks expansion is usually limited due to the high initial cost of opening a branch and in many areas due to the low economic status of the people living in these areas. The initial costs of setting up a branch and running cost takes many years to be translated into profits hence limiting branch expansion. Through partnerships with businesses across the country, banks will take their services closer to the people in areas with potentially less number and volume of transactions. This in turn will lead to increased customer base and thus the market share, increased coverage with low cost solution, increased revenue from improved indirect productivity by reducing congestion in existing branches. Customer's visiting the General store will benefit from lower transaction costs as it is closer home and hence no need to travel 150 km to a bank, longer banking hours as the Agents will operate for longer hours and shorter queues than in branches.

Barriers for poor people to access appropriate financial services include socio-economic factors (e.g., education, gender and age, low and irregular income and geography), regulatory factors (e.g. provision of identity documentation) and product design factors (e.g., minimum account balances). Some major barriers financial service providers experience when expanding appropriate services to poor people are the cost of providing those services and finding the regulatory space to innovate. As a general rule, transaction costs do not vary in direct proportion to a transaction's size. Thus serving the poor with small value services is simply not viable using conventional retail banking or insurance approaches (G20 Financial Inclusion Experts Group, 2010).
Banking is relatively expensive in Kenya: a 2007 survey of barriers to banking, using data from 62 countries, indicates that minimum balances required by Kenyan banks are quite high, equaling 44% of GDP per capita, compared with an average of 8%. Annual fees in Kenya are also high at 2% of GDP per capita compared to an average of 0.38% (Beck, 2007). Emerging data from the Bansefi-Diconsa correspondent banking pilot program in Mexico indicates that handling cash may amount to anywhere between 35 percent and 61 percent of total system costs. Other available data are unfortunately partial accounts, since they convey either the bank (provider) view or only the retail agent perspective (Lehman, 2010)

It is well documented that access to savings accounts, insurance and other financial services is crucial to allow poor people to invest in their homes and small businesses, weather the impact of economic shocks, build up savings as financial cushions against unexpected events, and manage uneven cash flows and seasonal incomes. Yet, an estimated 2.5 billion people – over half the world's adult population – do not have access to formal financial services, representing a huge untapped potential for economic and social development. 2.2 billion Of these unserved adults live in Africa, Asia Latin America, and the Middle East. There are multiple barriers to expanding financial inclusion that vary from country to country. Key barriers include the high transaction costs of delivering small-scale financial services across large geographic distances, infrastructure constraints such as lack of roads, fixed telephone lines, and ID systems, and insufficient information amongst both providers and consumers. The lack of data on the state of financial inclusion is another main constraint, both to advance financial inclusion and to evaluate the impact of policies aimed at improving access (AFI, 2012).

2.4.4 Liquidity

One of the biggest challenges in rolling out banking agencies is the establishment and the effectiveness of the agent network. Agents are the touch- points where the subscribers of the service can get money into and out of the system. (Agents are often also referred to as cash-in and cash-out points). In instances where a subscriber arrives at an agent with the need to withdraw a large amount it does happen that the agent do not have enough cash to satisfy the cash-out request. This leads to frustration and is one of the reasons why take-up of these systems is slower than what is expected. This problem is referred to as the agent liquidity problem- how to ensure that the agent has sufficient cash available to satisfy the need of the system (Central Bank of Brazil, 2007).This problem 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. This approach is overtly complex and often fails because of the informal nature of agents business.

Musau (2013), observed that lack of cash at cash points does not appear to be a widespread problem at this time, according to her in-country studies; it appears that low-income clients may be 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), notes 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. Providers need to decide how to divide the varied management functions and whether to keep those functions in house or outsource to an independent service provider. As the networks grow, it is increasingly difficult for the provider to cover the "last mile" of the distribution chain, so most use third parties for part or all of the channel management functions. Providers need a system of regular agent site visits to ensure that agents are in compliance with the business processes and maintain proper branding and merchandising.

2.5 Theoretical Framework

One of the theories that describe the principal agent relationship is the agency theory; this section describes this theory and highlight insights from different authors. An agency relationship arises when one or more principals (for example an owner) engage another person as their agent (or steward) to perform a service on their behalf. A principal and an agent form an agency relationship because they each expect to receive some net benefit. The parties expect that the relationship will lead to an efficient division of labor. Performance of this service results in the delegation of some decision-making authority to the agent. This delegation of responsibility by the principal and the resulting division of labor are helpful in promoting an efficient and productive economy. However, such delegation also means that the principal needs to place trust in an agent to act in the principal's best interests. (Walker, 2003).

The relationship between the principal and the agent is called the "agency," and the law of agency establishes guidelines for such a relationship. The formal terms of a specific principal-agent relationship are often described in a contract. A contract to be made by an agent on behalf of a principal is considered to be the contract of the principal and not that of the agent. It allows the principal to authorize somebody to carry out her duties, either for a specific purpose or generally (to conduct many transactions) Inherent in the Principal-Agent relationship is the understanding that the agent will act for and on behalf of the principal. The agent assumes an obligation of loyalty to the principal that she will follow the principal's instructions and will neither intentionally nor negligently act improperly in the performance of the act. An agent cannot take personal advantage of the business opportunities the agency position uncovers. A principal, in turn, reposes trust and confidence in the agent. These obligations bring forth a fiduciary relationship of trust and confidence between Principal and Agent (Green, 2012).

An agent must obey reasonable instructions given by the Principal. The Agent must not do acts that have not been expressly or impliedly authorized by the Principal. The Agent must use reasonable care and skill in performing the duties. Most importantly, the Agent must be loyal to the Principal. The Agent must refrain from putting herself in a position that would ordinarily encourage a conflict between the agent's own interests and those of the principal. The Agent must keep the Principal informed as to all facts that materially affect the agency relationship (Schuler, 2002).

Indeed, so entrenched is the notion of the need to keep the incentives of agents and principals aligned that the law frequently holds principals liable for the misdeeds of an agent. For a person or business to decide whether or not to contract with an agent, she must weigh the expected benefits of that relationship against its potential costs. The deviation from the principal's interest by the agent is called 'agency costs. Various mechanisms may be used to align the interests of the agent with those of the principal. The first type of agency cost is expenditures by the principal in monitoring the agent. By monitoring costs, economists usually imply not only observing the behavior of the agent, but also "efforts on the part of the principal to 'control' the behavior of the agent through compensation policies, operating rules, etc" (Walker, 2003).

The final class of agency costs is the principal's lost welfare caused by the divergence in her interests from those of her agent. If because of circumstances such as technology, geography, or even personalities involved, an agent cannot be perfectly monitored or bonded, and then we should expect that the interests of the principal and the agent will not be coextensive. This remaining pocket of diverging interests is generally called the "residual loss" associated with agency (Stiglitz, 2008). Whilst achieving zero agency costs is practically impossible, as the marginal costs of doing so will eventually be higher than the accompanying benefits of perfect alignment,

monitoring and incentives intends to minimize them (Shapiro, 2005).

Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals and agents of the principals. The two problems that agency theory addresses; the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify (because it difficult and/or expensive to do so) what the agent is actually doing (Investopedia, 2012). Agency theory seeks to explain the relationship in order to recommend the appropriate incentives for both parties to behave the same way, or more specifically, for the agent to have the incentive to follow the principal's direction. Agency theory also seeks to reduce costs in disagreements between the two (Green, 2012).

Agency Theory is relevant to this study because it appreciates the role of the agent in achieving a greater goal. According to the theory the delegation of responsibility by the principal and the resulting division of labor are helpful in promoting an efficient and productive economy. The delegation of responsibility in the context of this study is the outreach of financial services from the banking halls to where people live and work ensuring rise in financial inclusion.

2.6 Conceptual Framework

This framework attempted to establish and explain factors that affect and hence influence provision of agency banking service in Kenya. These factors include the cost of agency transactions, security, liquidity and geographical coverage of agents. The study determined the effects of independent variables on the dependent variable in order to access the effect of agency banking on financial inclusion in Kenya. The effect of agency banking services on financial inclusion depends on the security measures put in place, the accessibility of the services by customers and challenges encountered by customers in utilizing the facility. The conceptual framework for the study is presented in figure 2.1 below.

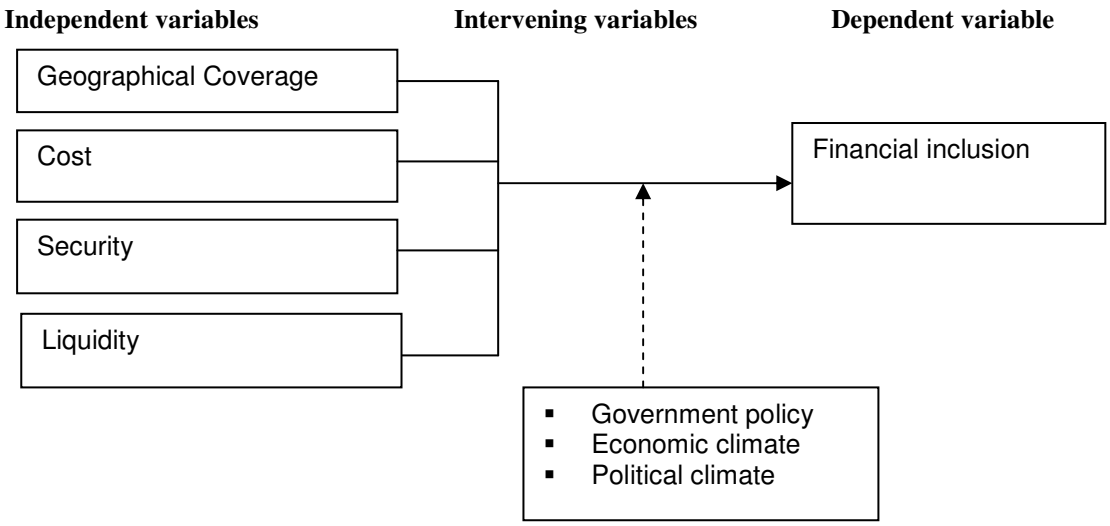
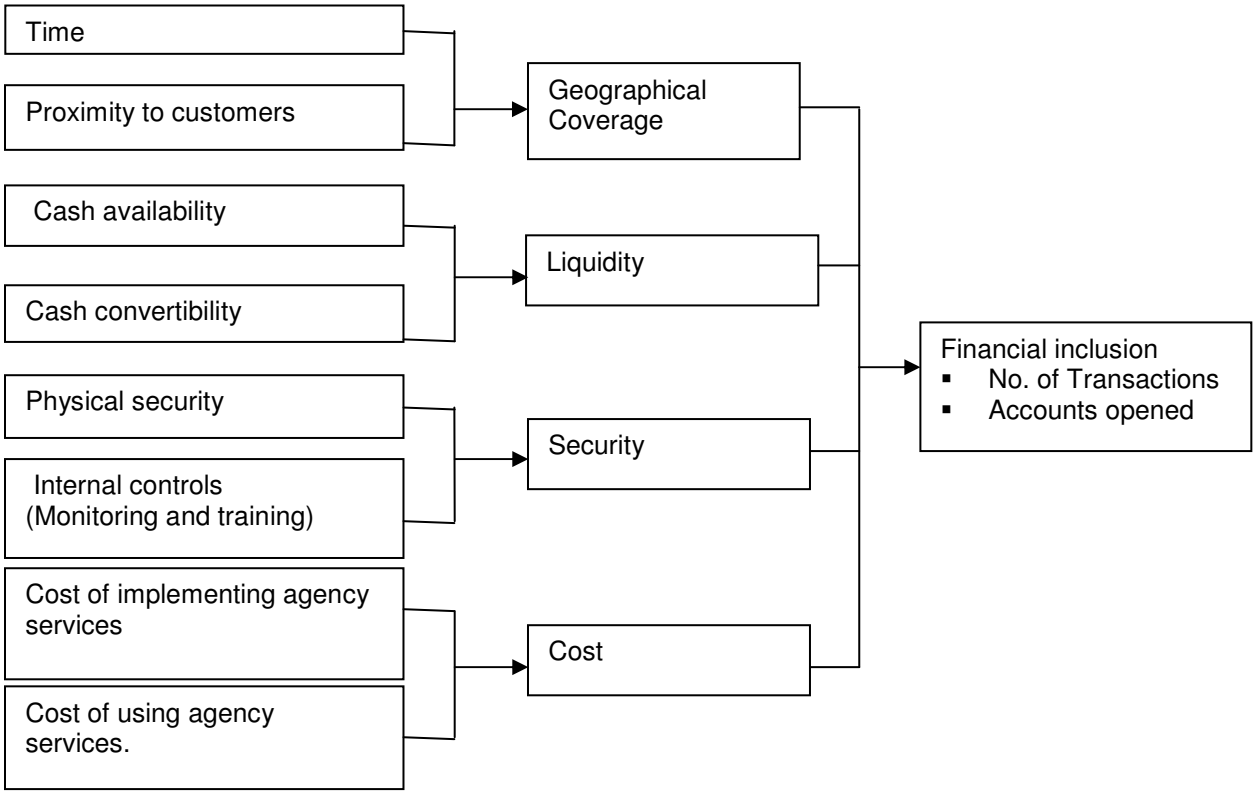


Figure 2.1: Conceptual Framework
Source: Researcher (2013)]

The purpose of this study was to evaluate role of agent banking services in promoting financial inclusion in Kenya. Specifically, the researcher looked at geographical coverage, cost of services, security and availability of liquidity as the aspects of agent banking and therefore the independent variables in the study. The study sought to establish how the four aspects of agent banking contribute to financial inclusion. Reviewed literature indicated that the relationship between agent banking and financial inclusion may be affected by external factors such as government policies as well as political and economic climate which are the intervening variables in the study.

