INFLUENCE OF FINANCIAL STRATEGIES ON IMPLEMENTATION OF AGENCY BANKING IN KENYA (A CASE STUDY OF BANK AGENTS IN MACHAKOS TOWN)

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ABSTRACT
The purpose of the study was to examine the financial strategies influencing implementation of agency banking in Kenya. The specific objectives included; to establish the influence of financial system on the implementation of agency banking, to establish the influence of agent’s security on the implementation of agency banking, to determine the influence of agent’s financial knowledge on the implementation of agency banking and to establish if bank financial regulation influences the implementation of agency banking. In this study bank financial system, financial regulation, system security and agent financial training were the independent variables while implementation success of agency banking was the dependent variable. The study review was based on three theories; that is the security theory, agency theory and diffusion of innovation theories which are relevant to this study. Several researchers have discussed the agency banking on different aspects. Waithanji (2012) did a study to identify the impact of agent banking as a financial deepening initiative in Kenya and Kithuka (2012) conducted a study on factors influencing growth of agency banking in Kenya: the case of Equity bank, Kwale County. However, their study did not focus on the four variables: bank financial system, financial regulation, system security and agent financial training. Further, Musau (2013) did an analysis of the utilization of agency banking on performance of selected banks in Nairobi County. His study variables included policies and procedures, agency costs, agency liquidity and security. However, none of these studies focused on the success of strategy implementation of agency banking in commercial banks in Kenya. The study used census design and was based in Machakos Town. A census methodology of 20 respondents was used comprising the entire population of agents of Commercial Banks within Machakos Town. Questionnaire was the main instrument of data collection.
The questionnaire combined the features of both open ended and closed questions used for primary data collection. After data collection, data gathered was analyzed using Statistical Package for Social Sciences (SPSS) computer software for making findings recommendations and suggesting areas of further research. Data was presented into Tables. The study revealed that commercial banks’ financial regulations and financial systems affect financial strategy implementation of agency banking sector in Kenya. The study established that agency banking staff financial skills, knowledge and competencies positively affect successful implementation of agency banking in Kenya. The study also found that financial strategies used in agency banking will have an impact on the adoption and growth of agency banking. The findings of this study will help other financial institutions to understand the influence of financial strategies in implementation of agency banking in Kenya; the findings will provide a new dimension on how financial institutions can achieve the goal of financial inclusion.

**Key words:** Financial Strategies Agency Banking, Financial System, Financial Regulations
INTRODUCTION

Banks in the developing world are increasingly deploying the use of payments using agencies to enhance the quality of their financial services and increase their growth (Nyangosi, 2008). Nyangosi (2008) alludes further that agency banking industry is a key section in any economy and banks occupy a significant place in every nation. (Nyangosi, 2008). Agent banking took effect in Kenya in May 2010 after the publication of prudential guidelines by the Central Bank of Kenya (C.B.K). Since the CBK put the agency banking model into operation in May 2010, it has granted approval to 10 banks for the rolling out of their agency networks. To date, these banks have engaged a total of 7,820 agents across Kenya. (CBK, 2013)

Agency banks offer normal banking services such as cash deposits and withdrawals, disbursement and repayment of loans, salary payments, pension payouts, transfer of funds and the issuing of mini bank statements, all through shared infrastructures. In addition, the agency network allows banks to reach new customers, who can open new accounts, perform credit and debit card applications, cheque book requests. (Kirimi, 2011)

In view of the above agency banking has enabled bank customers to access the basic banking services, this alongside the convenience of access to banking services and the extended hours that the agencies work has been the most attractive features to the customer (as most agencies work between 8am up to 8pm). Therefore the board of directors of institutions interested in agency banking must make policies, guidelines and procedures to be followed to ensure the agents are credible, risk identification and mitigation measures are in place and agents must also, through the banks that sponsor them, apply to run agency banking in Kenya business.

Like in many other developing countries, agency banking in Kenya is at its nascent stages. Not many customers have embraced agency banking. Agency banking offer less waiting and a higher spatial convenience than the traditional branch network. Banks are coming up with these innovations in agency banking to improve customer satisfaction but they are facing problems converting these agent outlets into what they would be comfortable to call outsourced banks. (Ndungu, 2011).

