# ROLE OF AGENCY BANKING ON THE PERFOMANCE OF BANKING AGENT ENTREPRENEURS: A CASE STUDY OF CO-OPERATIVE BANK CO-OP JIRANI IN KIBERA, NAIROBI

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## ABSTRACT

Since 2010, there have been significant improvements in the banking sector with the introduction of agency banking, an innovative delivery channel that seeks to bring access to financial services much closer to entrepreneurs. This study sought to find out the role of agency banking on the performance of entrepreneurs in Kibera, Nairobi. This research adopted a census survey study where a total population of 34 entrepreneurs were selected from Kibera. Data was collected and administered using structured questionnaires to the entrepreneurs. The study used descriptive data analysis tools to test and establish the relationship between agency banking and the role on entrepreneur's performance. Data analysis was done with the aid of SPSS software and results presented in form of table, pie charts and graphs. From the findings, the transaction costs like deposis costs, withdrawal cost was established and the result shows that twenty four respondents (70%) agreed that transaction cost affect the performance of agency banking. Fifteen respondents (44%) disagreed that regulation and policies affect the performance while fifteen respondents (44%) agreed with the same. On the issue of commission, 100% agreed that commission disbursement method does not affect the agency performance while twenty six respondents (76%) agreed that security affects the agency performance. In conclusion and recommendation, the study found out that poor security within Kibera negatively affect the agency performance, the time transactions take positively influence agency performance, regulations directly affect the performance of agent entrepreneurs, the agents agreed that the commissions offered do not have a direct effect on their performance and as a result there was need to abolish the deposit cost charged to clients to boost the performance of agency entrepreneurs and improvement on the commission given to the entrepreneurs. The Government should also boost security within the region and regulations such as float restrictions should be removed to enhance the agent entrepreneur's performance.

***Key Words**: agency banking, entrepreneurs, performance*

## Background of the Study

In the last decade, there has been an explosion of different forms of remote access financial services, that is, beyond branches. These have been provided through a variety of different channels, including mobile phones, automatic teller machines (ATMs), and point-of-sale (POS) devices and banking correspondents (Podpiera, 2008). In many countries, these branchless channels have made an important contribution to enhancing financial inclusion by reaching people that traditional, branch-based structures would have been unable to reach. One of the main obstacles to financial exclusion is cost: both the cost to banks involved in servicing low-value accounts and extending physical infrastructure to remote rural areas, and the cost (in money and time) incurred by customers in remote areas to reach bank branches. Agent banking is rapidly evolving and its regulation plays a central role in enabling (or sometimes limiting) its spread (EFInA, 2011). The establishment of agency banking has assisted financial institutions to provide convenient banking services to entrepreneurs. These agents have also penetrated into rural areas where offering banking services could be expensive for banks. In rural areas it is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of a branch. (Kitaka, 2001) Also, low income clients often feel more comfortable banking at their local store than walking into a marble branch (Adiera, 1995).

## Statement of the Problem

Initially access to banks was not an easy thing for common man in Kenya as banking sector was majorly targeting working class and the middle class/income with more disposable income. This scenario existed till the formation of Equity bank in Kenya which majorly targeted low income and middle class people with free account opening and low maintenance fees. This approach adopted by equity bank changed the banking system in Kenya and many banks adopted the same strategy and expanded their market share. To move closer and access many customers, commercial banks started to allow other commercial outlets like shops and supermarkets to act in their capacity as formal banks and this was formally launched by Central Bank of Kenya about three years ago, but just a handful of banks have so far taken up the option (Yobes et al, 2012).

Keen to take advantage of the cost saving and accessibility brought about by the agency banking model, Kenyan financial institutions have embarked on an aggressive entry into the segment. But many are finding that agents lack capacity to handle large transactions of cash and under-spend on security measures. So far, Post bank (BenkiYangu), Equity Bank (Equity Mashinani), Kenya Commercial Bank( KCB Mtaani), Co-op Bank( co-op kwa jirani)) and Family bank (Pesa pap) have launched their agent banking segment, though these agencies are active and working, one of the challenge most banks experience is getting active agencies who can provide money to the entrepreneurs continuously. Though banks have benefited a lot through the agent entrepreneurs but whether the entrepreneurs who are operating these agents banking have improved on their performance or not was something which had not been investigated.