2.7 Operational Framework

The operational framework for the study is presented in figure 2.2 below.



Source: Researcher (2013)

This study measure financial inclusion based on the usage of financial services. In this case, usage focus more on the regularity and frequency of transactions and number of accounts opened via agents. Information was sourced from the supply side, that is, at the level of a financial institution. Liquidity of agents is measured establishing the minimum and maximum cash limit held by agents and frequency of cash shortages which affect convertibility and access of cash by clients. Security: this was measured by establishing the existence of physical security (CCTV, watchmen, alarms etc) and internal controls (training, monitoring of agents and maintenance of equipments) Cost: this study measured cost in respect to how much client pay to procure financial services through agents, and effect of operational cost of agency on financial services.

2.8 Research Gap

There is limited empirical work exploring role of agent banking services in promoting financial inclusion by commercial banks in Kenya. Studies have focused largely on the impact of nonbank-based agent banking models on financial development. Research done by EFInA (Enhancing Financial Innovation and Access) analyzed agent banking regulations in five selected countries Kenya included, information was analyzed from Central banks of the respective countries, this information come from the regulators point of view with little concern on the commercial banks who are implementing this regulations. Another research conducted by the Bill & Melinda Gates Foundation specifically focused on how agent banking has changed economics of banking the poor.

Several research studies have been done on agent banking: Omumi (2010), did a study on agency banking and use of agents including postal corporation of Kenya. Musau (2013), did a study on how the utilization of agency banking has contributed to the performance and/ or non performance of banks in Kenya. However, in Kenya, how the utilization of agency banking has contributed to financial inclusion is not documented. This study therefore, sorts to analyse the utilization of agency banking in promoting financial inclusion in Kenya. In a survey conducted by AFI (2012), lack of data on the state of financial inclusion is recognized as another main constraint to financial inclusion, both to advance financial inclusion and to evaluate the impact of policies aimed at improving access.

3 METHODOLOGY

3.1 Introduction

This chapter explains how the study was conducted. It highlights the type of research design to be used, the study population, the sample size, sampling procedures, data collection instruments and procedure for data analysis.

3.2 Research Design

Research design is the general plan of how the researcher will go about answering research questions. It specifies the sources from which the researcher intends to collect data, measurement and analysis of data, (Saunders, Lewis and Thornhill, 2009). The purpose of this study being to describe the effectiveness of agent banking services in commercial banks, means it seeks to describe the phenomena as it exists. Therefore, descriptive research design was be used as it is deemed to be the most appropriate. Various authors recommend the use of descriptive design (Orodho, 2004) contends that, to produce information that is of interest to policy makers even in business descriptive design is helpful. This involved collection of information by administering questionnaires and interviewing a sample of individuals.

3.3 Target Population and Sample.

The study population involved three commercial banks within Nyeri municipality which have successfully implemented agent banking. The study targeted bank branch managers and the appointed agents of these banks. These banks branch are Equity bank, Co-operative bank and KCB. There are two Equity bank branches in Nyeri town the two branches manage their agents independently, Equity bank1 has 11 agents and Equity bank2 has 11 agents; KCB has 5 while Co-operative bank has 11 agents. There was a separate questionnaire for both agents and managers. Branch managers of the four bank branches were purposively selected for the study. By virtue of their administration, they are considered to have a grip of the operations of agent banking. The study involved a complete census of all the appointed bank agents in Nyeri municipality. Analysis of the whole population is desirable in this case since the target population is relatively small and concentrated in one region. Waksberg (1999), recommend the use population studies as it gives data in great detail for small domains and especially for local areas, which samples fail to provide. Orodho (2004), also contends that population studies or a census is more representative as it gives everyone an equal chance.

3.4 Data Collection

This section presents data collection procedure and instruments.

3.4.1 Data Collection Procedure

The researcher sought a permit to conduct research from the chairman, department of commerce, Dedan Kimathi University of Technology. The researcher then proceeded to set appointments with the branch managers of the targeted banks. The purpose of meeting the bank branch managers was to create rapport and inform them of the study as well as its purpose and to set a date for the interview. The researcher also visited the operators of agent banking outlets and informed them of the study. The researcher sought consent from the operators and administered the questionnaire.

3.4.2 Data Collection Instruments

The researcher used both primary and secondary data; questionnaires were used to gather primary information from the field. Several questions were designed and used both open ended questions and close ended questions, open ended questions were used to encourage the interviewee to provide an extensive and developmental answer, comments and suggestions were also be included. Close ended questions were used to obtain specific information or objective response. Secondary data was obtained through desk research from internal and external sources. The external sources included publications, reports, newspapers, libraries, and various research related organizations.

3.5 Reliability and Validity

This section presents the reliability and validity of research instruments.

3.5.1 Reliability

Miller (2009), defines reliability as the extent to which a questionnaire, test, observation or any measurement procedure produces the same results on repeated trials. In short, it is the stability or consistency of scores over time or across raters. Reliability of the questionnaire was be tested by pre-testing the questionnaire with a selected sample. The pre-testing assisted in enhancing the clarity of the questionnaire. A pilot study was conducted to find the instruments reliability and the procedures of administration. Reliability co-efficient was obtained by correlating the scores of odd numbered statement with the score of even numbered statement in the

questionnaire. The researcher used test-retest to ascertain the coefficient of internal consistency or reliability. The instrument was administered twice to the same group of subjects at an interval of two weeks. The scores of the first and the second were correlated using Pearson product moment correlation coefficient formula.

$$r = \frac{N\sum xy - \sum x \sum y}{[(\sum x^2 - (\sum x)^2][N\sum y^2 - (\sum y)^2]^{\frac{1}{2}}}$$

Where $\sum xy$ = sum of the gross product of the value of each variable
$(\sum x)(\sum y)$ = Products of the sum of x and the sum of y
N = total number of items
A coefficient of 0.7 was obtained. According to Kothari (2004) a coefficient of 0.5 and above is deemed reliable

3.5.2 Validity

According to The Center for the Enhancement of Teaching, validity refers to how well a test measures what it is purported to measure. Validity is the accuracy and meaningfulness of inferences based on the research results. It is the degree to which results obtained from analysis of the data actually represent the phenomenon under study. It is the correctness and reasonability of the data. It refers to getting result that accurately reflects the concept being measured. In relation to construct validity that is the instruments measure the variables that they are supposed to measure and not other variables. Expert opinion from supervisors was sought to assess the validity of the data collection instruments. The researcher also improved validity, by matching assessment measure to the goals and objectives and by making useful adjustments to the research instruments after the pilot study.