Although a number of studies have been done on agency banking in Kenya, a knowledge gap still exists on the factors that influence the implementation of agency banking in banking industry in Kenya. Kithuka (2012) conducted a study on factors influencing growth of agency banking in Kenya: the case of Equity bank. Waithanji (2012) did a study to identify the impact of
agent banking as a financial deepening initiative in Kenya. However, none of these studies focused on the success of strategies in implementation of agency banking in Kenya. This study therefore sought to fill the gap by establishing the influence of financial strategies on implementation of agency banking in Kenya.

**General Objective**

The general objective of the study was to establish the influence of financial strategies on implementation of agency banking in Kenya.

**Specific Objectives**

The study was guided by the following specific objectives.

i. To establish the influence of financial system/networks on the implementation of agency banking

ii. To establish the influence of agents security on the implementation of agency banking

iii. To determine the influence of agents knowledge on the implementation of agency banking

iv. To establish if bank financial regulation influences the implementation of agency banking

**Justification of the study**

Influence of financial strategies in implementation of agency banking in Kenya has not been extensively examined in the Kenyan context. This study sought to investigate the success of strategies in implementation of agency banking in Kenya. The findings of the study will assist banks in understanding the key financial strategies in implementation of agency banking. Secondly, the study will be important to Kenyan investors who may be contemplating to venture into agency banking business and finally study will be important to the society in general, which in most cases benefits direct or indirect from agency banking services.

**LITERATURE REVIEW**

**Theory of Security**

The theory of security is to know the types of possible attacks, to be aware of the motivations for attacks and your relationship to those motives (Kurtus, 2002). The security or defense against such a threat is to make it difficult to attack, threaten counter-measures, or make a pre-emptive attack on a source of threat (Mas & Hannah, 2008). Reasons for such an attack may be for revenge, financial gain, political or religious motives, for thrills, or to avoid getting caught.
This theory is relevant to the research because of the concern where an agent is compromised by fraudsters in abating frauds to customers account like card skimming which have been traced to agents. In such instances banks are forced to increase their surveillance which calls for more and more supervision. However these security issues can be broken by proper screening of agents at recruitment to match the culture and values of the banks they represent and also ensuring the location of the agents’ premises are safe for the customers.

Agency Theory
Agency theory is part of the positivist group of theories which derives from the financial economics literature. It posits that the firm consists of a contract between the owners of economic resources – the principles and managers- the agents who are charged with using and controlling those resources. The theory of agency was first explicitly modeled by Jensen and Meckling (1976) in their study of the structure of the firm.

Under the terms of agency theory, a principal (P) passes on authority to an agent (A) to conduct transactions and make decisions on behalf of the principal in an effort to maximize P’s utility preferences. Agency problems can arise if: P and A have different goals; P and A have disparate skills in evaluating A’s performance; P and A possess different sets of information relevant to the managerial decisions A must make as a representative of P; or P and A have different degrees of risk aversion. At the core of agency problems is the fact that principals may not be able to monitor agents, either perfectly or costless, as to the agent's actions or the information behind those actions. Agency problems emerge because contracts between principals and their agents are neither costless written nor costless enforced.

Agency theory also assumes that principals and agents act rationally and that they will use the contracting process to maximize their wealth. This means that because agents have self-seeking motives they are likely to take the opportunity to act against the interest of the firm, for example by partaking in high levels of perquisite consumption (Brigham & Gapenski, 1993). Furthermore, agency theory is based on the premise that agents have more information than principals and that this information asymmetry adversely affects the principal’s ability to monitor effectively whether their interests are being properly served by agents. By engaging in an agency relationship, however, an agent is bound to moral and legal rights that protect the interest of the principal through a legally enforceable contract entered into by both the principal and the agent.
Agency theory is relevant to this research since it explains the importance of the relationship between the banks and the bank agents. Banks are responsible for the actions of their agents and thus must be able to come up with supervision and monitoring procedures to ensure that they do not suffer losses, material or reputational due to the actions of their agents.

**Diffusion of Innovations Theory**

Diffusion of Innovation (DOI) Theory, developed by E.M. Rogers in 1962, is one of the oldest social science theories. It originated in communication to explain how, over time, an idea or product gains momentum and diffuses (or spreads) through a specific population or social system. There are five established categories of adopters, and while the majority of the general population tends to fall in the middle categories, it is still necessary to understand the characteristics of the target population.

