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INFLUENCE OF AGENCY BANKING SERVICES ON SERVICE DELIVERY IN EQUITY BANK

A STUDY OF MERU COUNTY, KENYA

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Abstract

The need to offer better services to customers has propelled banks to operate agency banking. Agency banking systems offer an advantage over a bank branch for three reasons; agent banking minimizes fixed costs by leveraging existing retail outlets and reducing the need for financial service providers to invest in their own infrastructure; setting up an agent costs 2 percent to 4 percent of the cost of a branch cashier; acquisition costs are lower for mobile-enabled agents and mobile wallets. This study sought to establish the role of agency banking model in promoting service delivery in equity bank in Kenya taking a case study of Meru County. Specifically, the study sought to establish the extent to which ease of access, flexibility of working hours, cost-effectiveness and banking hall decongestion promote service delivery in Equity Bank in Kenya. This study used a descriptive research design. The study used primary data which was collected by use of questionnaires which were administered through a Drop-off/Pick-Up method. Descriptive statistics such as mean, frequencies, standard deviation and percentages were used for analysis. The study also used correlation analysis to establish the relationship between the dependent variable and independent variables. The study revealed that adoption of agency banking offers ease of access to financial services in rural areas. The

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study recommend that Bank must address the challenges that are posed by having agency banking while at the same time taking advantage of all the benefits of having this channel of banking. Baking institutions should considered intensifying the agency baking network this will ensure services accessibility by customers and thus improving financial performance. Banking institutions should consider coming up with local strategies for the already captured market, this will award the bank more power in controlling the prices and services it offers to its customers.

Keywords: Influence, Agency Banking, Service Delivery, Equity Bank, Kenya

INTRODUCTION

Developing countries including Kenya are increasingly embracing branchless banking as a means of delivering banking services to many unreached people especially low-income households. Globally, it is estimated that close to 400 million people currently do not have a bank account in a formal way. These could benefit from agency banking financial transactions. Indeed early experiences have shown that branchless banking through agency's can significantly reduce set-up and delivery costs, offering cash-in/cash-out operations only or a broader range of financial services to customers who usually feel more comfortable banking at their local merchants than at traditional bank branches (Lozano and Mandrile, 2009).

An agency bank is a company/organization that acts in some capacity on behalf of another bank, thus cannot accept deposits or extend loans in its own name; it acts as an agent for the parent bank (Getanga, 2010). 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, 2010).

Statement of the Problem

Banks like other organization are faced with many challenges as a result of globalization, liberalization, and technological advancement. These challenges called for search for suitable strategies to be adopted for growth and survival, thus, agency banking became strategy for banking sector in commercial banks around the world. There are few African countries that have taken up agency banking (Porteous, 2006). The business environment has changed in Kenya as in other parts of the world and it has been characterized by stiff competition among the players and the banking industry has not been spared. Competition amongst the commercial

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banks has pushed banks towards becoming more innovative (Siedek, 2008). Most of the innovations were introduced in the period between 2006 and 2010. These included ATMs, credit cards, mobile banking, internet banking, youth oriented accounts, women oriented banking, Shariah compliant banking, children accounts and now most recently introduced within the Kenyan banking sector agency banking (Waithanji, 2012).

Ignacio (2009) argues that reaching the unbanked people and areas has been a major challenge. Service delivery was hindered by occasional harsh climatic conditions, rough terrain; rural and poor regions are the worst hit (Kimenya, 2002). Therefore, very few financial institutions had established branches in such areas due to the harsh conditions and the low population density. For the institutions that had branches in remote areas, usually they served people from vast areas. This meant that customers had to travel from far and once in the banking hall, due to the long queues, services were further delayed. Kimenya (2002) notes that some banks took services closer to the customers through vans, this was however risky and didn't serve customer demand well as transaction volume per person were limited.

Banks in Kenya were faced with a challenge of reaching all the customers that required banks' financial services due to the investment that was required. This was despite the strong urge by the banks to want increase their financial inclusivity. Setting up branches to cater for the need of bank customers is an expensive affair and therefore, banks had to look for cheaper alternative without compromising on the customer outreach. Agency banking concept was born out of this dilemma. However, this also carried its fair share of expenses and like any other investment returns needs to be realized. However, there lacks empirical literature, local or international that indicates the extent to which agency banking has enhanced service delivery in Equity bank. Therefore, this study will act as stock take, to establish how various benefits associated with agency banking have influenced services delivery in Equity Bank.