3.6 Data Analysis

In this study, the researcher collected both quantitative and qualitative data. Descriptive statistics was employed to analyze quantitative data using percentages, and tables. Frequencies were converted to percentages so as to ease interpretation, analysis of the data and presentation of the findings of the research. Content analysis was employed to analyze qualitative data. A Regression model was adopted to test the relationships between the study variables. The model for the analysis is shown below:

$Y = X + X_1 LQ + X_2 GC + X_3 CS + X_4 SC + e$
Where:
Y = Financial Inclusion
X = Constant
X_1, X_2, X_3 & X_4 = Co-efficients
LQ = Availability of liquidity
GC = Geographical coverage
CS = Cost of services
SC = Security
e = residual error

3.7 Ethical Considerations

Hammersley, and Traianou (2012), emphasizes that some of the most important ethical principles in educational research are; minimizing harm, harm include among others financial and reputational consequences for the people being studied; protecting privacy; this means to keep data confidential; and respecting autonomy; that is showing respect for people in the sense of allowing them to make decisions for themselves, notably about whether or not to participate. In this study the researcher treated all the gathered information with utmost confidentiality to safeguard the public reputation of organizations and people concerned. Informed consent was obtained by informing the respondents the purpose of the study and benefits of participation, so as to provide sufficient information so that a participant can make an informed decision about whether or not to continue participation.

4.0 RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings of the study and their discussion in relevance to the objectives and past studies carried out in the same area. Quantitative data was analysed using SPSS version 20 for windows and was presented in form of frequencies, means, modes and percentages. Qualitative data was presented by content

analysis. Presentation was done using tables, charts and graphs for easy yet effective communication. Data analysis aimed to answer the following questions: (i) To what extent does geographical coverage by agency banking affect financial inclusion?; (ii) To what extent does agency liquidity affect financial inclusion?; (iii) To what extent do costs of services at bank agents affect financial inclusion?; and (iv) To what extent do security concerns associated with agency banking affect financial inclusion?.

Response rate: The researcher administered questionnaires to 38 operators of bank agents and 4 branch managers; of the 38 questionnaires issued only one questionnaire was not answered. This accounts for a response rate of 97.3%.

4.2 Respondents profile

The researcher collected background data of the operators of agency banking 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.

Age of operators of agency banking outlets: *The researcher sought to find out the age of the various operators of agency banking outlets who were the respondents in the study. Findings in Figure 4.1 indicate that most (43%) of the operators of agency banking outlets were aged between 26 and 35 years. This shows that the major part of agent banking is operated by the youth.*

Gender of operators of agency banking outlets: *The researcher sought to find out the gender of the various operators of agency banking outlets who were the respondents in the study. Findings in Figure 4.2 indicate that majority (64%) of the operators of agency banking outlets were of the male gender. The findings point to a gender inequality in business ownership. However the findings in contrast to findings by UN Habitat (2003) which found that approximately 75% of small businesses are owned and operated by women.*

Level of education of operators of agency banking outlets: *The researcher sought to find out the highest academic qualifications achieved by the various operators of agency banking outlets who were the respondents in the study.*

Table 4.2: Level of education of operators of agency banking outlets

Level of education	Frequency	Percentage
Primary	2	5%
Secondary	4	11%
Diploma	24	65%
Bachelor's degree	5	14%
Post graduate degree	2	5%
Total	**37**	**100%**

Findings in Table 4.1 indicate that majority (65%) of the operators of agency banking outlets had a college diploma as their highest level of education. This shows that majority of the people who handled agent banking services were well educated to understand the information sought by the study.

4.3 Profile of agent banking outlets

The researcher sought to establish the characteristics of the establishments that had agent banking services as part of their operations. This was achieved by evaluating the type of business, age of business and period in which the business has operated as an agent banking outlet.

Type of business: *The researcher sought to find out the type of business carried out by the establishment offering agent banking services.*

Table 4.3: Type of business

Type of business	Frequency	Percentage
Convenient shops	11	30%
Mobile money outlets	17	46%
Hardware shops	2	5%
Electronics shops	5	14%
Others	2	5%
Total	37	100%

Most (46%) of the businesses offering agent banking services were mobile money outlets. These are an MPESA and Airtel money outlet which handle deposit and withdraws of money sent and received through mobile service providers Safaricom and Airtel.

Age of business offering the agent banking services: *The researcher sought to identify the period in which the business has been offering agent banking services.*

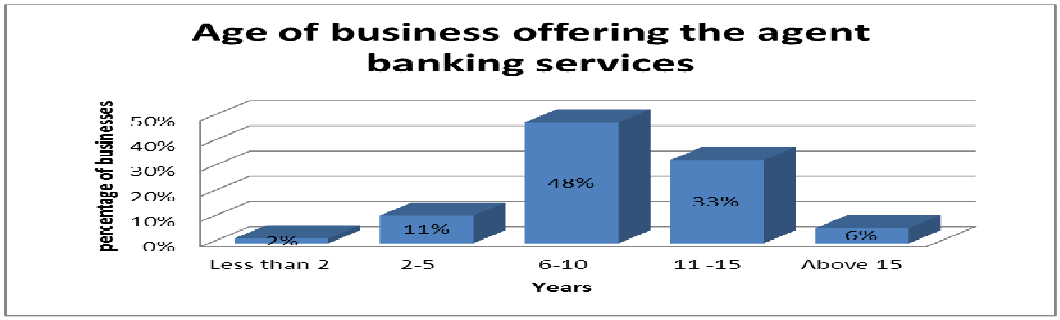


Figure 4.2: Age of business offering the agent banking services

Findings in Figure 4.3 indicate that most (48%) of the businesses offering agent banking services had been in operation for between 6 and 10 years. This shows that most of the establishments which offered banking services had taken root in the community and were well known by the community in the area they operated in.

Period in which business has operated as a banking agent: *The researcher sought to find out the length of period in which the business establishment had operated as a banking agent.*

Table 4.4: Period in which business has operated as a banking agent

Period (years)	**Frequency**	**Percentage**
Less than 1 year	9	24%
1 – 2	10	27%
Over 3	18	49%
Total	37	100%

Most (49%) of the banking agents had been in operation for over 3 years. This can be attributed to the fact that the amendment to the Finance Act that allowed banks to start using agents to deliver financial services was passed in 2009 which means that agency banking has been in operation for 4 years as at August 2013.

4.4 Financial inclusion

The purpose of this study was to evaluate role of agent banking services in promoting financial inclusion in Kenya. Financial inclusion was measured by the number and frequency of transactions as well number of accounts opened via banking agents. As such the researcher sought to find out these details from both the agents and bank mangers.

Commonly used banking service: The researcher sought to find out what banking service was most sought by customers at the agents. According to majority (57%) of the banking agents, cash withdrawals was the most popular banking service sought by customers at the agent banking outlets.