- **Early Adopters** - These are people who represent opinion leaders. They enjoy leadership roles, and embrace change opportunities. They are already aware of the need to change and so are very comfortable adopting new ideas.
- **Early Majority** - These people are rarely leaders, but they do adopt new ideas before the average person.
- **Late Majority** - These people are skeptical of change, and will only adopt an innovation after it has been tried by the majority.
- **Laggards** - These people are bound by tradition and very conservative. They are very skeptical of change and are the hardest group to bring on board.

With regard to communication channels, banks have done well to popularize the model with service names that resonate well with the target population. Such names include, 'Co-op Kwa Jirani', 'KCB Mtaani', 'Equity Ndio Hii', 'Family Papo Hapo', 'Chase Popote' 'Conso Maskani', Posta mashinani, DTB agent, and so on. Such names are intended to create a sense of ownership and create confidence among the banks’ customers for a service that has been devolved to their neighborhood. The rate of diffusion of agency banking will depend on many factors some of which are subject of investigation in this study, but also not forgetting disruptive innovations like the mobile money services.

The reluctance of the majority banks to engage in agency banking despite its potential for cost saving could be explained by the different categories of adopters. Banks however need to come up with initiatives to popularize the agency banking such as advertisements, road shows, pricing strategies to create push and pull at the agency as well as many more initiatives until the agency banking has attained the critical mass. The diffusion theory does not however take into account
an individual's resources or social support to adopt the new innovation. Majority of the unbanked Kenyans poses all categories of adopter's characteristics yet they are not banked.

**Conceptual Framework**

According to Mugenda et al (2003), a conceptual framework helps the reader to quickly see the proposed relationships between the variables in the study and show the same graphically. In these study financial systems, agents’ security, agents’ financial knowledge and bank financial regulation were the independent variables while implementation of agency banking was the dependent variable.

![Conceptual Framework Diagram](image)

**Financial systems**
- Relative advantage
- Compatibility
- Triability

**Banks financial regulations**
- Banks internal controls
- Agents operational controls
- Policy and procedures

**Agency banking implementation**
- Better financial performance
- Customer satisfaction

**Independent variables**

**Dependent variable**

**Figure 1: Conceptual Framework**

**Empirical studies**

Kirimi (2011) studied the extent of implementation of agency banking among commercial banks in Kenya. The study established that there is difficulty in enforcing appropriate oversight by the agent and customer interaction was inconsistent with overall banking regulatory framework.

Kamau, (2013), highlighted some of the pressing problems that have come up since the agency model inception: They lack the sophisticated security measures of the bank branch (CCTV, armed guards) large deposits (over KES 50,000) were in some cases turned away. The outlets also operate beyond standard bank opening hours further exacerbating the security risk.

Further Waithanji (2012) did a study to identify the impact of agent banking as a financial deepening initiative in Kenya and Kithuka (2012) conducted a study on factors influencing growth of agency banking in Kenya: the case of Equity bank, Kwale County. However, their study did not focus on the four variables: technology, regulations, and security and bank agents.
training. Musau (2013) also did an analysis of the utilization of agency banking on performance of selected banks in Nairobi County. None of these studies focused on the influence of financial strategies in implementation of agency banking in Kenya. There has also been little research on the new security risks that agency banking users face, such as identity theft, fraud, and theft that might influence the implementation process success. This study therefore was seeking to fill the gap by establishing influence of financial strategies on implementation of agency banking in Kenya.

RESEARCH METHODOLOGY
The study adopted Census Survey design. This study targeted all 20 Commercial bank agents in Machakos Town. The reason for choosing Machakos Town is because it’s a cosmopolitan Town and all the major commercial Banks have agents within the town. Data was collected using questionnaires that were administered directly to the agents. Analysis was done using Statistical Package for Social Scientist V.20 and Microsoft’s Excel program and illustrated further in tables, graphs and charts.

RESEARCH FINDINGS AND DISCUSSIONS
General information
The researcher targeted and administered questionnaires to 20 respondents. 19 questionnaires were filled and returned translating to a response return rate of 95%. majority of the respondents (53%) have been working as commercial bank agents for more than four years. Thus they have sufficient information to sustain the study and findings. The respondents were drawn from the following banks Equity bank (9 respondents), KCB (7 respondents) and Cooperative Bank of Kenya (3 respondents). On Education status (74%) respondents indicated that they had attained Bachelor’s degrees thus were able to answer the questions objectively.