According to Shankaran and Roy (2009), agency banking as a model has been very successful in propelling the performance of commercial banks in many developing countries. Success stories have been reported in South America and Asia. In addition, Njuki (2012) indicated that agency banking has helped to raise banks' profits and spread reach of financial services in Kenya. As such and owing to the accelerated competition of banking services in Kenya today, 13 out of 44 Kenyan commercial banks have embraced agency banking model. Keen to take advantage of the cost-saving, accessibility and better customer service brought about by the agency banking model, Kenyan financial institutions have over the last two years embarked on an aggressive entry into this segment.

Various studies have been conducted on agency banking in Kenya. For instance, Mwenda (2013) did an investigation on challenges facing agent banking implementation in

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Kenya and Godana (2012) conducted a study on the effect of agency banking on performance of banks in Kenya. However, no local or international study has been done to establish the influence of agency banking model in promoting service delivery in Kenya. This study therefore sought to close this gap by establishing the influence of agency banking model in service delivery within Equity Bank in Kenya focusing on Meru County.

Purpose of the Study

The purpose of this study was to establish whether the agency banking model has had any effect on the expected improvement of the delivery of services and the consequent increase in financial inclusivity within Equity Bank in Kenya taking a case study of Meru County.

Objectives of the Study

i. To determine the influence of ease of access of services and service delivery effectiveness in Equity Bank in Meru county
ii. To establish the influence of flexible hours offered by agency banking on service delivery effectiveness in Equity Bank in Meru county
iii. To find out the influence of cost-effectiveness offered by agency banking on service delivery effectiveness in Equity Bank in Meru county
iv. To assess the influence of banking hall decongestion on service delivery effectiveness in Equity Bank in Meru county

Hypotheses

H_a 1: Ease of access of services as offered by agency banking influences service delivery effectiveness in Equity Bank in Meru County.

H_a 2: Flexibility of banking hours as offered by agency banking enhances service delivery effectiveness in Equity Bank in Meru County.

H_a 3: Cost-effectiveness offered by agency banking enhances service delivery effectiveness in Equity Bank in Meru County.

H_a 4: Banking hall decongestion achieved through agency banking has enhanced service delivery in Equity Bank in Meru County.

LITERATURE REVIEW

Agency Banking and Ease of Access

The use of the agency banking model by banks in Kenya has continued to improve access to banking services and has also increased financial deepening in the country since it was

launched in 2010. Since the inception of agent banking, the financial sector has recorded a tremendous growth with most Kenyans accessing finances at their convenience. This has reduced the cost of transaction and the time especially for the Kenyans in remote areas (Pickens, 2009). According to the Central Bank of Kenya report dubbed Development in the Kenyan Banking Sector for the Quarter ended 30th June 2013, CBK had authorized 13 commercial banks to offer banking services through third parties (agents).

Since 2010, a total of 19,649 agents had been contracted facilitating over 58.6 million transactions valued at Ksh. 310.5 billion. This was an increase from 11 banks that had contracted 18,082 active agents facilitating over 48.4 million transactions valued at Ksh. 250.1 billion in March 2013. The number of banking transactions undertaken through agents increased from 9.7 million registered in the quarter ending March 2013 to 10.2 million transactions registered in the quarter ending June 2013.

Similarly, the value of banking transactions undertaken through agents increased from Ksh. 54.3 billion to Ksh. 60.4 billion over the same period. The increased number and value of transactions demonstrate the increased role of agent banking in promoting financial initiatives being championed by the Central Bank (Collins et al., 2009). The increase is due to the fact that Banks and Financial related Institutions in Kenya are increasingly deploying the use of payments using agencies to enhance the quality of their financial services and to increase accessibility of services. The pace of transformation in the financial sector speeded up with more agency banking businesses realizing the potential of using the agencies in transacting payments in their service delivery (Clara & Melinda, 2010).

In Kenya studies indicate the bank with the highest number of customers is Equity bank which has 8.7 million customers and 11,009 agents (As at march 2014-source Equity bank) followed by Co-operative bank with 5800 agents. This indicates that agent banking has an effect on financial deepening as the higher toe number of agents, the higher the number of customers (Cohen, Danielle & Julie, 2008). Despite all these no study has been done to evaluate how specifically agency banking has improved the ease of access of banking services in the financial sector. This study aims to bridge this gap by establishing specifically how agency banking has enabled ease of access and hence improved the service delivery in banks.