Therefore, the question whether the bank is the only beneficiary of agency banking or whether the entrepreneurs who are operating the agent banking have benefited and increased in volumes of their performance was the motivating factor which this research was anchored on.

## General Objective

The general objective of this study was to determine the role played by agency banking on the performance of agent entrepreneurs.

## Specific Objectives

The study was also supported by the following specific objectives:

1. To analyze the role of transaction cost on the performance of agency entrepreneurs
2. To determine the role played by regulations and policies on the performance of agency banking entrepreneurs
3. To analyze the role played by the commissions given to agency entrepreneurs by the banks on their performance
4. To determine the role of security on the performance of agency banking entrepreneur
5. To determine the time entrepreneurs use to transact through agency banking and its effect on their performance.

## Research Questions

The study sought to answer the following questions:

1. What are the transaction costs involved and how they affect the performance of the banking agent entrepreneurs?
2. How does policies and regulations involved in operating agency banking influence the performance of banking agent entrepreneurs?
3. How do commissions given to agency banking entrepreneurs influences their performance?
4. What is the role of security on the performance of banking agent entrepreneurs?
5. What is the role of time factor on the performance of banking agent entrepreneurs?

## Justification of the study

Due to ambitious plans of the banks of devolving bank services closer to people through agency banking. It was worth investigating the role agency banking services has played in performances of the small and micro businesses which are operating the agent banking services. If there is positive improvement on the performance of the micro and small entrepreneurs who operate agency banking then, they should be encouraged so that more bank services can be rolled out through agency banking to reach rural population.

