Agent Banking Operations as a Competitive Strategy of Commercial Banks in Kisumu City

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1. Introduction

1.1 Background of the Study

Organizations exist as open systems hence there is constant interaction within the environment in which they operate. In this era of ever changing global economy with every organization striving to achieve competitive advantage since the changes present both opportunities and challenges, Johnson *et.al.* (2003) notes that the organizations must find ways of operating by developing new competencies as the old competencies gained are quickly eroded due to changes in both internal and external environment .Because organizations cannot run away from innovation which sustains them, there is need for them to change with the changes in the environment otherwise they would be irrelevant. To ensure survival and success, organizations need to develop capability and capacity to manage threats and exploit emerging opportunities promptly. This requires formulation of competitive strategy that refers to the positioning of a firm to maximize the value of the capabilities that distinguish it from its competitors. The Kenyan business environment has experienced many changes among them: international, privatization, increased competition, acceleration implementation of economic reforms, increased customer demands, privatization and commercialization of public sector, price decontrols and liberalization of both domestic and foreign markets (Aosa, 1992).

All these changes require that organizations make adjustments in their strategies in order to survive. The banking industry is no exception and has also been affected immensely by the environmental changes. According to the CBK Annual Report (2010), the banking sector registered good performances in 2010 notwithstanding local and global turbulence. It further states that going forward the sector's growth is expected to increase based on the new opportunities that are expected to be created by the adoption of agent banking, credit information sharing, mobile phone technology innovations and internet banking. Institutions are also expected to explore and venture into regional markets as regional integration initiatives intensify (www.centralbank.go.ke). In order to gain a competitive advantage, banks have been looking for opportunities to exploit their strategic abilities, adapt and seek improving every area of business, building on awareness and understanding of current strategies and successes. Banks must therefore compete in order to outperform their rivals in this dynamic environment.

Despite the impressive performance by banks, customers continue to shoulder the heavy burden of high transaction costs. The historical burden has to be dislodged now. In an effort to bring down the cost of offering financial services to the Kenyan public , central bank 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 – the agent banking model -. It is envisaged that this model will enable banks 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. Ndung'u (2010)

1.1.1 Competitive Strategy

A competitive strategy is the search for a favorable competitive positioning in the industry. It is concerned with how a company can gain advantage through a distinctive way of competing. It aims at establishing a profitable and sustainable position against the forces that determine industry competition. According to (Porter, 1980), developing a competitive strategy is developing abroad formula on how business is going to compete, what its goal should be and what policies would be needed to carry out these goals. He observed a competitive strategy as a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there.

He further points out that the intensity of competition in an industry is rooted in its underlying economic structure and goes well beyond the behavior of current competitors. According to him, the state of competition depends on five basic competitive forces. It is these five industry-level competitive forces, the bargaining power of buyers and sellers, the threat of new entrants, potential substitute products and rivalry among existing competitors, that determine the inherent profit of an industry. Every organization needs a competitive strategy. However most of these strategies are implicit, having evolved over time, rather than explicit formulated, through thinking and planning process. Implicit strategies result to inconsistentdecisions, lack focus and become obsolete over time. Without strategy that guides a firm, organizations will be driven by current operational issues rather than by a planned future. Competitive strategies of a firm should address the core business of the firm.

The intensity of competition in an industry determines its profit potential and competitive attractiveness hence strategy should be able to spell out how the organization responds to the competitive forces in this industries or markets. Competitive strategy is that part of business strategy that deals with management's plan for competing successfully**-** how to build a sustainable competitive advantage, how to outmaneuver your rivals, how to defend oneself against competitive pressure or how to strengthen the firms market positioning (Thompson and Strickland, 1996). Competitive strategy is the distinctive approach which a firm uses or intends to use in order to succeed in the market place and it involves positioning the business to maximize the value of capabilities that distinguish it from its competitors (Porter, 1980).Thompson and Strickland (1998) define company strategy as the game plan that management has for positioning the company in its chosen market arena, competing successfully, pleasing customers and achieving good business performance. They continue to say that it consists of competitive moves and business approaches that managers employ in running the company. This shows that strategy is all about competition. Porter (1980) maintains that coping with the five competitive forces; there are three potentially successful generic approaches to outperforming other firms in an industry: overall cost leadership, differentiation and focus.

1.1.2 Agent banking operations.

A banking agent is a retail or postal outlet contracted by a financial institution or a mobile network operator to process client's 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. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices and many more. (Kumar et al, 2006).In a growing number of countries, banks and other commercial financial service providers are finding new ways to make money delivering financial services to unbanked people. Rather than using bank branches and their own field officers, they offer banking and payment services through postal and retail outlets, including grocery stores, pharmacies, and gas stations among others. For poor people retail agents may be far more convenient and efficient than going through a bank. Banking through retail agents uses information and communication technology through cell phones to transmit transaction details from the retail agent or customer to the bank.