Agency Banking and Flexible Hours

Competition for customers has pushed banks to extend their opening hours to late evening, with an increasing number of lenders now serving customers over weekends and public holidays. Standard Chartered, ABC, Diamond Trust, NIC and Barclays Bank of Kenya have recently announced an extension of their opening hours to between 7a.m and 8p.m, from what has been

the traditional banking hours of between 9a.m and 3p.m for all lenders only a few years ago. Diamond Trust Bank has extended its operating hours for five outlets in Kenya and six in Uganda, which now operate for seven days a week between 8a.m to 8p.m (Collins, 2010)

Despite the practice of beginning services half-an-hour earlier, some banks that are positioned in shopping malls and department stores will still have to open for service at 10 am, as the shopping malls and department stores open up for business. Besides the banking hours, the other issue consumers also are facing is the queuing up at some banks. Standing in line for a long time at the banks is non-productive and a sheer waste of time. As such, most banks now have developed a way to address consumer problems (Gichuki, 2013).

In today's business, competition, deregulation and globalization have compelled Banks to offer service 24 hours around the globe, whereas the significance drawback, on the other hand, lies in its inconvenience and security factors. However, both these factors have a significant and profound impact on banks' performance and customer service delivery (Ignacio & Hannah, 2008). The introduction of agency banking has increased the number of hours that customers can access financial services. During withdrawals most customers prefer to use automated teller machines (Ivatury & Ignacio, 2008). However, the automated teller machines in Equity Bank can only give a maximum of 30,000ksh. This means that any customer who wants to get cash that is more than Ksh 30, 000 should use the banking halls or the agency banking. In addition, some customers prefer to use agency banking services rather than line up in banking halls to deposit cash. There exist a gap in literature on how increased number of hours of accessing financial services in banks, as a result of adoption of agency banking has led to improved service delivery. The current study will close this gap by evaluating how flexible hours influences service delivery in the bank.

Agency Banking and Cost Effectiveness

Transacting through bank agents has proven to be cost-effective especially to people who live in rural areas that are far away from banks. Banks and other financial institutions are partnering with retailers, post offices, and other agents to provide financial services (Ivatury & Timothy, 2006). Governments can create incentives and accelerate the development of agent networks and better uptake of financial services by distributing salary, welfare and social payments through agents. Not only is this easier, cheaper, and faster for all, but it provides volume to help build the network and to enable low-cost models (Johnson, Scholes & Whittington, 2006).

In Brazil's vast network of 120,000 banking correspondent outlets provides financial services in all of the nation's 5,600 municipalities. Before the regulatory change allowing correspondents, one-quarter of these municipalities did not have a bank branch or formal

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financial service institution (Kithuka, 2012). Today, nearly all government social support payments under the Bolsa Familia program to 13.8 million poor families are cashed out via correspondents or deposited into a bank account, reducing administrative costs from 14.7% to 2.4% of total payment value.

In Colombia, the Banca de las Oportunidades (BdO) helped incentivize development of agent networks. Now, 99% of the country's municipalities have access to financial services. Beneficiaries receiving government social payments are able to collect their money more easily and closer to where they live (Kumar, Claudia & Sarah, 2010). The agent networks are creating a platform for more services. A new law Pay Easily - Pay Digitally has been proposed to bring transactional services to more people. It is expected to reduce costs to government and recipients by making it possible to deposit government subsidies directly into electronic wallets.

In this and other ways, government-to-person (G2P) payments to bank accounts can be the first step to formal financial inclusion. The South African government makes payments to 14 million individuals each year, one third of who have opted to receive their payments directly into a bank account. This has been a key motivator in the uptake of formal financial services. As agent networks spread in these and many other countries, the next step is development of additional financial services and products beyond payments to meet clients' financial needs (Lyman, Ivatury & Staschen, 2006).

After a critical analysis of the cost of establishing branches, micro-finance banks (MFBs) operating in the country have decided to pitch their tent on agency banking, they consider cost effective. Although the cost of setting up agent bank is yet to be established, from the operators' point of view it will cost about 100,000 USD to establish a branch network.

Visibly, available literature fails to show how agency banking improves cost effectiveness of the banks financial services. The current study will bridge this literature gap by establishing the influence of cost effectiveness of banking services as a result of adoption of agency banking in the bank.

Agency Banking and Decongestion in banking halls

It has helped to raise banks' profits and spread reach of financial services in Kenya, but one thing that agency banking has failed to do in Kenya is to decongest banking halls. It was believed that majority of people will deposit cash, withdraw and open accounts, services that most people seek in banks, through agents. But this has not effectively happened since long queues of people seeking services in banks in Kenya have persisted despite the spread of agency banking models (Lyman, Pickens & Porteous, 2008).