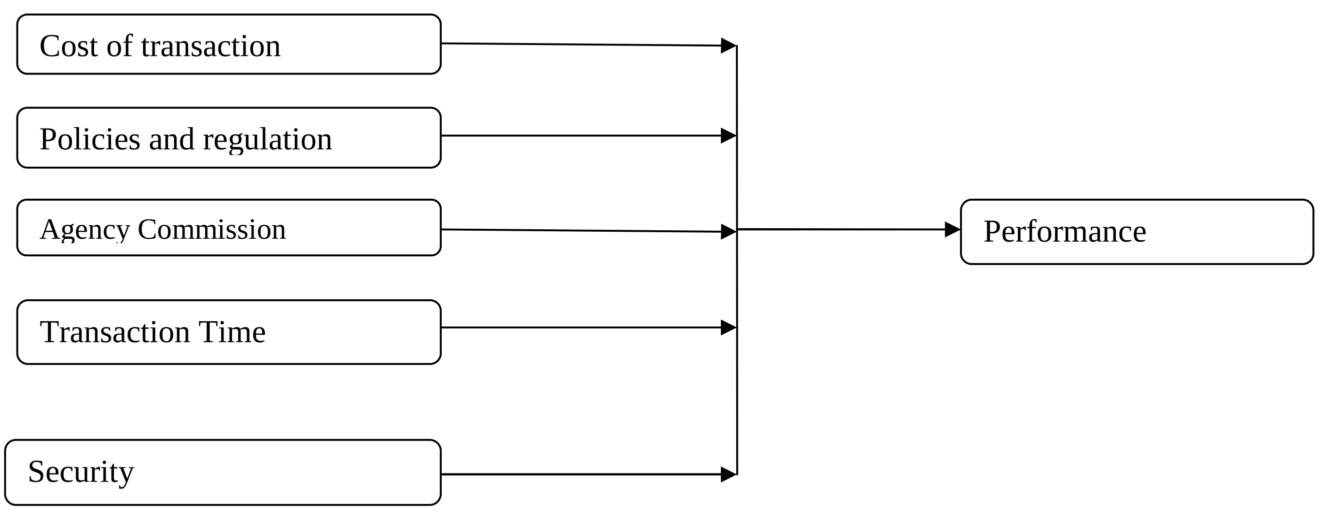
## Literature Review

A banking agent is defined as a retail or postal outlet contracted by a financial institution or a bank network operator to process clients' transactions (Atieno, 2001). 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. Retailers are increasingly being utilized as important distribution channels for financial institutions whereby the points of service range from post offices in the Outback of Australia, to rural France where the bank Credit Agricola uses corner stores to provide financial services, to small lottery outlets in Brazil at which clients can receive their social payments and access their bank accounts (Berger, & Humphrey, 1998). According to Dondo (2003) Agency Banking is not new in the world. It has been used very well in Latin America and Asia. There are few African countries that have taken up agency banking. The agency banking in Kenya guidelines were enacted in 2010 (EFInA, 2011). Banks must first apply to central bank of Kenya to get approval to conduct agency banking business. The board of directors of each banking institution interested in agency banking must make policies guidelines and procedures to be followed to ensure that: (Adera, 1995) states that, when financial agent banks do not have branches that are close to the customer, the customer is less likely to use and transact with their service. However, the emergence of new delivery models as a way to drastically change the economics of banking the poor. By using retail points as agent banking other providers can offer saving services in a commercially viable way by reducing fixed costs and encouraging entrepreneurs to use the service more often, thereby providing access to additional revenue sources (EFInA, 2011). Financial inclusion is a big challenge in Kenya: only 22.6% of the adult population has a bank account. There are, however, more than 45,500 agents offering financial services. In terms of branchless banking, Kenya is probably best known for nonbank-based models, specifically those launched by Mobile Network Operators (MNOs). M-PESA was the first and is the most famous of these models. This service was launched in 2007 and by April 2011 had more than 14 million users and 27,988 agent outlets. (Safaricom, 2011). In the Co-operative Bank, the Co-operative Bank is the principle partner in the acquisition and management of agent outlets countrywide. Co-operative Bank acquires Agents and their outlets and earns a part of the subsequent commissions on a mutually agreed revenue share (Co-op bank, 2011). The Approved Co-op Bank Agent is engaged in the provision of approved banking services and products to Co-op Bank customers.

## Conceptual framework

The framework below shows the independent and dependent variables. The independent variables affect performance while the dependent variable is the result of independent variables. The independent variables are cost of transaction, policies and regulations, agency commission, transaction time and security which affect the dependent variable which is performance.

**Figure 2.0: Conceptual Framework**




*Independent Variables* *Dependent Variable*

## Cost of Transactions

Lower transaction costs were incurred since client/ entrepreneurs would visit agency any time without incurring any additional cost like transport cost to bank their cash. Agencies are more accessible for illiterates and the very poor who might feel intimidated in branches with low amount of money they would wish to withdraw and deposit. Though most people are not aware of these costs, to some extent they do influence the customer decision to use agency banking or not to use the agency banking system hence influences the performance and growth of agency banking.

## Policies and Regulation

The regulations state that contracts between an agent and the principal institution cannot be exclusive. Agents can provide services for multiple institutions as long as they:

1. Have contracts with each; and
2. The agent has the capacity to manage transactions for each institution (Guideline on Agent Banking - CBK/PG/15, 2010).

Initially agents were not allowed to open accounts but now they can do so, though they cannot grant loans, or appraise account or loan applications. The principal institution is responsible for deciding on a case-by-case basis, based on a risk assessment of the agent, which of the services listed above a particular agent should provide (Guideline on Agent Banking -CBK/PG/15, 2010)

## Agency Commission

The Agent earns commissions on the transactions generated by the Agents outlets/ branches. The bank shares in all the commissions generated by the Agents outlets at a mutually agreed rate. The Commissions sharing ratio is at the discretion of the Bank which is currently (50:50). Commissions are collected online apart from mini statement and balance enquiry which are collected during End of Day procedures. Commissions are then generated into the bank's system and split based on the Agent ID and as per the agreement reached between the Bank and respective agent. Therefore the commissions earned would improve the financial status of the entrepreneurs which boosts the performance of their business.

## Transaction Time

In a study done by Yobes et al (2006) to assess the impact of agent banking on entrepreneurs in Kisii town, they found that the agent banking saves time due to shorter lines than in branches, shorter distance since services are brought closer to client's home. The agent branches are also opened for longer hours compared to main bank branches. This generally has positive impact on entrepreneurs since they can use shorter distance and time to transact their bank business hence translate to better performance of agency entrepreneurs.

## Security

Though the shorter the distance which the entrepreneurs and customers take to bank their cash, insecurity should be a big concern to both the entrepreneur and customer. Security around the agent entrepreneurs should be enhanced. The security level also influences the amount of cash which can be kept by the agent entrepreneurs at any given point hence affects their performance.