Banking through retail agents appeals to policy makers and regulators because it has the potential to extend financial services to unbanked and marginalized communities. But it also challenges them to ask: what are the risks of these new approaches, and are they different from those of conventional branch – based banking? How should we respond to these risks, so as to permit branchless banking with retail agents to operate safely and expand access to finance income and rural areas that they could not profitably serve with conventional branch based banking.

In Brazil, private and state owned banks deliver financial services through retail agents including small supermarkets and pharmacies, post offices, and lottery kiosks (Kumar et al.2006). These agents are called banking correspondents. In January 2006, India's central bank issued a circular permitting banks to use post offices and specializes micro finance institutions (MFI), including nonprofit organizations (NGO), cooperatives, and for profit companies as retail agents. The circular calls these agents business correspondents. (Harper *et al.* 2006)In South Africa, branchless banking through retail agents is permitted only for licensed financial institutions. In Kenya the most basic version of agent banking is whereby a licensed financial institution typically a bank delivers financial services through a retail agent. The bank develops financial products and services but distributes them through retail agents who handle most customer interaction.

1.1.3 The banking industry in Kenya

The banking sector in Kenya operates in a relatively deregulated environment governed by the companies' Act, the Banking Act, the CBK Act and the various prudential guidelines issued by the CBK. The financial performances of banks have been in a general increasing trend and these have mainly been attributed to proper management and proper formulation and implementation of strategy. In Kenya there are a total of 42 banks which are all for the same market share.(CBK Annual Report, 2010).The Kenyan banking industry has faced some challenges including: stiff competition among the existing local banks as they offer substitute products, offer loaning services at different rates. Microfinance and Savings and Credit Societies (Sacco) institutions are emerging key players in delivery of financial services. However, it is expected that the banking sector will continue to grow especially in retail banking segment, as major consumer segments remain largely unbanked. According to the CBK Annual Report (2010) the banking sector has continued to experience significant factors simultaneously. Commercial banks need to establish a sustainable strategy into their core business activity in the markets and communities where they operate.

1.2 Statement of the problem

From the foregoing background literature, (Aosa, 1992, Ndungu, 2010, CBK Annual report, 2010), the commercial banking sector in Kenya has become more visibly competitive. Each bank has developed a strategy unique to its corporate culture, but all of these banks have the same desire to be the customer's number one choice for their banking products and services. The commercial banking industry in Kenya has been in a state of constant change that due to economic liberalization, competition has become stiff, forcing Commercial banks to conform to the changing economic environment.

The operations of banks in Kenya are regulated by the Banking Act Cap 488, Companies Act Cap 486, and the Central Bank of Kenya. As at December 2009 there were 46 banking and financial institutions. The Kenyan banking industry is facing challenges including: stiff competition among the existing banks as they offer substitute products and offer loaning services at different rates. Microfinance (MFI) and savings and credit societies (SACCO) institutions are emerging key players in delivery of financial services. In addition the entrance into the industry of such players as insurance agencies, cheque cashing services and mobile money services continue to toughen the competition. Commercial banks may have billions at their disposal but most of this goes to big corporates and high net worth clients while majority of Kenyans remain excluded with very few holding bank accounts. As a result some commercial banks in Kenya have begun to offer banking services through retail agent outlets such as grocery shops, post offices and supermarkets accessed within local communities while others have not. Based on the above premises this study therefore seeks to investigate agent banking operations as a competitive strategy for Commercial banks in Kisumu city Kenya.

1.3 Objectives of the study

1.3.1 General Objective

To investigate agent banking operations as a competitive strategy for Commercial banks in Kisumu City.

1.3.2 Specific Objectives

This study will be guided by the following objectives;

1. To establish the reasons for Commercial banks venturing into agent banking.
2. To determine the challenges faced by the Commercial banks in agent banking operations.
3. To determine the challenges faced by the Commercial bank agents in operating agent banking.
4. To establish the measures put in place by Commercial banks to regulate the activities of their agents.

1.4 Research Questions

1. Why do Commercial banks venture into agent banking?
2. What are the challenges faced by Commercial banks when engaging in agent banking operations?
3. What are the challenges faced by Commercial bank agents when engaging in agent banking operations?
4. How do Commercial banks regulate the activities of their agents?

1.5 Significance of the study

The study is expected to be of help to commercial bank policy makers in identifying the key challenges involved in agent banking operations and coming up with strategies that will lead to improved performance. Secondly the study will also be helpful to academicians who will use this study as a source of reference. Thirdly the findings of this study can be compared with strategic management in other sectors to draw conclusions on various ways commercial banks can respond to competitive forces in the environment. Finally the study will also be of help to commercial banks in identifying and understanding the external environment and competitive strategy that can be applied to ensure both superior performance and survival.