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A spot check at various banks indicated that the financial institutions are still crammed with people seeking to deposit and withdraw cash. Customers stand anxiously as tellers struggle to receive deposits and give out cash. It was a similar situation at the direct deposit counter where customers with only 12 U.S. dollars bills are allowed to deposit cash (Mas & Hannah, 2008).

Interestingly, outside the crowded banking halls, there are dozens of banking agents. The agents have clearly listed services they offer top among them cash deposit and withdrawal. However, despite the convenience they offer, it is hard to see a queue of even five people waiting to be served by the agents. Agency banking has not reduced queues in banking halls. Little has changed when it comes to the way people seek services in banks since the model was started (Mas, 2008).

Most people still find it convenient to withdraw or deposit money in banks. The result is that the long queues that characterized banking halls in Kenya before the advent of agency banking models continue to persist. Queues are usually long in the morning, at lunch hour and at 4 p.m. when the bank is about to close business (Morawczynski & Mark, 2009). During these hours, most of those who rush to deposit money are businesspersons. In the evening, most of those who visit banks go to deposit their day's sales, in the case of businesspersons.

Most agencies are also located in places where customers may perceive as "high risk" and there are issues to do with fraud, which is on the rise in Kenya. Besides that, charges imposed on customers for using agency services have also made people avoid them (Musau, 2013). The literature shows that agency banking has not diffused the problem of decongestion in banks but has not indicated the reasons as to why despite the banking services coming closer through the agency banking model the queues are still long. This study will clear all these by exhaustively exploring the influence of agency banking on decongestion in banking halls.

RESEARCH METHODOLOGY

This study used a descriptive research design. The study targeted all the Equity Banks agent outlets in Meru County with a view getting the customers to the agency banking outlets. This is because target population in statistics is the specific population about which information is desired. The target population of this study was therefore customers who are served by 420 operators of Equity Agency banking outlets. The study used stratified and random sampling to select a sample size of 201 Equity Bank agents. Statistical Package for Social Sciences (SPSS), data analysis software, was used to analyze the quantitative data. Further, quantitative data was analyzed by use of descriptive and inferential statistics. Descriptive statistics such as mean, frequencies, standard deviation and percentages were used. The study also used correlation analysis to establish the relationship between the dependent variable and

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independent variables. Quantitative data was presented in tables and figures. The study also used a multivariate regression model to determine the relationship between the independent variables and the dependent variable. The reason for using the regression model was because of its ability to test the nature of influence of independent variables on a dependent variable. The model specification was as follows;

$Y= \beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\varepsilon$

Where;

Y= Service Delivery Effectiveness in Equity Bank

β_0 = Constant

β_1, β_2, β_3 and β_4 = Coefficients of determination of the independent variables

X_1= Ease Of Access to Financial Services

X_2= Flexibility in Working Hours

X_3= Cost Effectiveness

X_4= Banking Hall Decongestion

E = Error Term

ANALYSIS AND FINDINGS

The study targeted a sample size of 201 respondents from which 152 filled in and returned the questionnaires making a response rate of 75.6%. This response rate was satisfactory to make conclusions for the study as it acted as a representative

Coefficient of Correlation

In trying to show the relationship between the study variables and their findings the study used the Karl Pearson's coefficient of correlation (r).

From the finding in table 1 below, the study found that there was strong positive correlation coefficient between service delivery and ease of access to financial services as shown by correlation factor of 0.567, this relationship was found to be statistically significant as the significant value was 0.001 which is less than 0.05. The study found strong positive correlation between Service delivery and flexibility in working hours as shown by correlation coefficient of 0.518, the significant value was 0.000 which is less than 0.05. The study found a strong positive correlation between Service delivery and cost effectiveness as shown by correlation coefficient of 0.598, the study found that there was strong positive correlation coefficient between Service delivery and banking hall decongestion as shown by correlation factor of 0.618, this relationship was found to be statistically significant as the significant value was 0.000 which is less than 0.05. The findings concur with Kithuka, (2012) who found out that

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there is a strong positive correlation between cost effectiveness and Service delivery. The findings further agree with Ignacio & Hannah, (2008) who found out that there is a strong positive correlation between flexibility in working hours and Service delivery.