Financial Systems
Influence of financial systems on the implementation of agency banking
On financial systems 17 (85%) respondents indicated that financial systems influenced the implementation of agency banking while another group of 2 respondents argued that financial systems don’t influence the implementation of agency banking. The majority response shows
that financial systems that revolve around circulation of money, credit and finance contributed highly to the successful implementation of agency banking.

Table 1  Influence of Financial Systems on Agency Banking

<table>
<thead>
<tr>
<th>Do you think financial systems influence implementation of agency banking?</th>
<th>Freq</th>
<th>%age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>No</td>
<td>17</td>
<td>89</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>19</td>
<td>100</td>
</tr>
</tbody>
</table>

Perceptions of Influence of banking systems on agent banking

The respondent reported that Agent banking systems for access is relatively better than the normal branch banking, this concurs to Ndungu (2011) who stated that, banks are coming up with innovation in agency banking to improve customer satisfaction but they are facing problem converting these agents outlets into what they would be comfortable to call outsourced banks, 7 (36.8%) respondents strongly agreed that agent banking systems for access is always easy to use. 16 (84.2%) respondents strongly believe that customers have no problem with the systems for access used in agency banking. 15 (78.9%) respondents agreed that the agents have been trained on the use of systems for access while 3 (15.8%) respondents strongly agreed to the fact that customers are always ready to experiment with agency banking systems for access. There is minimum judgment on whether agent banking in any better than normal branch banking because this area of research has not been thoroughly evaluated, therefore, it becomes hard for someone to express proficiency of agency banking over normal branch banking. From the findings, it can be explained that training is given priority in the project as it appears that most agents are sufficiently equipped with knowledge and skill.
Table 2  Agreement level with statements

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Freq (Agree/Strongly Agree)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agent banking systems for access is relatively better than the normal branch banking</td>
<td>1</td>
<td>5.3</td>
</tr>
<tr>
<td>Agent banking systems for access is always easy to use</td>
<td>7</td>
<td>36.8</td>
</tr>
<tr>
<td>Customers have no problem with the systems for access used in agency banking</td>
<td>16</td>
<td>84.2</td>
</tr>
<tr>
<td>The agents have been trained on the use of systems for access</td>
<td>15</td>
<td>78.9</td>
</tr>
<tr>
<td>Customers are always ready to experiment with agency banking systems for access</td>
<td>3</td>
<td>15.8</td>
</tr>
</tbody>
</table>

Financial regulation

Efficiency of financial systems

The findings showed that financial systems are very efficient based on the responses retrieved from the questionnaires. 17 (89%) respondents believe that the current financial systems are electronic and highly efficient while the remaining 2 respondents believe that the financial systems are electronic and inefficient. This could be attributed to increased adoption of capital intensive techniques and advanced technologies in the banking industry. Again, the variations in perceptions and understanding of the nature of the systems could be explained by varying levels of exposure, experience and knowledge about the current financial systems.

Rating the efficiency of systems

<table>
<thead>
<tr>
<th>How could you rate the efficiency of systems for access advancement as regards agent banking operations</th>
<th>Freq</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronic and inefficient</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Electronic and highly efficient</td>
<td>17</td>
<td>89</td>
</tr>
<tr>
<td>TOTAL</td>
<td>19</td>
<td>100</td>
</tr>
</tbody>
</table>

Bank Financial Regulations

On the question whether commercial bank financial regulations on agents is an important factor in successful implementation of agency banking, 18 (94.7%) respondents agreed to the statement, explaining that the set regulations have provided standards which must be upheld by
all agents, therefore, fostering the implementation of agency banking. 1 respondent argued against the idea of regulation saying the regulations have exhibited loopholes that have derailed successful implementation of agency banking.