1.6 Scope and delimitation of the study

The study is concerned with the investigation of agent banking as a competitive strategy for commercial banks in Kisumu city. Each commercial bank that operates agent banking has a department overseeing that at its headquarters. The study will analyze agent banking as a competitive strategy for commercial banks in Kisumu city in the period 2010 to date because this is a current mode of branchless banking recently licensed by CBK in 2010. Specifically the researcher will collect data to establish why commercial banks venture into agent banking, how commercial banks regulate the activities of their agents, the challenges faced by both commercial banks as well as the agents in operating agent banking. The data sources will be both primary from questionnaires and secondary from commercial banks publications and reports. The researcher may face bottlenecks from the respondents who may not be willing to divulge information may be due to lack of trust and assumed lack of confidentiality. The respondents may feel they are going against the organizations rules and ethics for example bank employees do sign secrecy codes. But they will be reassured that the information is needed for research purpose only. The researcher may experience constraints of time to carry out the research.

2. Literature Review

2.1 Introduction

This chapter reviews theoretical literature, empirical literature and indicating the research gap filled, and the conceptual framework designed.

2.2 Theoretical Literature Review

This section will review the interplay between competitive strategies, agent banking and commercial banks.

2.2.1 Porter's Generic Competitive Strategies (ways of competing)

A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. These combined with the scope of activities which a firm seeks to achieve them lead to three generic strategies namely cost leadership, differentiation and focus. The focus strategy has two variants cost focus and differentiation focus. In cost leadership a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry. In differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important and uniquely positions it to meet those needs. Differentiation is aimed at the broad market that involves the creation of a product or services that is perceived throughout its industry as unique. The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. (Porter, 1985)

Thompson and Strickland (1998) define strategy as the game plan that the management has for positioning the company in its chosen market in order to compete successfully, please its customers and also achieve good business performance. It thus involves choosing among alternatives. This shows that organizations must be aware of the competition in order to position themselves successfully.

Ansoff and McDonnell (1990) have defined strategy as a set of rules for decision making that guide organization behavior which can be in either of the following forms: Yardsticks also called objectives, product or business strategy, rules for establishing internal relations called organizational concept, or rules for conducting day to day activities also known as operating policies. A company's competitive strategies consist of the business approaches and initiatives it undertakes to attract customers and fulfill their expectations, to withstand competitive pressures and to strengthen its market position. It deals with management action plan for competing successfully and providing superior value to the customers. This enables it to differentiate the company from its competitors (Thompson and Strickland, 2003).

The nature and degree of competition in an industry lies on five forces: the threat of new entrants, threat of substitute products, bargaining power of buyers, bargaining power of suppliers and stiff competition among the current contestants in the market. The collective strength of these five forces determines the ultimate profit potential of an industry (Pearce and Robinson 2002; Porter 1980). Rivalry occurs when players use tactics like price competition, advertising battles, product introductions and increased customers service warranties. It occurs because one or more competitors feel the pressure or sees the opportunity to improve position. Pressure from substitute products because substitute products limit the potential returns of an industry by placing ceilings on prices firms in the industry can charge. Suppliers can exert bargaining power over participants by threatening to raise prices or reduce quality of purchased goods and services. They can thus squeeze profitability out of an industry. New entrants bring new capacity and the desire to gain market share and often substantial resources which can inflate prices or bid prices down. Buyers on the other hand can exercise power by forcing prices down and bargaining for higher quality or more services and playing competitors against each other all at the expense of industry profitability.

According to Allen *et. al.* (2006), when a firm designs, produces and markets a product more efficiently than its competitors such a firm has implemented a cost leadership strategy. Attempts to reduce costs will spread through the whole business process from manufacturing to the final stage of selling the product .Any processes that do not contribute towards minimization of cost base should be outsourced to other organizations with the view of maintaining a low cost base, Allen *et. al.* (2006), Low costs will permit a firm to sell relatively standardized products that offer features acceptable to many customers at the lowest competitive price and such low prices will gain competitive advantage and increase market share If the low cost base could be maintained for longer periods of time it will ensure consistent increase in market share and stable profits hence consequent in superior performance. Decision makers in a cost leadership firm will be compelled to closely scrutinize the cost efficiency of the processes of the firm. Maintaining the low cost base will become the primary determinant of the cost leadership strategy. For low cost leadership to be effective a firm should have a large market share (Allen *et. al.*2006).

New entrants or firms with a smaller share may not benefit from such strategy since mass production, mass distribution and economies of scale will not make an impact on such firms. According to Allen *et. al.*2004 a low cost may act as entry barriers since new entrants require huge capital to produce goods or services at the same or lesser price than a cost leader. Further some factors such as technology which may be developed through innovation and some may even be resources developed by a firm such as long term healthy relationships build with distributors to maintain cost effective distribution channels or supply chains. Similarly economies of scale may be an ultimate result of a commitment made by a firm such as capital investments for expansions. Also raising barriers for competition by virtue of the low cost base that enables the low prices will result in strong strategic positioning in the market.

