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The Effects of Agency Banking on Accessibility of Financial Services in Kenya: A Case of Equity Bank, Eldoret Town

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Abstract:
Agency banking is an emerging trend in the Banking sector where the banking Institution and management enter into contracts with selected agents to provide banking services for a commission. In Kenya, most financial institutions have adopted agency banking to provide fundamental banking services to customers. However, little information is available on the effects of this Agency banking in accessibility of financial services. The study on Agency Banking was carried out on two branches of Equity Bank found in Eldoret town. One of the objectives of the study was to investigate the effects of Agency Banking on Accessibility of financial services such as accepting deposits, providing withdrawal services and providing excellent means of payment in Eldoret town. The study used a case study design with a target population of 126 consisting of departmental managers, employees in the credit department and agency customers. A sample size of 96 respondents was selected using stratified sampling techniques, questionnaires, and financial document analysis were used to collect data. Data analysis was carried out using descriptive statistics. The study found that the components of agency banking were agency depositing, withdrawing and means of payments. It also established that agency banking influences credit accessibility through the assistance of agency withdrawing, agency means of payments and agency depositing. The study concluded that the components of agency banking include depositing components, bill payment components and withdrawal components, which were tailored towards assisting customers to build up their bank account for lending and borrowing purposes. The effects of agency depositing services included determining monthly average services, amounts of loans accessible, enabling manual depositing, improving loan serviceability and credit turn overs. The effects of agency withdrawal services on credit accessability included building up credit worthness, indicating the type of business, enabling faster means of cutomer evaluation, the activeneness of the business and affecting credit account turnover. The effects of agency mean of payment on credit accessibility included improvement of account activeness of the account, building up cash turnover, indicating the nature of the business and the activeness of the business and finally reduced loan default. The study recommended that, there is a need to enhance utilization of agency banking to improve the performance levels of accessibility of credit. Loosening of collaterization conditions, provision of adequate credit. Provision of sufficient information, control of interest rates by Central Bank and development of a framework to integrate credit sale centers. The researcher suggests further study to be carried on the role of strategic alliances on operations of agency banking to compliment the current study.

Keywords: *Agency banking, deposits, withdrawals and crediti accessibility, Eldoret, Kenya*

1. Introduction

A Bank is a financial Institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or through capital markets (CBK, 2011). The business of banking is as old as ancient history. The origins of modern banking can be traced to medieval and early Renaissance Italy, to the rich cities in the north like Florence, Lucca, Siena,Venice and Genoa. The Bardi and Peruzzi families dominated banking in 14th century Florence, establishing branches in many other parts of Europe (Hoggson, 1926). The banking institution has since changed in character and content very much developing from simple operations involving satisfaction of few individuals' wants to complicated mechanisms of modern banking involving satisfaction of the whole community by securing speedy application of capital, seeking employment and providing the very life blood of commerce (Shekhar, 2005). A Bank connects customers that have capital deficits to customers with capital surpluses due to their critical status within the financial systems and the economy. Whiting (2005) contents that a commercial bank, involves the provision of three essential services including acceptance of deposits, provision of payment mechanisms and the provision of credit. Most banks operate under a system known as fractional reserve banking where they hold only a small reserve of the funds deposited and lend out the rest for profit. A conducive banking environment is considered a key pillar as well as an enabler of economic growth (Koivu, 2002).

In an environment with a continually emerging wave of information driven economy, the banking industry in Kenya has inevitably found itself unable to resist technological indulgence. The need for convenient ways of accessing financial resources beyond the conventional norms has seen the recurrent expansion and modernization of banking patterns. Data available in Kenya indicates that only 19% of adult Kenyans reported having access to a formal, regulated financial institution while over a third (38%) indicated no access to even the most rudimentary form of informal financial service (Financial Sector Deepening Kenya, 2010). This leaves a percentage of more than 80% outside the bracket of the reach of mainstream banking. The pent up demand for an affordable and reliable way of holding funds while ensuing that risk levels are consigned to a minimum is consistently unfolding. A system with the potential to obliterate the historical hurdles of cost and free access which have for a long time stood in the way of willing partakers of banking services evokes immediate attention and interest. The implementation of agent banking services in Kenya is a testament to this fact.

Proximity to bank services and the associated time and cost of transport are real incentives to alter the customer decision whether to visit the bank or the agent (Gitonga and Njeru, 2014). In 2009, Central Bank of Kenya commenced measures to open up banking channels to non-bank-agents. An amendment to the Banking Act allowed banks to start using agents to deliver financial services. An 'agent' is an entity that has been contracted by an institution and approved by the Central Bank to provide the services of the institution on behalf of the institution in the manner specified by the Central Bank. Agency banking therefore, is the business carried out by an agent on behalf of an institution as permitted under guidelines provided by the Central Bank of Kenya (CBK, 2012).