## Performance

The indicators of performance in a business enterprise are an upward growth, expansion of business and increase in profits. Therefore a small enterprise can achieve its performance through enhanced collection of transaction commissions, adequate security to prevent cases of theft and offering timely and quality service to the clients.

## Research Methodology

## Research Design

The researcher adopted descriptive survey method for this study. Descriptive survey is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals. This design was adapted for this study as it made it easier for the researcher in obtaining a cross-referencing data and some independent confirmation of data.

## Target Population

The target area for this study was Kibera, Nairobi. The area had been selected because of its accessibility to the researcher and it was also a key entrepreneurial area in Nairobi. All over the country, there are 3443 Co-op bank agents whom are actively operating with high concentration in rural and slum areas. In Kibera, there are 34 co-op bank actively operating agents (Co-op Bank, 2011).

## Sampling Techniques

The study used census method since the population was sufficiently small hence the data obtained by this method was more reliable. In this study, 100% of the target population that is all the banking agents studied in Kibera were used as the sample size, since the number was small due to the fact that agency banking was still a new venture and not many entrepreneurs have acquired a license to operate it.

## Research Instruments

Primary data was collected using questionnaires. The questionnaires enabled researcher to collect a lot of information over a short period of time. A preliminary study was conducted to establish effectiveness of research instruments. The researcher was constantly checking and verifying questions and any other collected information during the process of data collection to ensure completeness and accuracy of data. The researcher administered pre-testing of instruments to ensure that respondents were able to understand the questions correctly.

## Data Analysis

Data was presented using descriptive statistics and by use of models and tables under empirical analysis. Qualitative data analysis was done concurrently with data collection where use of words spoken and written were identified. Descriptive statistics enables the researcher to meaningfully describe the distribution of phenomenon. Descriptive statistics such as frequency distribution and percentages were used to analyze the demographic characteristics of the sampled respondents. Statistical Package for Social Scientists (SPSS) was used in analyzing data starting with preparation, data capturing, cleaning and coding.

## Data Analysis and Presentation of Results

### Age of Respondents

Age of the respondent was as follows:

**Table 4.1: Age of the respondents**

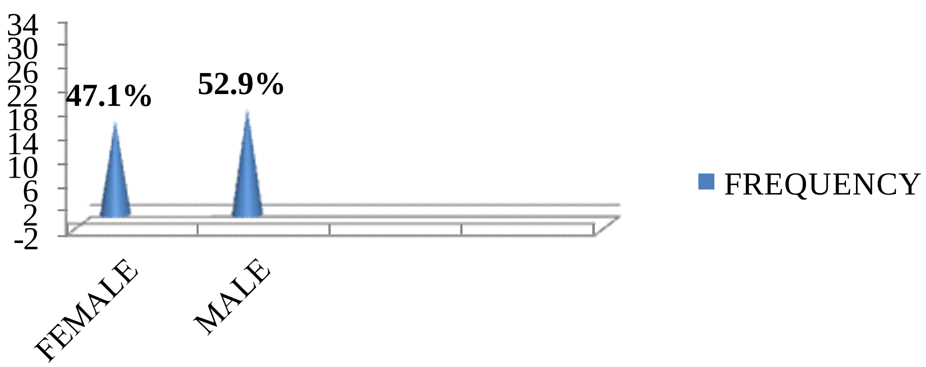
| Age bracket | Frequency | Percent |
|---|---|---|
| age 18-25 | 3 | 8.8% |
| age 26-33 | 15 | 44.1% |
| age 34-40 | 10 | 29.4% |
| 40 years and above | 6 | 17.6% |
| **Total** | **34** | **100.0%** |

The findings revealed that 3 (8.8 %) of the respondents who own agency banking in Kibera are aged between 18-25 years, while the majority 15(44.1 %) agency owners are aged between 26 – 33 years while 10( 29.4 %) of them are aged above 34-40 years and those aged above 40 years and above are  6(17.6%). This implied that those aged between 26-33 years are the ones who take up most of agency banking entrepreneurship within Kibera. This then indicated that, this was the age bracket people are active in terms of business and other economic activities, therefore in need of financial support and the bank should target them.

