AN ASSESSMENT OF THE CHALLENGES FACING COMMERCIAL BANKS IN SUSTAINABILITY OF AGENCY BANKING IN KENYA: A CASE OF COMMERCIAL BANKS

Ruth Mary Vutsengwa

Student, Jomo Kenyatta University of Agriculture and Technology

Dr. Karanja Ngugi

Lecturer, Jomo Kenyatta University of Agriculture and Technology

CITATION: Vutsengwa, R. M. & Ngugi, K. (2013), An assessment of the challenges facing commercial banks in sustainability of agency banking in Kenya: A case of commercial banks, *International Journal of Social Sciences and Entrepreneurship.* Vol.1, Issue 2, 2013, 1 (2), 613-620

ABSTRACT

In Kenya, high proportion of population is excluded from access to financial sector with the situation being grave in rural areas. For majority of Kenya's population, especially those living in rural areas, access to banking services has been almost non-existent. With the introduction of Mobile banking and Agency banking services in Kenya's financial systems, affordable and convenient banking services continue to be availed to the large unbanked masses. This study aimed at investigating into factors affecting growth of agency banking in Kenya banking industry**.** The study sought to fill this knowledge gaps by discussing the following factors: security, scope of service allowed, Infrastructural supports and resources. This research problem used a descriptive research design. The population of this study comprised of all the agency banking outlets in Nairobi. Data collected was both qualitative and quantitative and it was analyzed by descriptive and content analysis techniques. The descriptive analysis employed descriptive statistical tools such as SPSS and MS Excel which helped the researcher to describe the data and determined the extent used. The researcher will use both primary and secondary data. Tables were used to summarize responses for further analysis and facilitate comparison. The qualitative data was analyzed using content analysis and presented in prose form. The study concludes that security and privacy implications for all stakeholders should be a prerequisite for sanctioning by the government. The study recommends that banks should embrace a good information security system for convenience, confidentiality, integrity, and availability, by doing this the value of the information will be sustained.

Key words: *Agency Banking, Agent, Commercial Banks*

Introduction

An agency bank is a company/organization that acts in some capacity on behalf of another bank, it, thus, cannot accept deposits or extend loans in its own name; it acts as agent for the parent bank. It is a retail 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 receive government benefits or a direct deposit from their employer (Central Bank of Kenya (CBK), 2010).

The partnership has helped banks to take financial services closer to people, more importantly, to areas that lack them. Kenya changed its banking laws in January 2010, to allow commercial banks offer their services through third-party businesses. The agents operate as satellite branches. The banking concept that is deepening access to financial services is gaining currency in Kenya, where one-third of the population still lacks access to formal banking services.

Statement of the Problem

Kenya has in the last five years made great strides in improving access to financial services throughout the country (Government of Kenya, 2005). According to a study conducted by FinAccess in 2009, financial exclusion – that is people without access to any form of financial services – has fallen from 38.4 percent in 2006 to 32.7 per cent of the population. Financial inclusion has risen in recent years, with aggressive expansion by Kenyan banks. Kenya now has 1,072 retail bank branches, up from 534 in 2005 (FinAccess, 2009). However, despite this rosy picture, a lot still needs to be done to bring in more Kenyans under financial inclusion in line with Vision 2030, the Kenya government economic blueprint which hopes to propel Kenya into mid–level income country in the next 20 years. In Kenya, high proportion of population is excluded from access to financial sector with the situation being grave in rural areas (Government of Kenya, 2005). This is contrary to Millennium Development Goals and Vision 2030 whose objective is to enhance efficiency in the delivery of credit and other financial services and improve access to financial services for a much larger number of Kenyan households.). Agency banking was introduced to expand access to financial services, especially in remote areas where it has been expensive for banks to maintain a presence, owing to smaller volumes (Beck, Cull, Fuchs & Getenga, 2010).

In its Banking Sector Report (for the Quarter Ended March 31, 2012), Central Bank of Kenya (CBK) noted there are 10,066 active agents in Kenya. The agents contracted by eight banks made transaction worth 762 million dollars in the period under review. Leading in the number of agents is Equity Bank with over 3,234 agents, then KCB with over 2,600 and Co-operative Bank with about 1,800 agents. Other banks that have agents include Post Bank, Chase Bank and Family Bank (CBK, 2012). While the introduction of Agency banking is a welcome move by the Central Bank, its haphazard implementation could defeat the point of the entire exercise which is to provide a low cost platform for financial inclusion. The industry is already witnessing a free for all from the early adopters as they rush to secure agents. This has resulted in an auction where agents are now playing one bank against another and demanding higher commissions (Ratio Magazine, 2011).