The use of the agency banking model by banks has continued to improve access to banking services since its launch in 2010 (Gitonga and Njeru, 2014). As at 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. The increased number and value of transactions demonstrate the increased role of agent banking in promoting financial initiatives being championed by the Central Bank (CBK, 2013).

As a result of lower transaction costs and a transaction-driven revenue model (rather than a float-driven model), agent banking systems are most cost effective for transaction accounts with low balances and frequent transactions. For example, an account that sees two deposits and two withdrawals per month will incur more than 70 percent fewer costs if the customer transacts through an agent rather than a branch. Agency banking largely offers a variant of M-Pesa with the main exception being that agency services are supported by bank accounts. For example, the Co-op Kwa Jirani agency platform by the Cooperative Bank offers cash deposits and withdrawals, money transfers, fees and utility payments, balance inquiries and mini-statements. More banks are now offering a direct connection from bank accounts to M-PESA. A survey on agency banking carried out by Kenya Bankers Association (KBA, 2012) found out that 40.9% of agents operations are cash deposits while 36% are withdrawals.

Generally speaking, agency banking has enabled customers to access the basic banking services such as cash deposit, cash withdrawal, bill payments and bank balance inquiry conveniently or what would be termed as within the comfort of their neighbourhood. The convenience of access to banking services and the extended hours that the agencies work has been the most attractive features to the customers (as most agencies work between 8am to 8pm). The rural population especially has heartily welcomed this idea since they had to sometimes go through vexing experiences to access banking services due to the poor road infrastructure and high costs. Most of the major banks in Kenya and parts of South America have embraced Agency Banking as a way of improving their services to their customers and cuting a niche for themselves in an ever competitive market. (Ndung'u Kanyago and Okpanach, 2010) stated that despite the various local and global turbulences experienced over the past two years, the banking sector continues to exhibit resilience and has remained strong.

The historical burden has to be dislodged now. In an effort to bring down the costs of offering financial services to the Kenyan public, the Central Bank of Kenya together with other stakeholders have put in place a business model aimed at broadening financial inclusion to the majority of Kenyans at a lower cost. It is envisaged that this model will enable banks to leverage on additional cost effective distribution channels to offer financial services. To achieve this, the Banking act was amended through the Finance act, 2009, to permit banks to contract third parties to provide certain banking services on their behalf. The guidelines to facilitate the rolling out of Agency model was issued by the Central Bank and took effect from May, 2010. Secondly, the cost of screening and monitoring existing and potential borrowers will decline with the introduction of Credit Reference Bureaus. The success of M-PESA replicated in another country context is a key factor that led to success in Kenya transfer to another environment or whether there are other factors that haven't yet been considered. While agency banking has a successful model for managing a bank-led deployment, especially in the critical area of liquidity management. This study therefore was carried out so as to establish the contribution of agency banking on accessibility of financial services.

2. Methodology

The study used a case study design with a target population of 126 consisting of departmental managers, employees in credit department and agency customers. A sample size of 96 respondents was selected using stratified sampling techniques, questionnaires, and financial document analysis was used to collect data. Data analysis was carried out using descriptive statistics. This analysis was adopted because the researcher has a dependent variable which could be assumed to be a function of two or more sub-independent variable. This made prediction about the dependent variable to be used on its co-variance with concerned independent variables. The agency banking was itemized as the independent variable and levels of credit accessibility as the dependent variable.

3. Findings and Discussions

3.1. Effects of Agency means of Payments Credit Accessibility

The study established that it is not only the customers who have benefited from the Agency Banking, banks too have benefited a great deal at a time when most banks are working towards cost management. The researcher sought to find out the effects of agency means of payments on crecdit accessibility so as to score its importance on Improves activeness of the account 15.1% strongly agreed, 38.4% agreed, 14.0% were undecided, 17.4% disagreed, and 15.1% strongly disagreed. On Enabling frequency of cash turnover 19.8% strongly agreed, 38.4% agreed, 10.5% were undecided, 14.0% disagreed, and 17.4% strongly disagreed, on Indicating the nature of business 25.6% strongly agreed, 39.5% agreed, 9.3% were undecided, 15.1% disagreed, and 10.5% strongly disagreed, on Indicator of an active business 7.0% strongly agreed, 16.3% agreed, 8.1% were undecided, 23.3% disagreed, and 45.3% strongly disagreed. On Reduces loan default rate Indicator of an active business 37.2% strongly agreed, 29.2% agreed, 11.6% were undecided, 9.3% disagreed, and 12.8% strongly disagreed. This is shown in Table 1 below

