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FACTORS AFFECTING PERFORMANCE OF BANKING AGENTS IN KENYA: A SURVEY OF KISII COUNTY

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Abstract

Agency banking has proved to be a cost saving network as compared to the physical brick and mortal banking branches. The study was aimed at exploring the factors affecting performance of banking agents in Kenya. Objectives of this research were to examine the effect of fraud on banking agents in Kisii County-Kenya, to determine the effect of network capability on banking agents in Kisii County, to evaluate the effects of the level of financial literacy on banking agents in Kisii County and to assess the effect of the cost of financial services on banking agents in Kisii County. The study was carried across eight financial institutions. The population of the study was be branch staff and agents of the banks in Kisii County and a sample of 98. Data was analyzed using descriptive and inferential statistics. The study concluded that cost of financial services and financial literacy were the major factors affecting performance of banking agents. It also concluded that network strength also affected security of funds through compromising integrity of the system. The study recommended that banks employ cheaper and more user friendly systems and that they use risk based approach in managing banking agents. Further, the study recommended that banks should allow more inclusive services to be offered by agents rather than the cash in and cash out.

Keywords: Banking agents, Financial inclusion, Fraud, Network capability, Cost of financial services, Financial Literacy

INTRODUCTION

Agency banking roll-out in Kenya was meant to address the low financial inclusion of the bankable population in Kenya. As per the 2009 National financial access survey, 32% Kenya's bankable population was still totally without access to financial services. Reasons for in-access for financial services include; long distance to banking channels and relative high costs of accessing financial services. In a bid to bridge the financial access divide and improve its access among the most vulnerable sections of the society, the Kenya government through the Central Bank amended the Finance Act 2009 to facilitate use of third parties by banks to provide banking services.

Financial inclusion remains a key pillar in a formidable economic development and financial growth of a people. The main reason for this is the promise which financial inclusion holds in addressing global poverty, income inequality, under development and welfare. It is believed that when everybody in the world has access to financial services, their joint contributions to the entire development process will create faster and more quantitative impact. This is what inspired introduction of agency banking non convectional banking transactions offered through Alternative Business Channels (ABC) have actually overtaken the transactions done at the traditional banking halls.

Success of agency banking can be attributed to technological advancement. The technology adapted is mainly a point of sale (POS) and a phone. Clients that transact at the agent use a chip bank card or their mobile phone to access their bank account. Identification of customers is normally done through a PIN, but could and personal documents. With regard to the transaction verification, authorization, and settlement platform, banking agents are similar to any other remote bank channel. Agency banking has enabled bank customer to access the banking services within the comfort of their neighbour-hood. Agency banking can dramatically reduce the cost of delivering financial services to unreached people (Yobes *et.al*. 2012).

The major issue in Kisii County is the distance to access financial services and the creation of agent entrepreneurs. In a study done by Mberia (2009) on factors affecting the operations of m-payment agents in Kenya, he 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 the banking agent entrepreneur.

Banks engage bank agents to offer banking services. One of the factors affecting banking agents is fraud. Ikpefan (2006) did a study to analyze the growth of bank frauds and the impact on the banking industry. The purpose of the study was to conduct an empirical research into the growth of bank frauds, find out how much is involved, identify the causes, and test the impact of frauds on deposit mobilization as well as to proffer a solution. The study revealed that massive frauds were a major cause of cash flow distress to banks. The study also concluded that failure to institute appropriate controls and sound management information systems for all facets of their banks operations has contributed to rampant cases of fraud. Further, the research recommended that that bank management should strengthen their internal control system; employ qualified personnel to work in it. It also recommended that regulations need to be complemented by a value system because regulation cannot succeed without attacking our wrong societal values.