### Gender of the respondent

The study also sought to establish the gender of Agency banking owners within Kibera. Findings are given in the figure 4.0 below:

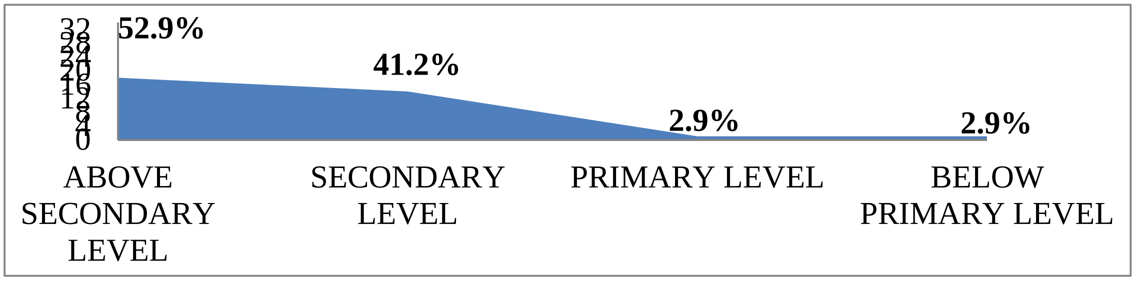
**Figure 4.1 Gender of the respondent**



The findings revealed that out of 34 respondents which translate to16 (47.1%) were female while the majority which accounts to 18(52.9%) were male. It therefore implied that male do involve and take up agency entrepreneurship more than their female counter parts.

## Respondent's Level of Education

**Figure 4.2: Level of education of entrepreneurs**




The findings point out that only 1(2.9%) of the total entrepreneurs were having primary and below certificates respectively, while 14(41.2%) were having secondary level of education and the majority were having above secondary education level which was 18(52.9%) of the total respondent. The findings indicated that people with more than secondary level of education involve more with agency banking kind of business than those with primary and below education level.

## What are the transaction costs involved and how they affect the performance of the banking agent entrepreneurs?

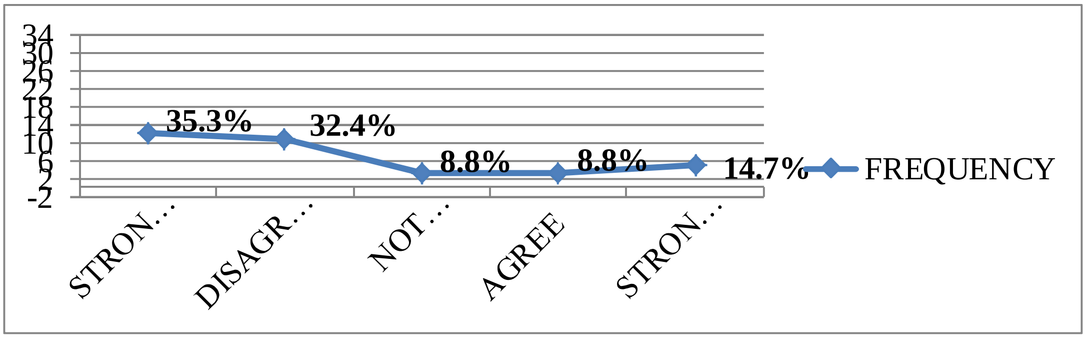
The researcher sought to find out the costs involved in agency banking and how they affect the performance of agent entrepreneurs. The researcher sought the opinions of the entrepreneurs and the findings were summarized in the tables below:

**Table 4.2: High Transaction Cost and Performance of Agency Banking**

| Level of agreement | Frequency | Percent |
|---|---|---|
| Strongly disagree | 3 | 8.8% |
| Disagree | 1 | 2.9% |
| Not Sure | 3 | 8.8% |
| Agree | 15 | 44.1% |
| Strongly agree | 12 | 35.3% |
| **Total** | **34** | **100.0%** |

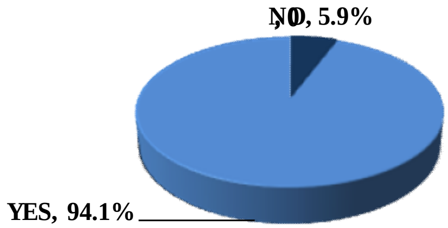
The findings indicated that 3(8.8%) of the respondent strongly disagreed with the statement that high transactions cost hinders the performance agency banking, only 1(2.9%) disagreed while 3(8.8%) of the respondent were not sure whether the transactions cost hindered the performances or not. A larger percentage of 15(41.1%) agreed with the fact that high transaction cost hindered agency performance and 12(35.3%) strongly agreed with the statement. This indicated that high transactions costs hinders agency banking performance.