Table 4  Financial regulations

<table>
<thead>
<tr>
<th>Do you consider commercial bank financial regulations on agents as an important factor in implementation success of agency banking?</th>
<th>Freq</th>
<th>%age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>18</td>
<td>94.7</td>
</tr>
<tr>
<td>No</td>
<td>1</td>
<td>5.3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>19</td>
<td>100</td>
</tr>
</tbody>
</table>

Perceptions on Bank financial regulations

According to the table shown below, 6 (31.6%) respondents indicated that they strongly believe that Commercial banks have strong internal financial control on agency banking. 3 (15.8%) respondents strongly believe that bank agents always follow policies and procedures as set by the Commercial banks. However, the other respondents explained that they personally follow policies and procedures but they wouldn’t generalize on that. 16 (84.2%) respondents reported that Bank agents always have proper internal financial control to ensure the compliance with the existing regulations. 19 (100%) respondents strongly agreed that commercial banks always have penalties for failure of agents to comply on the set policies and procedures. This study concurs to Kurmar (2006), in his study he stated that bank agents is used to reduce the cost of delivering financial services relieve crowds in the bank branches and establish presence in new areas and for the benefits to be achieved a proper regulation is required.
Table 5  Perceptions on Bank financial regulations

<table>
<thead>
<tr>
<th>The extent to which respondents agreed or disagreed to the given statements</th>
<th>Freq</th>
<th>%age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks have strong internal financial control on agency banking</td>
<td>6</td>
<td>31.6</td>
</tr>
<tr>
<td>Bank agents always follow policies and procedures as set by the commercial banks</td>
<td>3</td>
<td>15.8</td>
</tr>
<tr>
<td>Bank agents always have proper internal financial control to ensure the compliance with the existing regulations</td>
<td>16</td>
<td>84.2</td>
</tr>
<tr>
<td>Commercial banks always have penalties for failure of agents to comply on the set policies and procedures</td>
<td>19</td>
<td>100</td>
</tr>
</tbody>
</table>

There are a number of state-set legislative actions and regulatory Acts that regulates the agency banking industry in Kenya. This study also sought to establish whether the respondents were conversant with the contents of the various set legislative Acts that control agency banking. To this effect, the researcher established that majority of the respondents understood the regulations by CBK.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary of the Findings

Financial System

On financial systems 17 (85%) respondents indicated that financial systems influenced the implementation of agency banking while another group of 2 respondents argued that financial systems don’t influence the implementation of agency banking. The majority response shows that financial systems that revolve around circulation of money, credit and finance contributed highly to the successful implementation of agency banking.

Financial Regulation

On the question whether commercial bank financial regulation on agents is an important factor in successful implementation of agency banking, 18 (90%) respondents agreed to the statement, explaining that the set regulations have provided standards which must be upheld by all agents, therefore, fostering the implementation of agency banking. 1 respondent argued against the idea of regulation saying the regulations have exhibited loopholes that have derailed successful implementation of agency banking.
Conclusions
The study revealed that commercial banks financial regulations and financial systems affect financial strategy implementation of agency banking sector in Kenya. The study established that agency banking staff financial skills, knowledge and competencies positively affect successful implementation of agency banking in Kenya. The study also found that financial strategies used in agency banking will have an impact on the adoption and growth of agency banking. The findings of this study will help other financial institutions to understand the influence of financial strategies in implementation of agency banking in Kenya; the findings will provide a new dimension on how financial institutions can achieve the goal of financial inclusion.

Recommendation

Agents Financial Training
Some of the agents clearly stated that financial training is essential tool in day to day learning operations in the agency banking. Agent’s needs to be more frequently trained and these would help them improve their financial knowledge, communication skills and thus improving efficiency of agency banking hence successful implementation. It’s recommended that agents should focus on financial strategies- that is not doing what everyone is doing and be proactive by anticipating things before they happen and not to remain reactive.

Agents Financial Regulation
It was also recommended that CBK in conjunction with the Commercial Banks should implement tight regulation on agency banking in order to ensure majority of agency banking customers can feel that they are operating in a safe and regulated platform

Financial System
It was recommended that the Commercial banks should invest on financial systems so as to be in a position to be able to compete effectively in the market and implement their competitive strategies in the most appropriate manner in order to improve on their financial performance.

Suggestions for Further Study
The findings in this study were not conclusive but they are open for some areas of investigation. The researcher felt that the study could be explored but using a wide population to ascertain on the study. The researcher therefore suggests that more variables should be considered as this research was focused on only four independent variables hence further researcher should use many variables such as capital adequacy and user financial training to get interconnection of the
variables specifically on financial strategies that influences implementation of agency banking in Kenya.

REFERENCE