Banking agents also make use of technological advancement to deliver their services. In a study on the barriers to uptake and use of agency banking products targeting poor and marginalized populations in Kenya, Mulwa &Ndati (2012) found that one of the disappointments users experienced was a poor network service. Sometimes it was impossible to transact as systems were totally down, other times initiated transactions could not be completed as messages confirming whether transactions had gone through were not generated. As a result transactions remained hanging; a situation that frustrated users for the value was neither with the user nor the agent. Unsuspecting agents or users occasionally lost money when apparently transactions were completed minus messages and the receiving partners proceeded to access the money. The study recommended that users need to have ample network coverage enjoy the services anytime everywhere.

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Financial literacy will always remain a key pillar to push financial inclusion and user acceptance of banking agents' services. Financial literacy influences people's investment decisions, including risk-return tradeoffs and it also affects how resources in the economy are allocated. In turn, this has implications for the potential growth rate and stability of the economy. A person with a good level of financial literacy is likely to be better placed than someone without those skills and knowledge to manage their financial affairs prudently; all else being equal, they are more likely to budget effectively, invest wisely and manage their debt level in a sustainable manner. By contrast, poor financial choices, possibly based on a lack of understanding of financial matters, can result in a number of negative outcomes, including a lower level of financial wealth and imprudent debt levels (Widdowson & Hailwood, 2012).

Banking agents operations will always be viewed as a competitive strategy for commercial banks. In a study to establish the reasons for commercial banks venturing into agent banking and to determine the challenges faced by the commercial banks in agent banking operations, Chiteli (2013) concluded that banks employ agent banking operations as a competitive strategy. Control policies and procedures, technological advancement, and regulations put in place both by the agents and commercial banks have made agent banking operations viable. The agents on the other hand encounter challenges such as liquidity risk, operational risk, credit risk and high operational costs.

Statement of the Problem

For many years, banking and access to financial services was a preserve of a few in Kenya. Even those who had access to these services had to face quite a number of hardships including distance and convenience. Though in Kenya non convectional banking transactions offered through agency banking and Alternative Business Channels (ABC) have overtaken the transactions done at the brick and mortar banks, there has been a limitation in the capacity of agents to offer the desired services due to inferior network capability (Rutere, 2014). This is demonstrated by the relative small number of POS machine, poor network and the lack of inter-operability. For this reason, the goal of financial inclusion as envisioned in Kenya Vision 2030 that agency banking was supposed to address remain elusive. Banks that had fully rolled out agency banking had prospects of better performance. However, how the facilitation of agency banking so as to make the much desired contribution to bank’s performance has contributed to the performance or non-performance of government goals in national outlook and factors affecting them was not addressed thus a gap. The place of the operating costs met by the banks in facilitation of agency banking became a motivating factor for this research. Since there has not been a systematic diagnosis of this model in its contribution to financial inclusion, the researcher assessed the factors affecting performance of banking agents in Kisii County.

The specific objectives of the study were:

i. To examine the effect of fraud on performance of banking agents in Kenya.
ii. To determine the effect of network capability on performance of banking agents in Kenya.
iii. To evaluate the effects of the level of financial literacy on performance of banking agents in Kenya.
iv. To assess the effect of the cost of financial services on performance of banking agents in Kenya

THEORETICAL FRAMEWORK

Agency Theory

The agency theory is used to explain the principal–agent problem or what is called agency dilemma which occurs when one person or entity - the agent - is able to make decisions on behalf of, or that impact, another person or entity - the principal. The dilemma exists because sometimes the agent is motivated to act in his own best interests rather than those of the principal. An agent then is a person or entity that acts on behalf of another person or entity – principal – in a relationship often governed by a legal framework. Instances of this relationships include corporate management (agent) and shareholders (principal), or politicians (agent) and voters (principal), doctor (agent) and patient principal), employee (agent) and Employer (principal) (Blume, L. & Easley, D., 2008). This relationship is extended to persons or entities who make use of agents to deliver their business objectives, in this case, banks (principal) and banking agents (agent). Such relationships take the form of a contract necessarily with an offer and a consideration. In an agency relationship, agency cost will most certainly arise. This is type of internal cost that arises from, or must be paid to, an agent acting on behalf of a principal. Agency costs arise because of core problems such as conflicts of interest between the principal and the agent.