**Figure 4.3: The transaction cost has no effect on the performance of agent banking**




From the findings, 11 (32.4%) of the respondent disagreed and12 (35.3%) strongly disagreed with the statement that transaction cost has no effect on the performance of agent banking. Only 3(8.8%) agreed with the statement, 5(14.7%) strongly agreed while only 3(8.8%) were not sure with the statement. This indicated that cost of the transactions had a direct influence on agency banking entrepreneurs.

**Figure 4.4: The initial cost of opening agent banking should be lowered to improve its performance**




In trying to find out the relationship between the initial cost of opening agency banking enterprise and their effect on the agent's performance, the researcher found out that 2(5.9%) are not for the opinion of lowering the initial cost of opening agency entrepreneurs while 32(94.1%) agreed to the fact that if the cost was lowered then the performance of agency banking would improve. In considering the transaction cost, 19(55.9%) agreed that people do not consider agency transaction cost while 15(44.1%) agreed that people do consider transaction cost before operating or transacting through agency banking.

### How does policies and regulations involved in operating agency banking influence the performance of banking agent entrepreneurs?

The researcher asked the question whether there were regulations before they started operating agency banking; the results were summarized in the table below:

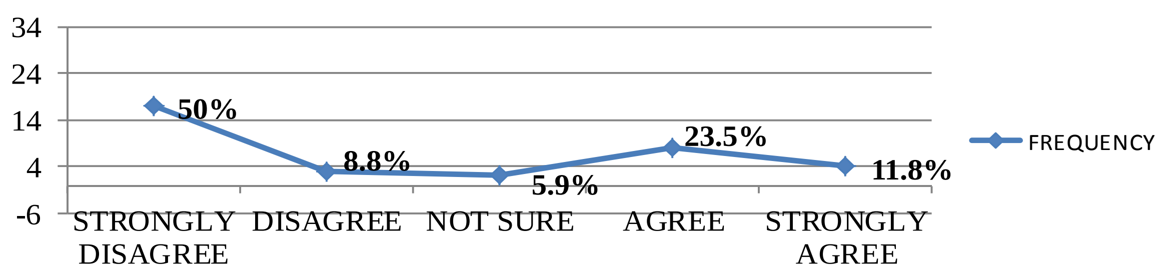
**Table 4.3: Are there regulations given before you start operating your agency banking**

| Agreement | Frequency | Percent |
|---|---|---|
| No | 4 | 11.8% |
| Yes | 30 | 88.2% |
| **Total** | **34** | **100.0** |

From the findings only 4(11.8%) agreed that there were no regulations while 30(88.2%) agreed that there were initial rules and regulation entrepreneurs were given before starting operating agency banking. Therefore, it was true to conclude that there were rules and regulation which were being given.

On the question of whether the agency banking management structure hinders the performance of agency entrepreneurs, the findings were summarized as below:

**Figure 4.5: The agent banking management structure hinders its performance**




From the findings, 17(50.0%) of the respondent strongly disagreed with the statement that the management structure hinders the agency performance, 3(8.8%) only disagreed, 2(5.9%) of the respondent were not sure whether the agency banking management structure were affecting the entrepreneurs performance or not, 4(11.8%) believed that the elaborate management structure hinders the performance of entrepreneurs while only 4(13.3%) strong agreed with the same statement. Therefore it indicated that the agency management structure does not hinder the performance of agency entrepreneurs. On the issue of the float restriction, 5(14.7%) disagreed with the statement as the restriction on floats hinders agency entrepreneur's performance and 23(68.5%) agreed with the statement. So it clearly indicated that the float restriction hinders the performance of agency entrepreneurs.