	SA		A		UD		D		SD	
	F	%	F	%	F	%	F	%	F	%
Improves activeness of the account	13	15.1	33	38.4	12	14.0	15	17.4	13	15.1
Enables frequency of cash turnover	17	19.8	33	38.4	9	10.5	12	14.0	15	17.4
Indicates the nature of business	22	25.6	34	39.5	8	9.3	13	15.1	9	10.5
Indicator of an active business	6	7.0	14	16.3	7	8.1	20	23.3	39	45.3
Reduces loan default rate	32	37.2	25	29.1	10	11.6	8	9.3	11	12.8

Table 1: Effects of Agency means of Payments Credit Accessibility

The results of the research shows that the effects of agency means of payment on crecdit accessability include improving the activeness of account, enables frequency of cash turn over, reduces loan default rate.

3.2. Effects of Agency Withdrawal Services on Credit Accessibility

It was of great importance to seek information regarding effects of agency withdrawal services on credit accessibility to find out their contribution to increase of crcedit levels on Credit worthiness is build up 32.6% strongly agreed, 26.7% agreed, 10.5% were undecided, 7.0% disagreed, and 23.3% strongly disagreed. On Indicator type of business 20.9% strongly agreed, 34.9% agreed, 7.0% were undecided, 19.8% disagreed, and 17.4% strongly disagreed, on Enabling faster means of customer evaluation 19.8% strongly agreed, 38.4% agreed, 14.0% were undecided, 16.3% disagreed, and 11.6% strongly disagreed, on Affects credit account turnover 30.2% strongly agreed, 31.4% agreed, 11.6% were undecided, 12.8% disagreed, and 14.0% strongly disagreed. This is shown in Table 2 below.

Effects of agency Withdrawing	**SA**		**A**		**UD**		**D**		**SD**	
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**
Credit worthiness is build up	28	32.6	23	26.7	9	10.5	6	7.0	20	23.3
Indicator of type of business	18	20.9	30	34.9	6	7.0	17	19.8	15	17.4
Enable faster means of customer evaluation	17	19.8	33	38.4	12	14.0	14	16.3	10	11.6
Indicator of active business	16	18.6	33	38.4	8	9.3	17	19.8	12	14.0
Affects credit account turnover	26	30.2	27	31.4	10	11.6	11	12.8	12	14.0

Table 2: Effects of Agency Withdrawal Services on Credit Accessibility

The results show that the effects of agency withdrawal services on crecdit accessability include building up credit worthness, indicates activeness of the business and increases credit turn over.

3.3. Effects of Agency means of Payments Credit Accessibility

The researcher sought gto fidn out the effects of agency means of payments on crecdit accessability so as to score its importance on Improves activeness of the account 15.1% strongly agreed, 38.4% agreed, 14.0% were undecided, 17.4% disagreed, and 15.1% strongly disagreed. On Enabling frequency of cash turnover 19.8% strongly agreed, 38.4% agreed, 10.5% were undecided, 14.0% disagreed, and 17.4% strongly disagreed, on Indicating the nature of business 25.6% strongly agreed, 39.5% agreed, 9.3% were undecided, 15.1% disagreed, and 10.5% strongly disagreed, on Indicator of an active business 7.0% strongly agreed, 16.3% agreed, 8.1% were undecided, 23.3% disagreed, and 45.3% strongly disagreed. On Reduces loan default rate Indicator of an active business 37.2% strongly agreed, 29.2% agreed, 11.6% were undecided, 9.3% disagreed, and 12.8% strongly disagreed. This is shown in Table 3 below:

	SA		A		UD		D		SD	
	F	%	F	%	F	%	F	%	F	%
Improves activeness of the account	13	15.1	33	38.4	12	14.0	15	17.4	13	15.1
Enables frequency of cash turnover	17	19.8	33	38.4	9	10.5	12	14.0	15	17.4
Indicates the nature of business	22	25.6	34	39.5	8	9.3	13	15.1	9	10.5
Indicator of an active business	6	7.0	14	16.3	7	8.1	20	23.3	39	45.3
Reduces loan default rate	32	37.2	25	29.1	10	11.6	8	9.3	11	12.8

Table 3: Effects of Agency means of Payments Credit Accessibility

The results of the research shows that the effects of agency means of payment on crecdit accessability include improving the activeness of account, enables frequency of cash turn-over, reduces loan default rate.