The company or business unit may charge a premium for its product. This specialty can be associated with design, brand image, technology, features, dealers, network or customer's service. Barney (2001) states that though a company may have several basis of differentiation, at the end it is only a matter of customer perception. To build competitive advantage through differentiation, a firm must search out sources of uniqueness that are burdensome and time consuming for rivals to match (Thompson and Strickland, 2003).A focus strategy should target market segments that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investment. Organizations can make use of the focus strategy by focusing on a specific niche is sometimes referred to as the niche strategy (Lynch, 2006). Firms pursuing this strategy are willing to service isolated geographic areas, satisfy needs of customers with special financing, inventory or servicing problems or even to tailor the products to somewhat unique demands of the small to medium sized customers.

2.3 Empirical Literature Review

2.3.1 Competitive strategy

Firms have to be able to formulate strategies to gain competitive advantage. This calls for a strategic fit on an organizations core competence levels, technology, leadership styles, markets, culture, people and environmental influence. Formulation of differentiation strategies, we recognize is a strategy for making a firm's products more competitive, in such a competitive market. (Awino *et al* 2009)

Companies will adopt a different competitive strategy depending upon their starting positions and the activity of their competitors. The objectives that could be adopted are to defend a market position or to attack a competitor. The strategy could embrace competitive strategy, pricing strategy, or differentiation strategy. (Goliath 2004)
Business strategy is all about competitive advantage. In general, strategy is to do with long term prosperity. The macroeconomic transition and industrial restructuring have lead to a changing context for competitive strategy. These changes comprise of:

- Changing customers
- Changes and more competitors
- Necessary basis of competing
- Changes of the cultural and institution context (Papulova *et al* 2006)

2.3.2 Commercial Banks and Agent Banking

Kenya features a commercial banking system dominated by numerous commercial banks and a small number of non – bank financial institutions which concentrate mainly on mortgage finance , insurance, and other related financial services. Over the years the sector has grown into a complex scene of banking institutions of different types and ownership. (Central bank of Kenya annual report 2010). The banks have come together under the Kenya bankers association (KBA) which serves as a lobby for the banks interests and addresses issues affecting member institutions.

Banking through retail agents is a concept that is beginning to appeal to policy makers and regulators. It has the potential to extend financial services to unbanked and marginalized communities. Agent – assisted banking is a relatively new concept. What makes agent banking work are information and communication technologies which customers, retail agents and banks use to record and communicate transaction details quickly, reliably and cheaply over vast distances. For example even in rural areas many poor people have access to low cost mobile phones and prepaid airtime dealers. For banks agent banking is used to reduce the cost of delivering financial services, relieve crowds in bank branches and establish presence in new areas. (Kumar et al .2006)

According to Chaia *et. al*. 2011 Correspondent (or agent) banking has become one of the most promising strategies for offering financial services in emerging markets. In this model, financial institutions work with networks of existing nonbank retail outlets such as convenience stores, gas stations, and post offices to deliver financial services. This approach can be especially powerful when serving the unbanked poor because of its ability to reduce banks costs and reach low income workers where they live. Agent banking benefits a range of stakeholders. The poor gain convenient access to financial services in their own communities. Financial institutions reach a vast new customer segment. Agents increase their sales volumes and have an opportunity to develop deeper relationships with the customer. However implementing correspondent strategies can be tough. It may be hard to build networks of partners that can fulfill the correspondent role. The economics are still uncertain for players that do not offer a range of services. And because the strategy is relatively new for financial service providers, it is difficult to know exactly what will work in each particular community.

According to Veniard, Bill and Gates Foundation 2010 in the article " how agent banking changes the economics of small accounts " one of the primary impediments to providing financial services to the poor through branches and other bank based delivery channels is the high cost inherent in these traditional banking methods. The amount of money expended by financial service providers to serve a poor customer with a small balance and conducting small transactions is simply too great to make such accounts viable. In addition when financial service providers do not have branches that are close to the customer, the customer is less likely to use and transact with their services. However we see the emergence of new delivery models as a way to drastically change the economics of banking the poor.

By using retail points as cash merchants (defined here as agent banking) banks can offer saving services in a commercially viable way by reducing fixed costs and encouraging customers to use the service more often, thereby providing access to additional revenue sources. Agent banking systems are up to three times cheaper to operate than commercial bank branches for two reasons. First, agent banking minimizes fixed costs by leveraging existing retail outlets and reducing the need for banks to invest in their own infrastructure. Second, acquisition costs are lower for agents. By using mobile phones linked to bank accounts they are able to acquire customers at less than 70 percent of the cost of a branch.