Transaction Cost Theory

The transaction cost theory was developed by Ronald Coase as part of the theory of the firm to explain why firms exist. The model shows institutions and market as a possible form of organization to coordinate economic transactions. When the external transaction costs are higher than the internal transaction costs, the company will grow. If the external transaction costs are lower than the internal transaction costs the company will be downsized by outsourcing. It presented an explanation of the firm consistent with constant returns to scale, rather than relying on increasing returns to scale (Archibald, 2008). The theory notes that a firm's interactions with the market may not be under its control, for instance because of sales taxes, but its internal allocation of resources are within a firm's control. Market transactions are eliminated and the place of the complicated market structure with exchange transactions is substituted with an entrepreneur who directs production. In the banking sector, the cost of the traditional brick and mortar branches and the ensuing contracts from the same, related transaction cost as well as the cumulative cost of a customer to perform a single transaction informs the success or otherwise of the agency model. This too has to be coupled with the willingness of the agent entrepreneurs to direct resources into the agency business to enhance performance of the agency banking.

Perceived Risk Theory

Perceived risk is conceived as felt uncertainty regarding possible negative consequences of using a product or service. It has formally been defined as a combination of uncertainty and the seriousness of the outcome involved (Bauer, 1967), and the expectation of losses associated with purchase. It acts as an inhibitor to purchase behavior (Peter & Ryan, 1976). Perceived risk is captured with Likert scales measuring the perception of dangerous events occurring or the presence of the attribute inherent in the service. Alternately it is also measured using an expectancy value methodology typically multiplying either probability of loss, exposure or danger (uncertainty component) by the cost or importance of that potential loss or exposure (severity component). Thus, perceived risk is the potential for loss in the pursuit of a desired outcome of using a product or platform. Perceived risk enters the information systems adoption decision when circumstances of the decision either creates feelings of uncertainty, or discomfort and anxiety (Dowling & Staelin, 1994). It also comes in if conflict is aroused in the consumer, there is general concern about product safety and psychological discomfort making the consumer feel uncertain, pain due to anxiety and cognitive dissonance (Germunden, 1985). The dissonance arises from the evaluation of the product as having costs and benefits, risks and utility. In agency banking, consumer perceived risk plays a major role in user acceptance of the platforms as well as the services that are offered by the banking agents. This includes perception of security of the systems provided, the possibility of fraud, security of financial information and network dependability.

Rational Choice Theory

The basic idea of rational choice theory is that patterns of behavior in societies reflect the choices made by individuals as they try to maximize their benefits and minimize their costs. In other words, people make decisions about how they should act by comparing the costs and benefits of different courses of action. As a result, patterns of behavior will develop within the society that result from those choices. Rationality, interpreted as wanting more rather than less of a good, is widely used as an assumption of the behavior of individuals in microeconomic models and analysis. It attaches wanting more to instrumental rationality, which involves seeking the most cost-effective means to achieve a specific goal without reflecting on the worthiness of that goal (Blume & Easley 2008). Rational choice theory uses a specific and narrower definition of rationality simply to mean that an individual acts as if balancing costs against benefits to arrive at action that maximizes personal advantage. In rational choice theory, all decisions, crazy or sane, are postulated as mimicking such a rational process. Thus rationality is seen as a property of patterns of choices, rather than of individual choices. According to the Rational Choice Theory, human beings are prompted by their own goals and preferences. Human actions are regulated primarily by the information regarding the conditions under which a particular individual is going to work and would try to achieve his or her goal. It is almost impossible for the human beings to get what they desire. According to the Rational Choice Theory, an individual should have a proper understanding of his or her own selection of goals and the consequences of that selection. Rational people always choose only those options that can offer good results (Peter, 2004).