3.4. Challenges Faced in Effort to Access Credit Facilities

It was necessary to seek this information to find out the common challenges to form a basis for making recommendtaions. It was established from the study that 23.3% identified colateralization, 29.9% inadequate credit, 25.6% stringent borrowing conditions, 11.6% lack of sufficient information and 18.6% high interest rates charged, as shown in figure 1 below:

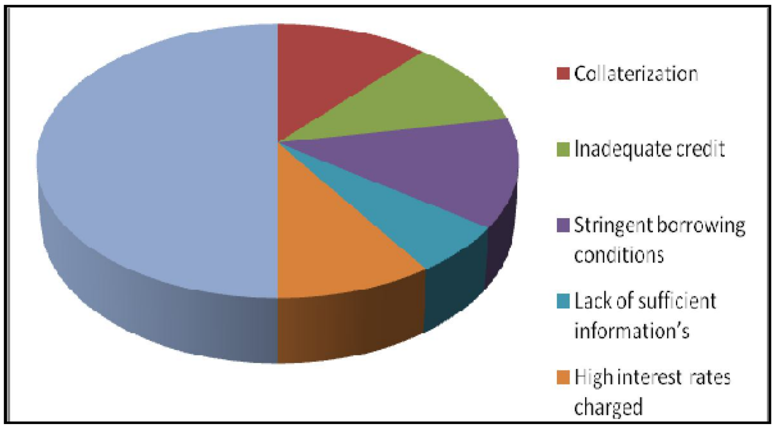

Figure 1: Challenges faced in effort to access credit facilities

The study results in figure 1 above indicate therefore that the majority of the respondents identified the challenges facing agency banking as collaterization, inadequate credit, stringent borrowing conditions, lack of sufficient information's and high interest rates charged. The results showed that the common services as depositing services, bill payment services, withbdrawal services, account openning services and credit facilities services. This was suppoted by the findings of Ivatury (2006) who identifified the activities of agency banking as opening accounts, collecting cheques deposited by customers, providing means of payments such as automated clearing house, wire transfer or telegraphic transfere and automated teller machine. Layman, Pickens and Potters also established the non bank services to include remitence and management of the cleints businesses.

3.5. Summary of the Study Findings

The study established that agency banking increases levels of creddit accessability through increase in the amount of money borrowed from between kehs 10,000-50,000 to between ksh 100,000-500,000. This is supported by the findings of Ivatury (2006) who established that its not only the customers who benefit from agency banking but banks too benefit from agency banking through huge savings, reduction in leasing cost and high levels of credit accessability. It was identified that agency depositing and agnecy means of bill of payment as the prime services offered by agents of equity bank. This is supported by the findings of Eisenhardt (1985) who identified video banking as a purpose build transaction machine which enables mobile banking and provision of other services.

The results showed that the effects of agency withdrawal services on crecdit accessability include building up credit worthness, indicates activeness of the business and increases credit turn over. The findings are supported by the findings of Lyman, Pickens and Potters (2008) who pointed out that for the cleints there is no difference in accessing his or bank account. The results of the research showed that the effects of agency means of payment on crecdit accessability include improving the activeness of account, enables frequency of cash turn over, reduces loan default rate. This fingdings are supported by the findings of Jensen and Mecklin (1976) who identified the mena so fpaymentin procesisng transactions such as using credit transfers, bank overdraft and sturnning orders as some of the services which have enabled banks to increase credit accessability through agency banking.

3.6. Conclusion and Recommendations

It is concluded from the study that the common services as depositing services, bill payment services, withbdrawal services, account openning services and credit facilities services, this services are tailored towards assisting cutomers to build up their bank account for lending and borrowing purposes. The effects of agency depositing services in enahncing credit accessability include determining monthly average services, determining amounts of loans accessable,, enabling manual depositing, improving loan servisability and determining credit turn overs. The effects of agency withdrawal services on credit accessability include; building up credit worthness, indicating the type of business, enabling faster means of cutomer evaluation, indicating the activeness of the business and affecting credit account turn over. The effects of agency means of payment on credit acceessability include improvement of activeness of the account, enables frequency of cash turn over, indicates the nature of the business and indicate the activeness of the business and finally reduces loan default. Based on the above findings, the study therefore recommends the following to be adopted to enhance utilization of agency banking to improve the perfomance levels of accessability of credit; Loosening of Collaterization conditions to enable those who do not havetangible fixed assets to access credit facilities through the utilization of agency banking; Provision of adequate credit facilities to enable the borrowers to allocate enough funds to the intended projects for purposes of recouping the original cost; Provision of sufficient information's enable borrowers and agency customers to make informed decisions regarding borrowings and investments; Control of interest rates by Central bank so as to curb high interest rates charged by commercial banks via agency banking; Develop framework to integrate credit sale centers in agencies this will enable shared information regarding effiecient operations of agency banking; and Educating customers to use agencies to improve credit access, this can be done through organizing seminars and using mass communictaion through radio and television media. The researcher suggests further study to be carried in the following areas to compliment and suppliment the current study: Factors influencing agency banking operations in developing countries; and the role of strategic alliances on operations of agency banking.

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