### How do commissions given to agency banking entrepreneurs influences their performance?

**Table 4.4: The fact that agents earn commissions only on the transactions generated by agents' outlets encourages performance of agent entrepreneurs**

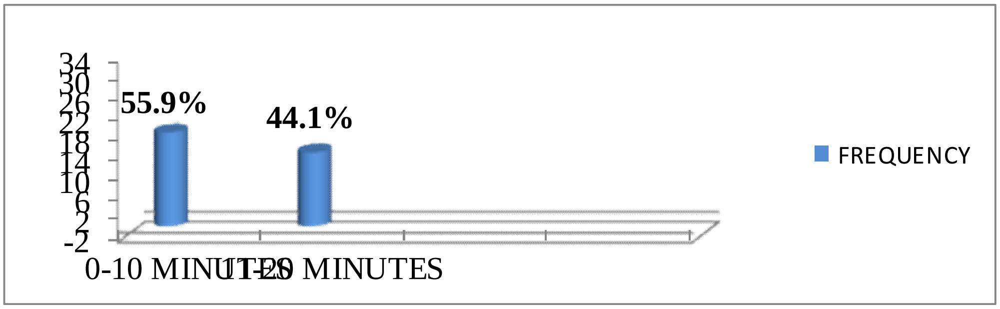
| Level of agreement | Frequency | Percent |
|---|---|---|
| Strongly disagreed | 1 | 2.9% |
| Not sure | 1 | 2.9% |
| Agreed | 11 | 32.4% |
| Strongly agreed | 21 | 61.8% |
| **Total** | **34** | **100.0%** |

From the findings, 1(2.9%) strongly disagreed with the statement that the fact that the entrepreneurs are given only commission that hinders their performance, likewise 1(2.9%) were not sure, 11(32.4%) agreed with the statement while a larger percentage of 21(61.8%) strongly agreed with the statement that the fact that the agent entrepreneurs get commission on their sales which encourages their performance. It can therefore reveal that the commissions given to the entrepreneurs encourages their performance.

### What is the role of time factor on the performance of banking agent entrepreneurs?

The researcher sought to find out the average time one single transaction take and the findings were summarized in the figure below:

**Fig 4.6: How long does it take to serve one customer?**




From the findings, 18(52.9%) of the respondent agreed that the transaction takes a time frame between 0-10 minutes while 16(47.1%) takes 11-20 minutes. On the question of transaction duration and the agent performance, the findings were summarized as below:

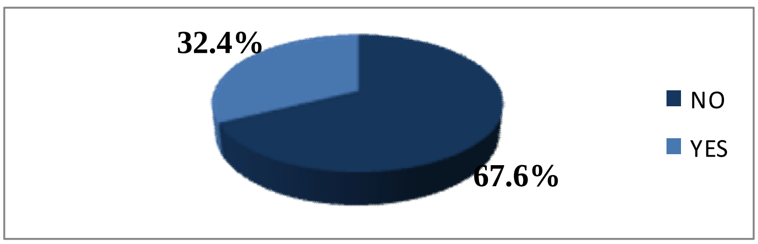
**Table 4.5: Do you think the time the customers take can improve the rate of performance of agent business**

| Agreement | Frequency | Percent |
|---|---|---|
| No | 8 | 23.5% |
| Yes | 26 | 76.5% |
| **Total** | **34** | **100.0%** |

From the findings, 8(23.5%) of the respondent believed that the time the customer spent did not improve the rate of performance while 26(76.5%) believed that the transaction duration can improve the rate of performance of agent business more so if the time taken was short.

### What is the role of security on the performance of banking agent entrepreneurs?

**Figure 4.7: Is there good security within Kibera**




On the question of good security in Kibera; 23(67.6%) of the respondent agreed that there is no good security in the area, while only 11(32.4%) agreed that the security is good in the area; the findings are summarized in the pie chart above.

### Conclusions

From the findings and the result, the following conclusions can be made:

The variable, transaction cost, affect the performance of agent entrepreneurs with high transaction cost lowering performance of agent entrepreneurs while low transaction cost do boost the performance of agent entrepreneurs. Regulations and policies do affect the performance of agent entrepreneurs with float restrictions lowering performance of agent entrepreneurs.

### Recommendations

Lower the transaction costs of agency banking. The bank should remove the deposit charges and instead come up with more elaborate way of recovering the commissions. Reduce the number of regulations to enhance many people taking up this form of entrepreneurship. The bank should upgrade the POS machines to eliminate the unnecessary many time outs when a transaction is being performed hence increase efficiency for better performance.

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