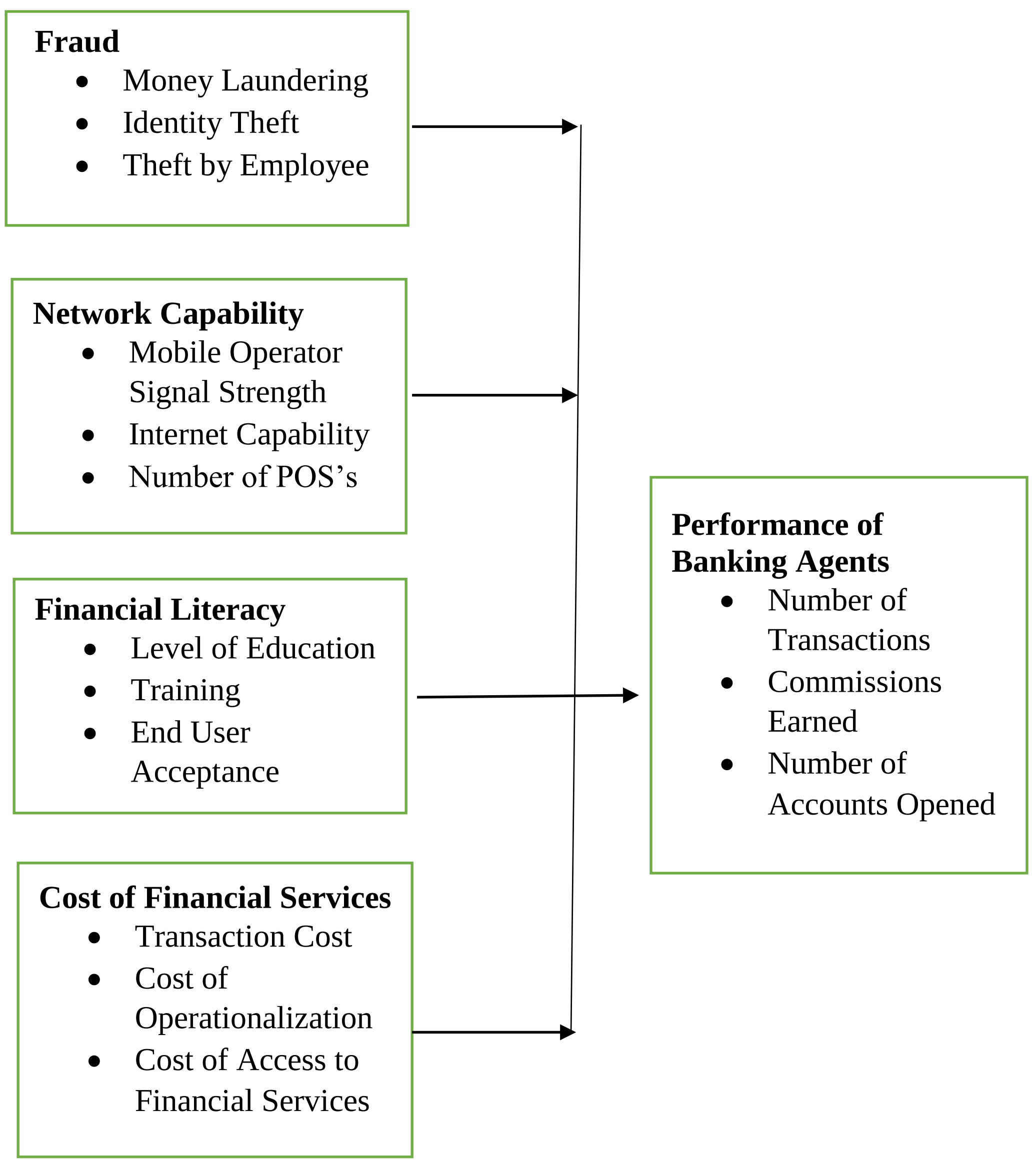
Conceptual Framework

The study explored the factors affecting performance of banking agents in Kenya. It evaluated the effects of fraud, network capability, cost of financial services and financial literacy as the independent variables. Performance of banking agents then became the dependent variable. Performance of banking agents can be measured by the number of transactions done by banking agents, the amount of commissions earned by agents as well as the number of accounts opened by agents as an indication of customer acquisition. The relationship between these variables is illustrated in figure 1.