Costs are incurred only if transactions are realized. Agent banking systems receive a commission only if transactions are realized. On the other hand in a commercial bank branch, fixed costs are distributed over number of transactions resulting in significantly higher costs per transactions especially if the branch is under-utilized. As a result of lower transaction costs and a transaction driven revenue model, agent banking systems are more cost effective for transactional accounts with low balances and frequent transactions. Challenges to the profitability of agent banking by commercial banks include the following: it is believed that banks cannot rely on agents to cross sell financial products. As a result, in order to increase overall customer profitability, banks may need to incur additional costs in marketing and deploying sales forces, including branch employees, to cross sell additional financial products to agent customers. Back office and technology costs may vary depending on the delivery channel, since a bank may lean towards more complex and higher core banking systems because of increased regulatory requirements and more complex procedures and product offerings. (Mas et.al. 2008)

According to (http://www.afi-global.org/en/policy-solutions/agent-banking) in some countries banks have successfully expanded their outreach by engaging local agents or correspondents to offer their services. These local agents may be known and trusted retail outlets such as shops or post offices. Agents help reach more people in areas where commercial bank branches do not exist or by easing traffic at existing branches. Agents in a number of countries are now authorized to offer a broader range of financial services such as withdrawals, deposits and international remittances. Agent banking represents a significant opportunity to reduce transaction costs such as travel for clients by bringing financial services too hard to reach and geographically dispersed areas. Banks often do not have sufficient incentive or capacity to establish formal branches in these areas. The set up for agent bank is less costly and more flexible than for traditional commercial bank branches. It reduces the need to invest in staff and physical infrastructure.

2.4 Gaps of Literature Review

Since the year 2010 when Central Bank of Kenya issued guidelines on the operations of agent banking by financial institutions little is known about the adaptation and impact by commercial banks. Most of the reviewed studies are more concerned with adoption of competitive strategies by various firms and organizations. They are concerned with how competitive strategies impact the firms in various ways for example in terms of performance and profitability. In contrast this research will go further and analyze agent banking operations as a competitive strategy for Commercial banks in Kisumu city. The researcher will investigate if Commercial banks can adopt agent banking as a competitive strategy to enable Commercial banks to effectively survive the competition and retain the market niche. Specifically the study will investigate agent banking operations as a competitive strategy by commercial banks in Kisumu city in the following ways : to enlarge their market share by expanding access to banking services to the unbanked population through use of the infrastructure of non-financial retailers thus saving on capital investment in infrastructure. This reflects the cost leadership strategy. If Agent banking can be instrumental in reaching the poor unbanked especially in remote areas of the country and by it commercial banks will have an opportunity to focus on this particular clientele hence the study will explore agent banking being utilized as a focus strategy. This research will provide an investigation of agent banking as a competitive strategy for commercial banks in Kisumu city. This kind of information is vital in policy formulation to commercial banks in identifying and understanding the external environment and competitive strategy that can be applied to ensure both superior performance and survival.

2.5 Conceptual Framework

The study will focus on assessing functional relationship between a set of three variables against the resultant agent banking.

The independent variables are; reasons for commercial banks venturing into agent banking operations, technological advancement, and regulations put in place to guide agent banking operations, challenges faced by commercial banks when operating agent banking, and challenges faced by agent when operating agent banking. The intervening variables are competitive strategies, security on operations, customer awareness, and competition from the Telco'. The dependent variable being agent banking operations.