Previous studies done include; Abreu & Mendes (2002), Almogbil (2005), and Firpo (2005) who did a study on Banking the Unbanked focusing on technology's role in delivering accessible financial services to the poor.FinAccess (2009) in collaboration with The Steadman Group Research Division and Financial Sector Deepening Kenya conducted a national survey on Dynamics of Kenya's changing financial landscape. Ndung'u (2011) came close to the prevailing phenomenon by studying Mobile Money for the "Unbanked" Turning Cellphones into 24-Hour Tellers in Kenya.From the above studies, it is evident that no scientific study has been done to assess the challenges facing sustainability of agency banking in Kenya. The three banks out of the 46 banks in Kenya who have so far implemented the model reported that the growth has not been as exponential as expected and numbers in agency outlets are below projection. It is in this light that the study aims at assessing the challenges facing commercial banks in sustainability of agency banking in Kenya.

Objectives of the study

i. To find out to what extent security influences sustainability of agency banking in Kenya.
ii. To find out to what extent regulation affects sustainability of agency banking in Kenya.
iii. *To find out to what extent human and capital resources affect* sustainability of agency banking in Kenya.
iv. *To find out to what extent does the infrastructural supports by the respective banks affects* sustainability of agency banking in Kenya.

Literature Review

Bank-Focused Theory

The bank-focused theory emerges when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers. Examples range from use of automatic teller machines (ATMs) to internet banking or mobile phone banking to provide certain limited banking services to banks' customers.

Bank-Led Theory

In the most basic version of the bank-led theory of branchless banking, a licensed financial institution (typically a bank) delivers financial services through a retail agent. That is, the bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction (Lyman, Ivatury and Staschen, 2006).

Nonbank-Led Theory

In this theory customers do not deal with a bank, nor do they maintain a bank account. Instead, customers deal with a Non-Bank firm-either a mobile network operator or prepaid card issuer-and retail agents serve as the point of customer contact.

Empirical Review

Security

Society depends on computer systems. Interactions in business and with the government are often carried out over the Internet, and even social networks are moving online. While people get convenient access to important services around the clock, great challenges also emerge in terms of security and privacy.

Regulation

Agents play a critical role in acquiring new customers, enabling them to transact, and keeping them satisfied. They verify the identity of customers, both when clients sign up and at subsequent transactions.

Human and Capital Resources

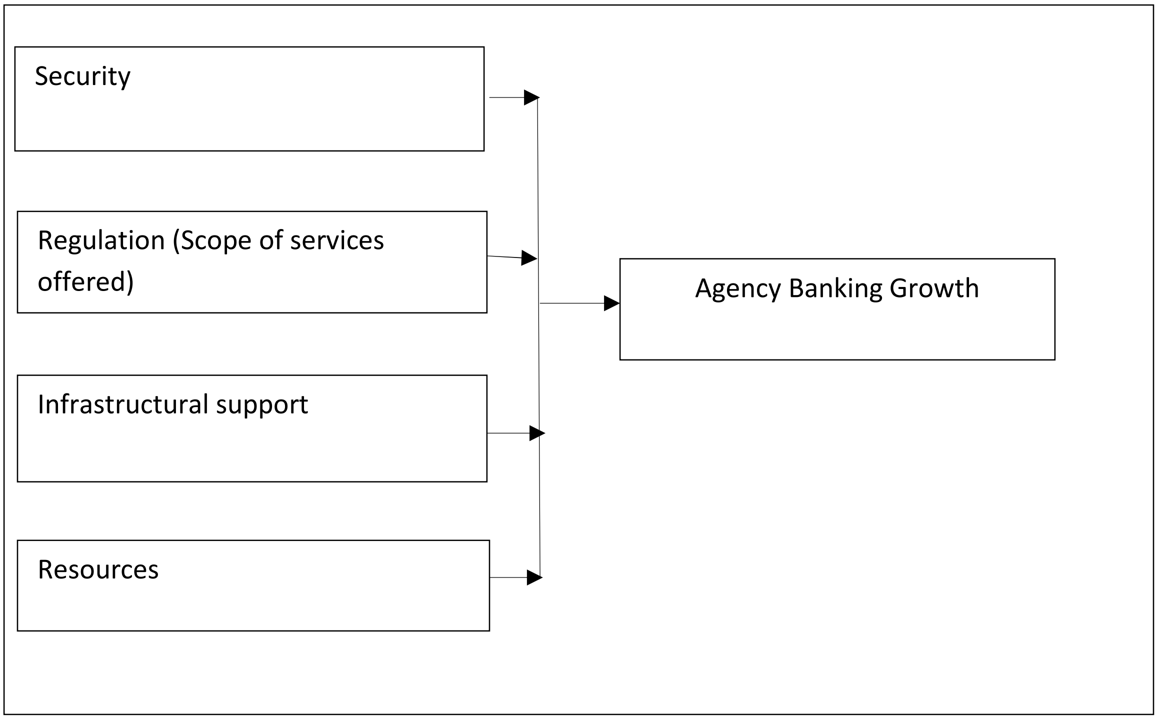
Banks identify outlets, which in the view meets the set criteria for delivering the services. The agents are then required to have suitable human resources to manage the agency services as per agreements.