Table 1. Coefficient Correlations

		Service delivery	Ease of access to financial services	Flexibility in working hours	Cost effectiveness	Banking hall decongestion
Service delivery	Pearson Correlation	1				
	Sig. (2-tailed)					
Ease of access to financial services	Pearson Correlation	.567	1			
	Sig. (2-tailed)	.001				
Flexibility in working hours	Pearson Correlation	.518**	.016	1		
	Sig. (2-tailed)	.000	.898			
cost effectiveness	Pearson Correlation	.598*	.005	.746**	1	
	Sig. (2-tailed)	.014	.965	.000		
Banking hall decongestion	Pearson Correlation	.618**	.103	.021	.052	1
	Sig. (2-tailed)	.000	.406	.863	.676	

Multiple Regression

The study further conducted a multiple regression analysis so as to identify the relationship of agency banking and service delivery in Equity bank. The main purpose of multiple regressions is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable.

As per the SPSS generated output as presented in table 2 below, the equation:

($\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$) becomes:

$Y = -0.176 + 0.517X_1 + 0.397X_2 + 0.269X_3 + 0.230X_4$

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Table 2: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B_0	Std. Error	Beta		
(Constant)	-.176	.327		-.538	.592
Ease of access to financial services	.517	.096	.397	5.375	.000
Flexibility in working hours	.397	.043	.670	9.336	.001
Cost effectiveness	.269	.048	.394	5.660	.011
Banking hall decongestion	.230	.042	.413	5.448	.000

From the regression model obtained above, a unit change in ease of access to financial services holding the other factors constant would lead to change in service delivery effectiveness in equity bank by 0.517; a unit change in flexibility in working hours while holding the other factors constant would change service delivery effectiveness in equity bank by 0.397, a unit change in cost effectiveness while holding the other factors constant would change service delivery effectiveness in equity bank by 0.269 while a unit change in banking hall decongestion while holding the other factors constant would change service delivery effectiveness in Equity Bank by a factor of 0.230. .The findings concur with Argyres and McGaha (2002) who found out that flexibility in working hours were directly connected with service delivery effectiveness. The findings further agree with Power and Hahn (2004) that cost effectiveness strategy offered significant perfomance advantage.

The analysis was undertaken at 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was through comparing the obtained probability value and $\alpha=0.05$. If the probability value was less than α, then the predictor variable was significant otherwise it wasn't. All the predictor variables were significant in the model as their probability values were less than $\alpha=0.05$.

SUMMARY OF FINDINGS AND CONCLUSIONS

The study revealed that agency banking adoption enhanced access to banking services to a very great extent, cost of transaction influence service delivery within equity bank, quality of services influence service delivery within equity bank, time spent to access services, convenience influence service delivery within equity bank, access to banking services in rural areas and increased financial deepening influence service delivery within equity bank. The study also revealed that agency banking offered flexibility in numbers of business hours, opening and closing hours influence service delivery in the bank to a great extent, adoption of

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agency banking has increased the number of business hours for services delivery, bank agents work during holidays, bank agents work on weekends, bank agents close late and that bank agents open early and that all these aspects influence service delivery at equity bank. The study also noted that agency banking has brought about cost effectiveness in transactions which has enhanced service delivery at the bank, cost effectiveness of agency banking influence service delivery within equity bank to a very great extent. Bank agents offer low-transaction cost, bank agents are cheaper, and faster, and that bank agents are low-cost models. The research also revealed that adoption of agency banking lead to decongestion of banking halls. That adoption of agency banking has reduced queues in banks, adoption of agency banking has reduced deposits in banking halls, and that adoption of agency banking has reduced withdrawals in banking halls. The findings contradict the research by Mas, (2008) that agency banking has not reduced queues in banking halls.

RECOMMENDATIONS

Based on the findings the study recommends that Central bank consider coming with a clear agency baking regulatory policy which creates a universal platform for all banking institutions, this will enhance fair market competition and thus barring financial institutions from customer exploitation, the study recommends that these financial institutions should continue offering low transaction rates within their local agency points, this will lure customers to adopt this culture thus ensuring the future sustainability of the agency banking system. Banks must address the challenges that are posed by having agency banking while at the same time taking advantage of all the benefits of having this channel of banking. The study recommends that the banking institutions should consider intensifying the agency banking network, this will ensure services accessibility by customers and thus improving financial performance. Finally the study recommends that the banking institutions should consider coming up with local strategies for the already captured market, this will award the bank more power in controlling the prices and services it offers to its customers.

LIMITATIONS

The researcher experienced the unwillingness of the respondents to fill the questionnaire. This is because information required in this study was sensitive and respondents may fear victimization based on information they gave. To counter this challenge, the study assured the respondents of confidentiality of the data collected. In addition, the study explained to the respondents that the data would only be used for academic purposes.

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