Independent Variables **Intervening Variables** **Dependent Variables**

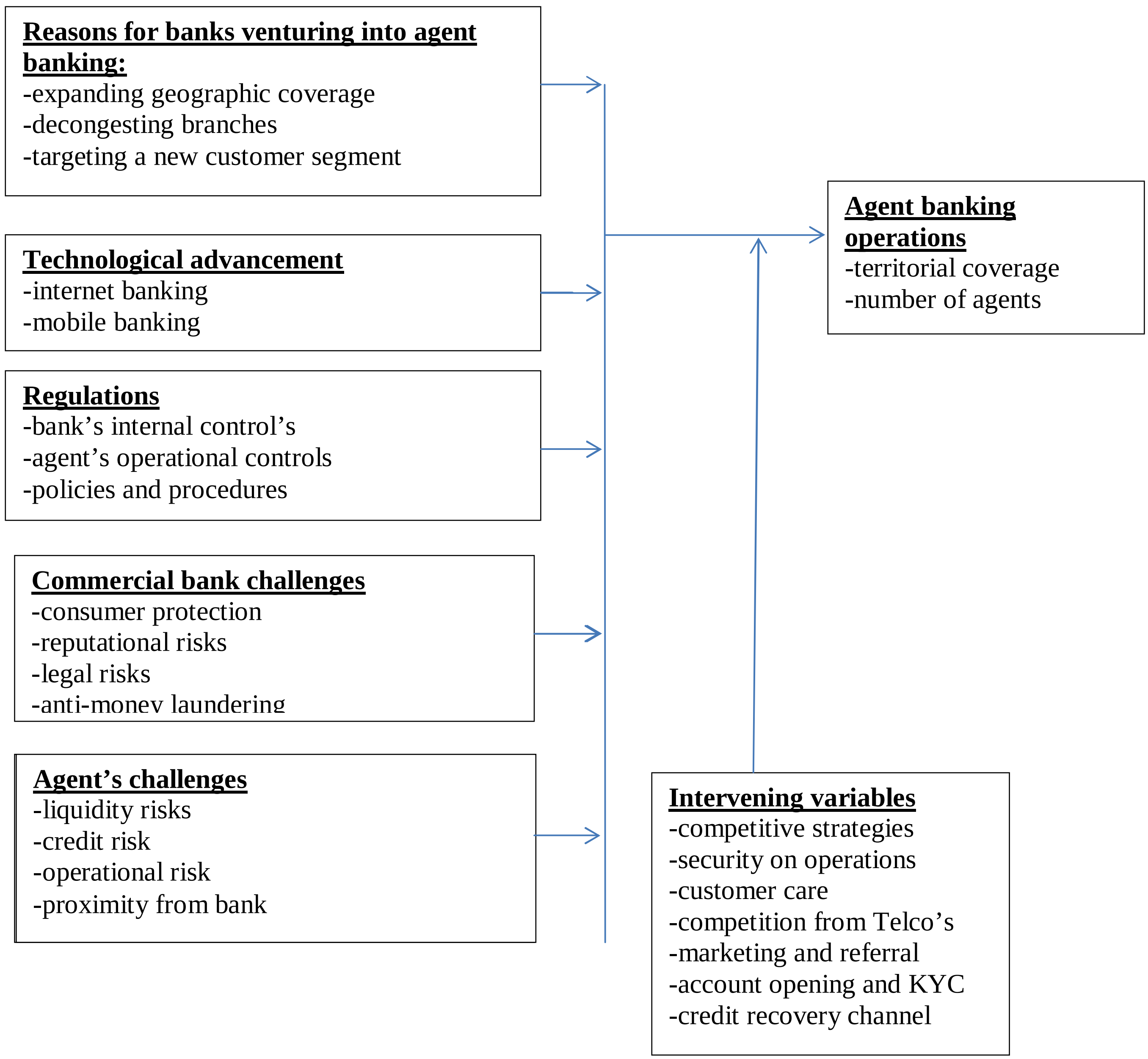

Figure 2.1: Conceptual Framework (Source: Researcher 2012)

3. Research Methodology

This chapter focuses on the scope of methodological procedures to be employed. These include research design, target population, sampling design, and data collection instrument and data analysis techniques.

3.1 Research Design

Research design refers to the way the study is designed, the method used to carry out a research (Kothari, 2004). The study used descriptive research which refers to the investigation in which data is collected and analyzed in order to describe the specific phenomena in its current trends, current events and linkages between different factors at the current time (Kothari, 2004). Descriptive research design was used because it enabled the researcher to generalize the findings to a larger population.

3.2 Target Population

Population can be defined as a complete set of individuals, cases, objects with some common observable characteristics of a particular nature distinct from other population. Target population is defined as the population to which a researcher will generalize the results of a study (Kothari, 2004). The population of the study constituted of the three Commercial Banks actively operating agent banking in Kisumu city which thus: KCB, Cooperative bank, and Equity bank and two which do not have agent banking operations. The bank managers in the commercial banks who comprised of the branch manager, the operations/service quality manager and the sales manager in each of the three banks, the heads of agent banking of the three commercial banks, and the bank agents in Kisumu city of the three commercial banks. (See table 1). A census was conducted on all the 73 respondents since the number is reasonable and accessible.

Table 3.1: The Sampling Frame

BANK	HEADS OF AGENT BANKING	NUMBER OF BRANCHES	NUMBER OF MANAGERS	NUMBER OF AGENTS
KCB	1	3	7	12
EQUITY	1	2	5	26
COOPERATIVE	1	2	5	9
BARCLAY	NIL	1	3	NIL
STANCHART	NIL	1	3	NIL
TOTAL	3	9	23	47

(Source: KCB 2012, EQUITY 2012, COOP 2012, BARCLAY 2012, STANCHART 2012.)

3.3 Data collection procedure

The study used both primary and secondary data. The primary data was collected by use of questionnaires. Questionnaires are commonly used to obtain important information about the population (Orodho, 2005) especially when the respondents can be reached. The secondary data was obtained from the concerned bank annual reports and publications. The questionnaire contained structured of close-ended questions and also a few open ended questions. Close ended questions were accompanied by a list of possible alternatives which respondents selected the answer that best describes their situations. The questionnaires were administered through drop and pick from the respondents.

3.4 Instrument, Validity and Reliability Testing

Prior to the main research a pilot study was done to verify the instrument for data collection i.e. establishes its validity and reliability. According to Mugenda and Mugenda (2003) a pretest sample is at least 10% of the population. A test questionnaire was administered to two branches of the commercial banks in Luanda town which neighbours Kisumu city as well as 10 bank agents from the three banks randomly selected from the same town. According to Mugenda and Mugenda (2003) subjects in the actual sample should not be used in the pilot study. This assisted the researcher in correcting ambiguities in the questionnaire and to establish their validity and reliability. Any modification and adjustment to the questionnaire was made after the piloting in preparation for the main research.