Number of accounts opened in a month: The researcher sought to establish the number of accounts opened at

the agent banking outlets. Findings in Figure 4.5 indicate that most (47%) of agents opened between 1 and 10 bank accounts for customers. This shows that account opening was not a highly sought service by customers. These findings are in agreement with findings in Figure 4.4 which showed that cash withdrawals was the most sought service by customers at the agent banking outlets.

Percentage of accounts opened in agent banking outlets: *The researcher sought to find out what percentage of accounts opened at the agent banking outlets accounted for in relation to the total number of accounts opened in the parent bank. This information was sought from the bank branch managers. All (n=4) bank branch managers in the study indicated that the number of accounts opened through agent banking outlets accounted for below 25% of all the accounts opened in the parent bank. This shows that the contribution of agent banking to financial inclusion in terms of accounts opened was low.*

Effect of agent banking on financial inclusion: *The researcher sought to find out from the bank branch mangers the extent to which agent banking contributed to financial inclusion.*

Table 5.4: Effect of agent banking on financial inclusion

Effect	Frequency	Percentage
Great extent	3	75%
No extent	0	0%
Low extent	1	25%
Total	4	100%

Majority (75%) of bank branch managers indicated that agent banking had a high effect on financial inclusion.

4.5 Effect of geographical coverage on financial inclusion

This section presents findings related to the first objective of the study sought to find out the extent to which geographical coverage of agency banking has promoted financial inclusion.

Closeness of banking agents to customers: *The researcher sought to find out from the agents whether closeness to customers had an impact on the number of services sought.*

Table 4.6: Closeness of banking agents to customers

Response	Frequency	Percentage
Agree	28	76%
Neutral	6	16%
Disagree	3	8%
Total	37	100%

Majority (76%) of the agents agreed that some customers prefer agents because they are closer to them as compared to the main bank. Geographical coverage is one of the strengths of agent banking as services offered by banks are brought closer to the people. These findings are in agreement with Musau (2013) who found that agency banking has enabled bank customer to access the banking services within the comfort of their neighbor-hood.

Reduction of overcrowding in banking halls: *The researcher sought to find out from the bank branch managers whether greater geographical coverage of the bank through agent banking had reduced overcrowding in banking halls in the main bank branches. All (n = 4) the bank branch managers in the study confirmed that agent banking had reduced overcrowding in banking halls. This shows that more and more people were utilizing agent banking. It also means that people going to the banking halls get served faster thus promoting financial inclusion.*

Effect of geographical coverage of agent banking on financial inclusion: *The study sought to establish the extent to which geographical coverage of agent banking had promoted financial inclusion. This information was sought from bank branch managers. All (n=4) bank branch managers agreed that geographical coverage of agent banking had promoted financial inclusion. This can be attributed to the fact that through agent banking, bank services are brought closer to the customers both banked and unbanked. These findings are in agreement with Ivantury and Timothy (2006) who found that agency banking benefited clients in the following ways; lower transaction cost (Closer to clients home), longer opening hours, shorter lines than in branches, more accessible*

for illiterates and the very poor who might feel intimidated in branches.

4.6 Liquidity and financial inclusion

This section presents findings related to the second objective of the study which sought to find out the extent to which agency liquidity affects financial inclusion.

Minimum and maximum limits: *To establish agency liquidity, the researcher sought to find out from the agents whether their parent banks dictated minimum and maximum cash limits that the agents could hold. All (n=37) of the banking agents confirmed that their parent banks had dictated cash limits that the agents could hold. This is because liquidity is important to satisfy the needs of the customers. If customers cannot withdraw because the agent doesn't have enough cash, the agent banking model will fail.*

Frequency of cash shortages: *The researcher sought to find out the frequency of cash shortages at the agent banking outlets.*

Table 4.7: Frequency of cash shortages

Response	Frequency	Percentage
Very often	1	3%
Often	3	8%
Rarely	11	30%
Never	22	59%
Total	37	100%

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.

Impact of cash shortages on customers: *The researcher sought to find out whether some customers avoided banking agents due to shortage of cash. 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.*

Monitoring of liquidity by banks: *The study sought to find out whether the parent banks monitored the liquidity of the agents to avoid cash shortages. All (n=4) the bank branch managers confirmed that their respective banks had put in place a monitoring system for agents to ensure that cash shortages did not occur, they have also appointed agent network managers to foresee operations of agents by providing banking materials, monitoring their activities, ensuring that agents are liquid. 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.*

Effect of liquidity on financial inclusion: *The bank branch managers were asked to rate the extent to which availability of liquidity affects financial inclusion.*

Table 4.8: Effect of liquidity on financial inclusion

Effect	Frequency	Percentage
Great extent	3	75%
No extent	0	0%
Low extent	1	25%
Total	4	100%

Majority (75%) indicated that availability of liquidity affected financial inclusion to a great extent. In instances where a subscriber arrives at an agent with the need to withdraw a large amount it does happen that the agent do not have enough cash to satisfy the cash-out request. This leads to frustration and is one of the reasons why take-up of these systems is slower than what is expected.

4.7 Costs of services and financial inclusion

This section presents findings related to the third objective of the study which sought to find out the extent to

which cost of services at agent banking outlets affected financial inclusion.

Costs of services at agent banking outlets: *The researcher sought to establish the costs of using banks services through agent banking outlets. This was achieved by assessing how much it costs to deposit or withdraw a sum of KES 10,000.*

Table 4.9: Costs of services at agent banking outlets

Findings in Table 4.9 show that costs of accessing services through agent banking outlets are higher as compared to accessing the same services in ATMS. The added costs may be attributed to the extra operational costs suffered by banks which are forwarded to the customers in form of added cost.

	Cash withdrawal			Cash deposit		
	ATM	Agent	O.T.C	ATM	Agent	O.T.C
Equity bank	30	75	50	-	-	-
KCB	30	70	200	-	35	-
CO-OP	30	50	100	-	20	-

4.7.2 Impact of costs at agent banking outlets on customers seeking bank services

The researcher put forward several statements related to costs of services at the agent banking outlets.

Table 4.10 Impact of costs at agent banking outlets on customers seeking bank services

	Agree	Neutral	Disagree
Customers perceive the cost of banking with agents to be low	63%	30%	7%
Some customers prefer agents regardless of costs.	84%	10%	6%

Findings in table 4.10 indicate that majority (63%) of operators of agent banking outlets agreed that customers perceive the cost of banking with agents to be low. However, despite this perception, customers prefer to use agents regardless of the costs charged as indicated by majority (84%) of the operators of agent banking outlets. This shows that even though charges at agents were higher, some customers still preferred to use the outlets for their banking needs. This can be attributed to other benefits of agent banking such as nearness to customers.

4.7.3 Effect of costs of services on financial inclusion

The researcher sought to find out from the bank branch managers on the impact of the costs of services at agent banking outlets on financial inclusion.