Research Gap

Findings in literature reviewed showed that transaction cost, user acceptance and poor technology have a direct bearing on performance of agency banking. Solutions to these problems have not been prescribed. According to Ombutora & Mugambi (2013), there is a positive correlation between the transaction cost and performance of agent entrepreneurs. The study however defined the pricing side of the cost with no analysis on the actual cost of delivering a service to the customer and thus in recommending reduction in the pricing of agent services, it failed to appreciate the cost-benefit trade off done by most banks to subsidize the cost of deploying the services. Rutere (2013) emphasized the impact of user perception on agency banking as a product of social setting, adoption of technology, perceived risk and perceived usefulness. The study did not underline the fact that factors of user perception can be largely mitigated through training, marketing campaign and enhancing the education levels to increase uptake of new products. Ng'ang'a & Mwachoji (2013) concludes that the main challenges of technology adoption are cost related, compatibility. The research however does not analyze how more user-friendly technology could be the solution to low technology uptake in the rural areas which were the subject of his research. The problem of technology adoption is compounded by sophisticated technology which is far from the mental reach of the rural dwellers. The current research sought to address these aspects of banking agents.

Figure 1 Conceptual Framework



RESEARCH METHODOLOGY

This research was carried out through descriptive research design. This design was used to establish the factors affecting performance of agency banking in Kenya. The descriptive design was used in this study because it guides the researcher to develop a more focused study hence large amount of data for analysis.

The target population of this research was 340 persons comprising of 38 bank staff and 302 bank agents of the banks that have introduced agency banking in Kisii County who deal with agency banking on a day to day basis. . The sample size was 98 persons. The researcher used census technique for the bank staff because of their small number (38) and a sample size of 20% for the agents (60).

Data was analyzed using descriptive statistical techniques including frequency distribution, percentages, mean, standard deviation and correlation. SPSS was used in analyzing data starting with preparation, data capturing and coding. The data was presented using tables and figures.

The research adopted a structured closed and open ended questionnaires administered face to face as the main instruments for collecting data relating to the variables – fraud, network capability, financial literacy, cost of financial services and performance of banking agents.

In this study, face validity which is a subjective appraisal of how the instrument appears to the persons who examines it, was achieved through professional construction of questionnaires. Content validity was achieved by ensuring that the content of the questionnaire is in harmony with the study objectives. Construct validity was ensured by carrying out a pilot study of five staff of Equity Bank. This involved administering and pre-testing of instruments to ensure that respondents are able to understand the questions correctly. Expert opinion was also sought by having the questionnaires approved by the university supervisors. Reliability was determined using Cronbach's alpha. The Cronbach's alpha was .810 and thus the study accepted as reliable.

EMPIRICAL RESULTS AND DISCUSSIONS

In the study to analyze factors affecting performance of banking agents in Kenya, the target population was 340 persons with a sample size of 98 persons. A total of 98 questionnaires were produced and administered to the sampled respondents. At the end of the data collection process, a total of 92 questionnaires were returned and hence were coded and analyzed representing 94% response rate. This high response rate increases confidence for the generalization of the study findings.

Fraud

Table 1: Effect of Fraud on Performance of Agency banking

Extent	Frequency	Percentage	Cumulative Percentage
A very great extent	26	28.26	28.26
A great extent	32	34.78	63.04
Moderate extent	21	22.82	85.86
Low extent	13	14.14	100
To no extent	0	0	100
Total	**92**	**100**	

The study sought to examine the effect of fraud on the performance of banking agents. A great percentage of the respondents (73%) were of the view that adequate security measures had been put in place to ensure customer protection and proper management of fraud instances. Only 6 % of the respondents felt that the investment on security measures put by the bank were weak. The greatest percentage of the respondents (34.78%) were of the view that fraud instances affect performance of banking agents to a great extent and 28.26 % to a very great extent. None of the respondents thought that fraud did not affect performance of banking agents at all while 14.14 % who are a minority noted that the effect of fraud is to a very low extent.