3.6 Data analysis

To analyze is to search and identify meaningful patterns in data. (Orodho, 2005) points out that analysis means, categorizing, ordering, manipulating and summarizing of data to obtain answers to research questions. The data collected was edited, coded, classified on the basis of similarity and then tabulated.

Being a descriptive study, descriptive statistics such as measures of central tendency, correlation analysis and chi square tests were conducted. Content analysis was also employed. Content analysis is described as a technique for the objective, systematic and quantitative description of the manifest content of a communication (Cooper and Schindler, 2003). The statistics were generated with the aid of Statistics Package for Social Sciences (SPSS). The findings were presented using tables, graphs, and percentages.

4. Data Analysis and Interpretation

4.1 Response Rate

This chapter deals with the return rate, reporting of data analysis and discusses the findings from data. The data involved the questionnaires received from respondents administered by the researcher. Data analysis was done according to research questions of the study and the findings was then considered and discussed. This research was conducted with a view to investigate agent banking operations as a competitive strategy for commercial banks in Kisumu city. It established the reasons for Commercial banks venturing into agent banking, the challenges faced by the Commercial banks in agent banking operations, the challenges faced by the Commercial bank agents in operating agent banking, the measures put in place by Commercial banks to regulate the activities of their agents. The respondents' questionnaires were the main instrument of the study. The questionnaires were given to the respondents which were duly completed and returned.

4.2 Reasons for commercial banks venturing into agent banking operations

In all the 5 banks sampled, the study established that the commercial banks had ventured into agent banking operations to achieve the following objectives : to increase territorial coverage, to decongest or ease traffic in their existing bank branches, to reach the poor marginalized unbanked, and other reasons included to increase sales on loans and other borrowings.

4.3 Factors that have facilitated adoption of agent banking operations

Major factors established to have contributed to the successful operations of agent banking in most of the banks is technological advancement. Other factors are policies and procedures and control issues. Table 4.1

Table 4.1 factors that have contributed to the successful operations of agent banking

Factor	**Frequency**	**Percentage**
Technological advancement	11	39.3
Policies and procedures	10	35.6
Control issues	7	25.1
Total	28	100

4.3.1 Technological advancement

In all the 5 banks sampled, the banking systems at present are automated at 97%. Only one bank uses both automated and none automated systems of banking. Efficiency of technology advancement as implemented by the banks is mainly rated as electronic and highly efficient. In 82.4% of the banks, the managers rate the technology as highly efficient; in 2.9% of the banks the managers rate technology as manual and highly efficient; in 11.8% of the banks the managers felt the technology is electronic though is not efficient.40% of the agents rated the technology of electronics as highly efficient and 55% felt the technology is electronic though not efficient.

4.3.2 Policies and procedures

In all the 5 banks sampled, the study established that 60% of the banks have adopted agent banking operations and have put in place policies and procedures that monitor agent banking activities such as till allocation to monitor cash flow by the agents,

4.3.3 Preparation of agents to perform agent banking operations

To perform agent banking operations majority of the agents (91.2%) are prepared. In all the 5 banks sampled, (8.8%) of the agents were however not prepared. The agents are prepared mainly through trainings. Other preparations include use of manuals, internal memos, instructions, and workshops as shown in the table 4.2;

Table 4.2 Preparation of agents to perform agent banking operations

Ways of preparation	**Frequency N=34**	**Percentage**	**Ranks (1 – most preffered)**
Trainings	30	88.2	1
Use of manuals	20	58.8	2
Internal memos	19	55.9	3
Instructions	16	47.1	4
workshops	15	44.1	5
On line communication	13	38.2	6

This implies that majority of the banks use trainings as a way of preparing agents to carry out agent banking operations.

4.4 Challenges of agent banking operations

4.4.1 Challenges likely to be encountered by bank agents in regard to agent banking operations

In all the 5 banks sampled**,** bank agents view challenges likely to be brought about by agent banking operations as various risks. 5.90% of the bank agents are of the opinion that agent banking operations result in liquidity risk; 20.60% felt that there is a mild increase in credit risk; 73.50% felt there is the operational risk.