Table 4.11 Effect of costs of services on financial inclusion

Effect	Frequency	Percentage
Great extent	0	0%
No effect	1	33%
Low extent	3	75%
Total	4	100%

Majority (75%) of the bank branch managers indicated that the costs of services at agent banking services had little effect of financial inclusion. This can be attributed to the fact that some customers were willing to incur the extra cost to access services at agent banking outlets. These findings are in disagreement with Musau (2013) who found that the cost of agent banking was a deterrent to more customers using agents.

4.8 Security of agent banking services and financial inclusion

This section presents the findings related to the fourth objective of the study which sought assess the extent to which security concerns associated with agency banking affect financial inclusion.

Physical security features adopted: *The researcher sought to find out from the agents which security features they had adopted in their business.*

Table 4.12 Physical security features adopted

Feature	Frequency	Percentage
CCTV	7	19%
Security alarms	10	27%
Steel metal bars	37	100%
Hiring security guards	5	14%

Findings in Table 4.12 indicate that all (n=37) the agent banking outlets had installed steel metal bars. The findings also show that hiring of security guards to keep watch of the outlets was the least popular measure as only 14% of the agent banking outlets had adopted the method.

Frequency of security scares: *The researcher sought to find out from the agents the frequency of security scares at their outlets. Majority (73%) of the agents indicated that they had never experienced a security scare at their outlet. This shows that security was not a big problem for the agents.*

Type of security breach: *For the agents who had ever experienced a security scare, the researcher sought to find out the type of infringement committed.*

Table 4.13: Type of security breach

Feature	Frequency	Percentage
Armed Robbery	6	60%
Fake currency	4	40%
Total	10	100%

Majority (60%) of the agents who had ever experienced a security scare revealed that they were victims of an armed robbery while 40% indicated that customers had tried to launder money by submitting fake currency.

Loss of cash: *For the agents who had ever experienced a security scare, the researcher sought to find out whether they lost cash. Majority (60%) of the agents who had ever experienced a security scare indicated that they did not lose cash during the incident. This shows that security measures adopted were effective.*

Effect of security concerns on customers: *The study sought to find out whether security concerns hindered customers from accessing services from agents.*

Table 4.14: Effect of security concerns on customers

Response	**Frequency**	**Percentage**
Agree	5	14%
Neutral	2	5%
Disagree	30	81%
Total	**37**	**100%**

Majority (81%) of the banking agents disagreed that some customers fail to bank with agents because of fear lack of security. This shows that security concerns were not many among customers due to measures taken by both the bank as well as the individual agents. These findings are in disagreement with Musau (2010) who found that security concerns was a deterring factor to uptake of agent banking by customers.

Monitoring of security of agents by banks: *The study sought to find out from the bank branch managers whether the banks monitored the agents on security matters.*

Table 4.15 Monitoring of security of agents by banks

Frequency of monitoring	**Frequency**	**Percentage**
Monthly	2	50%
Quarterly	1	25%
Biannual	1	25%
Total	4	100%

Findings in Table 4.15 shows that majority (50%) of banks monitored their agents every month to ensure that they complied with the security standards.

Effect of security of agent banking on financial inclusion: *The researcher sought to find out of from the bank branch managers on the impact of the security agent banking outlets on financial inclusion.*

Table 4.16 Effect of security of agent banking on financial inclusion

Effect	Frequency	Percentage
Great extent	0	0%
No effect	1	33%
Low extent	3	75%
Total	4	100%

Majority (75%) of the bank branch managers indicated that security concerns of agent banking had a low effect on the financial inclusion. This shows that security concerns if any were few and had little impact of customers seeking banking services

4.9 Regression analysis

In this section the study presents the findings from the linear regression analysis used to show the relationship between agent banking and financial inclusion. The model for the analysis is shown below:

$Y = X + X_1 LQ + X_2 GC + X_3 CS + X_4 SC + e$
Where:
Y = Financial Inclusion
X = Constant
X_1, X_2, X_3 & X_4 = Co-efficients
LQ = Availability of liquidity
GC = Geographical coverage
CS = Cost of services
SC = Security
e = residual error

Table 4.17: Regression analysis

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.659	.178		14.930	.001
	Liquidity	.005	.037	.351	.128	.049
	Geographical coverage	.126	.041	.583	3.048	.004
	Costs	.088	.061	.317	1.439	.159
	Security	.062	.055	.292	1.140	.262

a. Dependent Variable: Financial inclusion

Model Summary

Model	F	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	19.34	.801	.641	.493	.20123

Findings in Table 4.17 indicate that the four factors (availability of liquidity, geographical coverage, costs and security of agent banking services) have a positive (F=19.34) and significant (P<0.05) relationship to financial inclusion. The findings also indicate that geographical coverage (p<0.05) is the only statistically significant factor affecting financial inclusion. The multiple R shows the relationship multiple linear relationships between the Dependent variables and independent variables. R-Square is the square of the sample correlation coefficient between outcomes and the predicted values. According to the regression output in Table 4.17, it shows 0.641 which means that 64.1% of financial inclusion can be explained by availability of liquidity, geographical coverage, costs and security of agent banking services. This means that the regression model adopted by the study is useful for predicting financial inclusion. Substituting the co-efficients in table 4.17, the study model will be: Y = 2.659 + 0.005LQ + 0.126 GC + 0.088 CS + 0.062 S + 0.2

The findings indicate that geographical coverage has the highest contribution to financial inclusion since a change in 1 unit of geographical coverage accounts for a 12.6% change in financial inclusion

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of findings from data collected during the study. It further present's discussion on the findings and the researcher's conclusions and recommendations.

5.2 Summary of the findings

The following is a summary of the findings presented in the order of objectives.

On the effect of geographical coverage of agent banking outlets on financial inclusion, the study found that majority (76%) of the agents agreed that some customers prefer agents because they are closer to them as compared to the main bank. All (n = 4) the bank branch managers in the study confirmed that agent banking had reduced overcrowding in banking halls. All (n=4) bank branch managers agreed that geographical coverage of agent banking had promoted financial inclusion. Regression analysis revealed that geographical coverage ($P<0.05$) was statistically significant.

On the effect of availability of liquidity in agent banking outlets on financial inclusion, the study found that all (n=37) of the banking agents confirmed that their parent banks had dictated cash limits that the agents could hold. Majority (59%) indicated that cash shortages never occurred. Majority (73%) of the bank agents' operators disagreed that some customers avoid agents because of perennial cash shortages. All (n=4) the bank branch managers confirmed that their respective banks had put in place a monitoring system for gents to ensure that cash shortages did not occur. Majority (75%) indicated that availability of liquidity affected financial inclusion to a great extent.

On the effect of costs of services in agent banking outlets on financial inclusion, the study found that costs of accessing services through agent banking outlets are higher as compared to accessing the same services in ATMs. Majority (63%) of operators of agent banking outlets agreed that customers perceive the cost of banking with agents to be low. However, despite this perception, customers prefer to use bank services agents regardless of the costs charged as indicated by majority (84%) of the operators of agent banking outlets. Majority (75%) of the bank branch managers indicated that the costs of services at agent banking services had little effect of financial inclusion.