Infrastructural Support offered by Banks

A study by Kinyanjui (2011) finds that Agency outlets use the bank server in order to execute clients' transactions. In Kenya, banks partners with Mobile telephone service providers and use a secure network to access the server to complete any given transactions.

Juma (2011) in a study on Turning Cellphones into 24-Hour Tellers in Kenya found that Safaricom, the single most successful mobile money deployment, invested heavily in developing the M-PESA agent infrastructure with a focus on a consistent customer experience.

Conceptual Framework



Research Design and Methodology

The descriptive design was preferred since it is carefully structured to ensure complete description of the situation.The population of this study comprised of all the agency banking agents in Nairobi. The agents were to be the group from which the sample was drawn.

Results of the Findings and Discussion

Security

The study found out that the respondents strongly agreed that security and privacy implications for all stakeholders should be a prerequisite for sanctioning by the government.

Regulation

The study found out that the respondents strongly agreed that regulation helped guard the entire system against which may help clients view the service as safe and trustworthy.

Human and Capital Resources

The study further found out that the respondents strongly agreed that Agents were required to have suitable human resources to manage the agency services.as per agreements.

Infrastructural Support offered by Banks

Finally, the study found out that the respondents strongly agreed that agency outlets use the bank server in order to execute clients' transactions.

Conclusion

The study concludes that security and privacy implications for all stakeholders should be a prerequisite for sanctioning by the government.

Additionally, the study concludes that agents were required to have suitable human resources to manage the agency services as per agreements.
Finally, the study concludes that agency outlets use the bank server in order to execute clients' transactions and that banks partners with mobile telephone service providers and used a secure network to access the server to complete any given transactions.

Recommendations

The study recommends that banks should embrace a good information security system for convenience, confidentiality, integrity, and availability, by doing this the value of the information will be sustained. The study further recommends that agency banks should set regulatory measures to stimulate the creation of more secure computer systems. Finally, the study recommends that, since the secrecy of the private key is essential, customers must take appropriate measures to prevent unauthorized access to the key storage. The customer and the bank must mutually authenticate themselves before any files can be sent or received.

References

Abreu, M. and Mendes, V. (2002) Commercial bank interest margins and profitability: evidence for some EU countries". Porto Working Paper Series, CISEP, Portugal,

Almogbil, M (2005). Understanding Internet Banking Adoption and Use Behavior, *Journal of*

Global Information Management. Massachusetts: Blackwell. Vol. 12. pp 112-119.

Barth, J.R. Jr. Capiro, G. and Levine, R. (2004) Bank regulation and supervision: what works best?". *Journal of Financial Intermediation*, 13(2):205{248.

Beck, D. Cull, U. , Fuchs, G. and Getenga, B. (2010). "Common stock offerings across business cycle", /*Journal of Empirical Finance*/, Vol. 1 pp.13-31.

Central Bank of Kenya, (2011). Guidelines on Agent Banking, Banking Journal: CBK/15, pp 27-37.

FinAccess National Survey (2009). Dynamics of Kenya's changing financial landscape. June 2009. The Steadman Group Research Division, Supported by Financial Sector Deepening Kenya in collaboration with the Financial Access Partnership, Nairobi. Kenya.McKay, R.B., (2011). Applying ethical principles to the decision to build the RedHill Creek Expressively. *The international Journal on Public Sector Management*. Vol 13, no.1 pp 58 -67

Kinyanjui, B., (2011). The Impact of Mobile Communication Technologies in Medium and Small Enterprises: Case Study of Nairobi City, *MSc. Thesis submitted at the University of Nairobi,* School of computing and Informatics.

Kumar, V., Maheshwari, B., & Kumar, U. (2002). Enterprise resource planning systems adoption process: a survey of Canadian organizations. *International Journal of Production Research, 4*0 (3), 509.

Lyman, Timothy, Gautam Ivatury, and Stefan Staschen. 2006. "*Use of Agents in Branchless Banking for the Poor: Rewards, Risks, and Regulation*." Focus Note 38. Washington, D.C.: CGAP.

Ndung'u, S. (2011). M-PESA: *Mobile Money for the "Unbanked" Turning Cellphones into* 24-Hour Tellers in Kenya.

Ratio Magazine (2011) Wednesday, 22 June 2011. The Inside Track to East Africa's Economy