Network Capability

Table 2: The Extent to Which Aspects of Network Strength Affect Performance of Banking Agents

Aspects of Network Strength	N	Mean	Standard Deviation
Poor mobile operator signal strength is prevalent in the region and it leads to low mobile banking transactions	92	2.54	1.348
Lack of internet connection in the area often leads to poor connectivity when processing agent transactions	92	3.47	1.196
Delays in supply of POS'S has led to low customer confidence and low performance of agents in the area	92	3.28	1.253

The research sought to establish on a scale of 1 to 5 the prevalence of the aspects of network capability and the subsequent effect on the performance of banking agents. The analysis in

Table 2 above shows that most agents are affected by internet connection when processing agent transactions with a mean of 3.47 out of a possible 5. This is followed by delays in procurement of POSs with a mean of 3.28. The effect of poor mobile operator strength had the lowest mean of 2.54 and this is because of the availability of alternative network providers.

Financial Literacy

Table 3: Effect of the Level of Financial Literacy to Agent banking

Effect of Financial Literacy	Frequency	Percentage	Cumulative Percentage
Very High	34	36.96	36.96
High	28	30.43	67.39
Moderate	28	30.43	97.82
Low	2	2.18	100
Very low	0	0	100
Total	**92**	**100**	

The study set out to evaluate the effect of financial literacy on the performance of banking agents in Kisii County. Respondents were asked to rate the level of financial literacy and its effect on the uptake of agency banking services in the region and end-user acceptance. The research found out that the level of financial literacy highly influences the users' attitude towards agency services. 36.96 % of the respondents held that the level of financial literacy has very high influence on user perception of agency services while 30.43 % felt that the level of influence is high. Another 30.43 % held that the influence is moderate. Only 2.18 of the respondents said that the financial literacy levels have low influence on the perception of banking agents.

Cost of Financial Services

Table 4: Effect of Cost of Financial Services on Performance of Banking Agents

Effect of Cost	Frequency	Percentage	Cumulative Percentage
To a very great extent	36	39.13	39.13
To a great extent	44	47.82	86.95
To a moderate Extent	11	11.96	98.91
To a low extent	1	1.09	100
To no extent at all	0	0	100
Total	**92**	**100**	

The study sought to assess the effect of cost of financial services to the performance of banking agents. Respondents were required to rate the costing of financial services as well as the cost of establishing delivery channels and the roll out of infrastructure used to deliver services at the agent locations. The research revealed that cost of financial services affect performance of banking agents to a great extent. 44 respondents (47.82%) held that cost of financial services affected performance of banking agents to a great extent. Another 39.13 % held that the cost of financial services in fact affect performance of banking agents in fact to a very great extent while only 11.96 % said that it affected performance to a moderate extent. Only one respondent held the view that cost of financial services had minimal effect on performance of banking agents.

Performance of Banking Agents

Table 5: Effectiveness of Operations of Banking Agents

Effectiveness of banking agents	Frequency	Percentage	Cumulative Percentage
Very Effective	6	6.52	6.52
Effective	22	23.91	30.43
Moderate	42	45.65	76.08
Ineffective	19	20.66	96.74
Very Ineffective	3	3.26	100
Total	**92**	**100**	

The research sought to reveal the effectiveness of the operations of banking agents in Kisii County. Most of the respondents rated the effectiveness of agency operations as moderate (45.65 %). 23.91 % of the respondents were of the view that agency operations were effective while only 6 (6.52%) held the view that operations of banking agents were very effective. 20.66 % which is also sizeable found the operations to be ineffective while a minimal 3.26 % were of the view that the operations were very ineffective.

The findings above were attributed to the personal experience of bank staff and agents with their individual banks. Other respondents noted poor network infrastructure and lack of customer confidence in agent transactions as the cause of average performance of banking agents. Lack of operational support by the banks and poor returns on investment was also said to be affecting performance of banking agents.