On the effect of security concerns among customers in agent banking on financial inclusion, the study found all (n=37) the agent banking outlets had installed steel metal bars. Majority (75%) of the agents indicated that they had never experienced a security scare at their outlet. Majority (60%) of the agents who had ever experienced a security scare revealed that they were victims of an armed robbery while 40% indicated that customers had tried to launder money by submitting fake currency. Majority (60%) of the agents who had ever experienced a security scare indicated that they did not lose cash during the incident. Majority (81%) of the banking agents disagreed that some customers fail to bank with agents because of fear lack of security. Majority (50%) of banks monitored their agents every month to ensure that they complied with the security standards. Majority (75%) of the bank branch managers indicated that security concerns of agent banking had a low effect on the financial inclusion.

5.3 Conclusion

The study has established that agent banking had brought services closer to the people through agent banking. The study has also established that lack of liquidity was not a deterring factor as the agents were vetted and monitored to ensure there were rare cash shortages. Security concerns were minimal; the study found that all the agents had adopted physical security features such as metal grills and in some cases CCTV. The costs of services at agent banking were found to be high as compared to ATMS.

The researcher concludes that greater geographical coverage brought about by agent banking is the strongest predictor of financial inclusion. This is because services are brought closer to the people and thus saves a lot of time which would have been used to queue in banking halls or ATMs. The strongest evidence to this effect is the fact that customers were willing to forego the extra cost charged at agent banking outlets to have their banking needs taken care of. It is the conclusion of the researcher that the agent banking model is a success as regards financial inclusion. The few number of accounts opened or number of transactions should not be taken as failure of the model. This is because agent banking services are a new phenomenon in Kenya having started in 2010.

5.4 Recommendations

The following are the recommendations of the researcher:

As the agent banking model becomes popular, banks have to be extra careful about the agents they hire and

ensure they uphold the required standards' of delivery and conduct they should also ensure that only business with high cash flows are considered to operate agent banking services. They should also be concerned on the employees employed by agents by ensuring that only specific employees who have undergone training should handle customers; banks should also maintain a record of proper identification of such employees, this will help them hold such employees accountable incase of fraud or misconduct of employees;

More agent banking outlets should be opened to offer more services to increase the geographical coverage;

Commercial banks who have adopted the agent banking model should limit operational costs on agent banking to avoid the cost of services to the customer going up;

Security should be emphasized to all agent banking outlets and more frequent monitoring and training carried out. Where an agency contract is terminated, banks should adopt strict procedures to ensure that any person does not take advantage of the situation and fraud the clients;

Financial institutions should also conduct consumer education as this will help customers understand the operations of agents, and assure them that their money is secure;

5.5 Suggestions for further study

The current study evaluated the role of agent banking services in promoting financial inclusion in Kenya. However the study was limited to Nyeri town which is a small area as compared to the rest of the Republic. The researcher recommends duplication of the current study in a large area perhaps an entire county. The current study concentrated on bank branch managers and operators of agent banking outlets, future studies should include bank customers to get the views of the customers.

Research can also be conducted on the financial stability of agency banking to ensure that financial institutions create sustainable network of agents. Financial stability is important in any financial system as it creates customer confidence.

Future research should also analyze the cost benefit analysis of implementing agency banking as this will help identify areas where financial institutions can reduce cost, and improve the agency banking process.

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ABBREVIATIONS AND ACRONYMS

AFI Alliance for Financial Inclusion
AML/CFT Anti-Money Laundering and Combating of Financing Terrorism
ASCAS Accumulating Savings and Credit Associations
ATMs Automated Teller Machines
CBK Central Bank of Kenya
CGAP Consultative Group to Assist the Poor
CRBs Credit Reference Bureaus

DTMs Deposit Taking Microfinance
EFInA Enhancing Financial Innovation and Access
FIs Financial Institutions
G20 Group of Twenty Finance Ministers and Central Bank Governors
GDP Gross Domestic Product
MFC Mortgage Finance Company
MFIs Microfinance Institutions
MICR Magnetic Ink Character Recognition
ROSCAS Rotating Savings and Credit Association
SACCOS Savings and Credit Co-operative

DEFINITION OF KEY TERMS

Agent: an entity that has been contracted by an institution and approved by the Central Bank to provide the services of the institution on behalf of the institution in the manner specified by the CBK Guideline.

Agent banking business: business carried out by an agent on behalf of an institution as permitted under CBK guideline.

Costs: refers to the cost of financial services like cash withdrawal and deposit and balance inquiry through agents.

Financial inclusion: refers to the policy goal of reaching both banked and unbanked households with a full range of responsibly delivered, affordably priced and reasonably convenient formal financial services.

Geographical coverage: The ability of agency bankers to bring financial services closer to customers.

Liquidity: Availability and access to or convertibility of cash.

Security: The ability of agents to assure safety of customers' liquid cash at their disposal through use of physical security and confidentiality.

APPENDIX I: QUESTIONNAIRE

This research is meant for academic purpose. Kindly you are requested to provide answers to these questions as honestly and precisely as possible. Responses to these questions will be treated as confidential. Please tick [√] where appropriate or fill in the required information on the space provided.

SECTION A: BACKGROUND INFORMATION

1. How long has this bank being offering agency banking services?
   Less than 1 year [ ] 2 years [ ] More than 3 years [ ]
2. How many agents do you intend to have in Nyeri?
   0- 20 [ ] 21- 40 [ ] 41- 60 [ ] 61- 100 Above 100 [ ]
3. How do you rate customers' response to agency banking services?
   Very good [ ] Good [ ] Satisfactory [ ]
   Poor [ ] Very poor [ ]
4. Has the bank appointed a manager (agent network managers) to foresee operations of agents? Yes [ ]
   No [ ]
5. If yes, which are their roles?.....

SECTION B: FINANCIAL INCLUSION

6. What percentage of accounts opened can you attribute to agent banking?
   25% and below [ ] 26% - 50% [ ] 51% - 75% [ ] 75% and above [ ]
7. a. Is there a limit of how much a client can withdraw or deposit with the agents?
   Yes [ ] No [ ]
   b. If Yes, which is the minimum and maximum a client can withdraw or deposit?
   Deposit [ ] Withdraw [ ]
8. To what extent would you rate the influence of agent banking on financial inclusion?
   To a very great extent [ ] To a great extent [ ]
   To a very low extent [ ] No influence at all [ ]

SECTION C: SECURITY

9. How often do you monitor the operations of agents?
   Daily [ ] Weekly [ ] Monthly [ ]
   Other: specify…….
10. How often do you monitor the safety, security and efficiency of the equipment being used by agents to prevent any tampering or manipulation by any person?
    Daily [ ] Weekly [ ] Monthly [ ]
    Other: specify…….
11. How often do you train agents to ensure that they comply with security standards?
    Quarterly [ ] Once in a Year [ ]
    Twice in a year [ ] None [ ]

SECTION: D LIQUIDITY

12. Does the bank monitor agents to ensure sufficient liquidity?
    Yes [ ] No [ ]
13. In your opinion how often do agents experience liquidity challenges as they offer agency banking service?
    Very often [ ] Often [ ] Rarely [ ] Never [ ]
14. To what extent does liquidity availability in agency outlets affect financial inclusion?
    To a very great extent [ ] To a great extent [ ]
    To a low extent [ ] No effect at all [ ]
15. To what extent do you agree with the following statements?
16. KEY: SD = Strongly Disagree D= Disagree N= Neutral A= Agree SA= Strongly Agree

	SD	**D**	**N**	**A**	**SA**
Lack of liquid cash at agent outlets leads to frustration and is one of the reasons why take-up of this model is low					
Lack of liquidity by agency bankers leads to loss of customers					

SECTION: E GEOGRAPHICAL COVERAGE

17. To what extent do you agree with the statement that agent banking has not reduced overcrowding in banking halls?
    Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] Strongly disagree [ ]
18. Which factors would you attribute to scenario raised in question 17 above? Kindly tick the most appropriate.
    Security concerns agent [ ] Confidentiality concerns [ ]
    Lack of trust [ ] Misinformation [ ]
    Agency charges [ ]
    Other: specify…….
19. To what extent do you agree with the statement that geographical coverage of agents influence financial inclusion?
    Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] Strongly disagree [ ]

SECTION: F COST

20. To what extent does operational cost of agency banking affect the transaction cost of financial services through agents at your bank?
    To a very great extent [ ] To a great extent [ ]
    To a low extent [ ] No effect at all [ ]
21. How much does it cost to offer the following services through the following platforms?

	Cash withdrawal			Cash deposit		
	ATM	Agent	O.T.C	ATM	Agent	O.T.C
2500 & below 2501-5000 20,001-35,000 35,000-50,000						

22. Which of the following factors has the greatest influence on financial inclusion?
    Geographical coverage [ ]
    Liquidity [ ]
    Security [ ]
    Costs [ ]

APPENDIX II: QUESTIONNAIRE FOR BANK AGENTS

This research is meant for academic purpose. Kindly you are requested to provide answers to these questions as honestly and precisely as possible. Responses to these questions will be treated as confidential. Please tick [√] where appropriate or fill in the required information on the space provided.

SECTION A: BACKGROUND INFORMATION

1. Kindly indicate your age	18- 25 ☐ 26 - 35 ☐ 36 – 45 ☐	46 – 55 ☐ 56 and above ☐
2. Gender.	Male ☐	Female ☐
3. Level of education	Primary ☐ Secondary ☐ Diploma ☐	First degree ☐ Masters degree ☐ Other: specify…… ☐
4. How long has your business been in operation?	2 – 5 years ☐ 6 – 10 years ☐	11 – 15 years ☐ Above 15 years ☐
5. How long have you been an agent?	Below 1 year ☐ 1 Year ☐	2years ☐ above 2 years ☐

SECTION B: FINANCIAL INCLUSION

6. Which is the most commonly used service among the ones listed below?
   a. Cash Withdrawal [ ]
   b. Cash deposits [ ]
   c. Processing account applications [ ]
   d. Loan repayment [ ]
   e. Payment of utilities. [ ]
7. How many accounts are opened at this agency within a month?
   None [ ] 10 and below [ ] 11- 20 [ ] 21-30 [ ] 31and above [ ]
8. In respect to the following services how many transactions do you conducted in a day?
   Cash withdrawal
   10 and below [ ] 11- 20 [ ] 21-30 [ ] 31-40 [ ] 41 and above [ ]
   Cash deposit
   10 and below [ ] 11- 20 [ ] 21-30 [ ] 31-40 [ ] 41 and above [ ]
   Payment of utilities
   10 and below [ ] 11- 20 [ ] 21-30 [ ] 31-40 [ ] 41 and above [ ]
   Balance inquiry
   10 and below [ ] 11- 20 [ ] 21-30 [ ] 31-40 [ ] 41 and above [ ]

SECTION C: SECURITY

Kindly you are requested to provide answers to these questions as honestly and precisely as possible. Please tick (√) where appropriate.

9. What physical security features have you installed in your business premises?
   CCTV [ ] Security alarms [ ]
   Hard steel metal bars [ ] Hiring a watchman [ ]
   Others specify……..
10. How often do security scares occur?
    Very often [ ] Often [ ] Rarely [ ] None [ ]
11. What kind of security concern have you witnessed in the past one year?
    System failure [ ] Fake currencies [ ]
    Wrong identification by customers [ ] Robbery [ ]
12. Did you lose cash in any of the incidences raised above?
    Yes [ ] No [ ]
13. To what extent do you agree with the statement that some customers fail to bank with agents because of

fear lack of security?
Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree [ ]

14. How often do you receive training on security from the bank?
Quarterly [ ] Twice in a year [ ] Once in a year [ ] None [ ]
15. To what extent has training (if any) provided by the bank improved your performance in each of the following security related areas? PLEASE TICK WHERE APPROPRIATE.

Performance Area	Not at All	Somehow	Fairly	To a Great Extent
Physical security at the business premises				
Ensured better understanding on how to handle cash in transit.				
Improved understanding on how to maintain data confidentiality				

SECTION D: COST

16. Kindly indicate with (√) the extent to which you agree with the statements below.
KEY: SD = Strongly Disagree D= Disagree N= Neutral A= Agree SA= Strongly Agree

	SD	D	N	A	SA
Customers perceive the cost of banking with agents to be low					
Some customers prefer agents regardless of costs.					

SECTION E: LIQUIDITY

17. Does the bank dictate the minimum and maximum cash you should hold?
Yes [ ] No [ ]
18. If the answer to above question is Yes, which is the maximum and the minimum amount?
Maximum [ ] Minimum [ ]
19. To what extent do you agree with the statement that some customers avoid agents because of perennial cash shortages?
Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree [ ]
20. How often does the business suffer from lack of cash for withdrawals and deposits?
Very often [ ] Often [ ] Rarely [ ] None [ ]

SECTION F: GEOGRAPHICAL COVERAGE

21. To what extent do you agree with the statement that some customers prefer agents because they are closer to them as compared to the main bank?
Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree [ ]
22. How long does it take to serve one customer?
15 Minutes and below [ ] 16- 30 minutes [ ]
30 minutes and above [ ]
23. How many hours does your business operate in a day?
8 hours and below [ ] 9- 12 hours [ ] More than 12 hours [ ]
24. Does your business operate on weekends and public holidays?
Yes [ ] No [ ]

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