Correlation Analysis

Table 6: Pearson's Coefficient Correlation Analysis

	Variables	Fraud	Network Capability	Financial Literacy	Cost of Financial Services	Performance of Banking Agents
Fraud	Pearson Correlation	1	.431**	.416**	.202**	.491**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	92	92	92	92	92
Network Capability	Pearson Correlation	.431**	1	-.481**	-.757**	.692**
	Sig. (2-tailed)	.000		.001	.000	.000
	N	92	92	92	92	92
Financial Literacy	Pearson Correlation	.416**	-.481**	1	-.447	.821**
	Sig. (2-tailed)	.000	.001		.076	.000
	N	92	92	92	92	92
Cost of Financial Services	Pearson Correlation	.202**	-.757**	-.447	1	.874**
	Sig. (2-tailed)	.000	.000	.076		.000
	N	92	92	92	92	92
Performance of Banking Agents	Pearson Correlation	.491**	.692**	.821**	.874**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	92	92	92	92	92

**. Correlation is significant at the 0.01 level (2-tailed).

A correlation test was run to measure the degree of association among fraud, network capability, financial literacy, cost of financial services and performance of banking agents. The results of the test were presented in table 6. From the results, there is a positive correlation between level of fraud and performance of banking agents with a coefficient of .491. It also revealed that there is a strong positive correlation between network capability (.691), financial literacy (.821), and cost of financial literacy (.874) with the performance of banking agents.

CONCLUSIONS

In line with the objective of the study as well as from the findings of the study, it can be concluded that banking agents have become an important delivery channel for financial services to aid operational costs of banks and also to actualize the goal of financial inclusion of the bankable population. This model can be enhanced through strategic and operational support of banking agents. The study concludes that cost of financial services and the levels of financial literacy had the greatest effect on the performance of banking agents.

The study concluded that incidences of frauds affect customer's confidence on services offered by banking agents. Identity theft was found to be the most prevalent form of fraud affecting operations of banking agents which has led to low uptake of the model by both bank customers and potential banking agents.

On the effect of network capability, banking agents depend on internet connection and telecommunication network in order to process transactions which are provided by other players other than the banks. It can be concluded that he strength of the networks used has a security angle because it affect the integrity of the systems used to transact business.

On financial literacy, it can be concluded that the banks has invested adequately on training of banking agents as well as banks staff on the product offering at the agent location. However the same cannot be said when it comes to customers' financial literacy. A great number of customers are not aware of the services they can access at the bank agents and thus they keep on flocking the brick and mortar branches.

The study also concluded that cost has a direct bearing on performance of banking agents. When transaction costs are lower, the performance of banking agents improve because of the more transactions that are processed at the agent locations. The cost of operationalizing banking agents is also expensive which leads to late deployment of gadgets used by the agents such as POSs. This in turn leads to high dormancy levels of agents approved by CBK as well as making the agency model not profitable.

RECOMMENDATIONS

Based on the findings, the study recommend that to manage fraud levels, banks should adopt a risk - based approach to the supervision and regulation of agency banking because customers must develop the same level of confidence with bank agents as they do when they visit branches. Enough security measures should be put in place because banking agents as a branchless banking model has enabled banks to reach the unbanked. Further, banking agents should set a threshold in terms of appraisal of employees to reduce employee turnover rates and improving reliability of employees.

The study also recommend that the banks should adopt a cheaper technology that can deliver transactions by banking agents with the same precision such as the Sim tool kit adopted by telecoms as opposed to internet applications. These would bring two prong solution, that is, reduced operationalization costs for the banks as well as increase user acceptance as the solutions will be more user friendly.

The study recommend that the banks invest more in training of trainers so as to partner with them in improving levels of financial literacy in order to push more end user acceptance.

This can be done also by enhancing awareness among bank customers of the services offered by banking agents through strategic marketing. Banks should invest in awareness campaigns and also financial training of customers as part of their corporate social responsibility.

In order to increase the value proposition for banking agents as well as banks against a backdrop of high operationalization costs, banks should allow agents to be more financially inclusive than just offering the cash transfer services so that they are able to offer custodial services, insurance, forex and encash cheques. This would however require a regulatory framework to regulate the services.

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