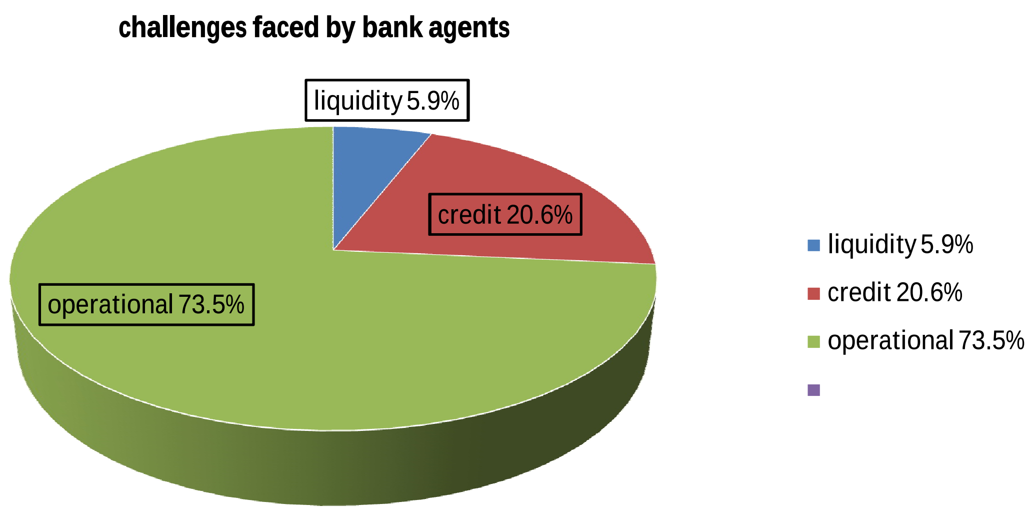

Figure 4.1 Challenges faced by bank agents

4.4.2 Challenges likely to be encountered by commercial banks in regard to agent banking operations

In all the 5 banks sampled the commercial banks are likely to encounter challenges in agent banking operations as follows: Reputational risk at 16.6%; some retail agents underperformed and some have been robbed, and as a result the bank's public image suffered. This operational risk mentioned has caused reputational risk, and liquidity shortfalls in the retail agent's cash drawer. Consumer protection, including resolution of consumer grievances at 73.5%. Use of retail agents is likely to increase the risk that customers are unable to understand their rights and press claims when aggrieved. Customers are protected against fraud by laws and regulations. But it is not clear to customers how they are protected against fraud when they use retail agents to conduct financial transactions. For instance it may not be obvious whether the customer should hold the bank or its retail agents liable if they suffer a loss.Anti – money laundering and combating financing of terrorism (aml/cft) at 5.9%. Whenever account opening and transaction processing is outsourced to retail agents aml/cft regulations generally require agents to conduct some aspects of customer due diligence and suspicious transaction reporting. The bank bears the risk that customers are improperly identified and that they use the retail agent to launder money or channel funding to terrorists. Legal risk at 4% whereby financial service providers have invested in a new delivery model they can predict and manage how relevant laws, regulations and legal agreements will be applied and enforced and how these things may change over time.

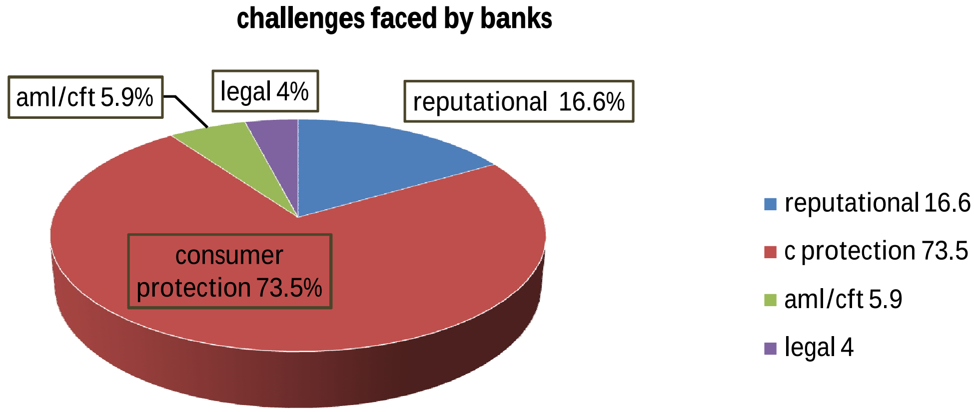

Figure 4.2 challenges faced by banks

5. Summary, Conclusion, And Recommendation

5.1 Summary

The objective of the study was to investigate agent banking operations as a competitive strategy for commercial banks in Kisumu city. From the research findings it was revealed that the 3 commercial banks in Kisumu city that had engaged in agent banking operations had achieved expansion in geographic coverage, during peak periods like when schools are opening it was noted that the banking halls were not congested compared to the 2 that do not engage in agent banking operations, and increase in customer numbers had been experienced from the agents. The technological advancement had enabled adoption of agent banking operations by the commercial banks. The three commercial banks engaged in agent banking operations have embraced internet banking and mobile banking and on these platforms have rolled out agent banking operations. The three commercial banks engaged in agent banking operations apply tight controls, measures and regulations to govern agent banking operations. Each of the three commercial banks has internal control's put in place to monitor the operations of the agents, they have laid down procedures and policies, and on the other hand the agents too have their own individual operation procedures.

The commercial banks have encountered challenges in agent banking operations as follows: Reputational risk; some retail agents have underperformed and some have been robbed, and as a result the bank's public image has suffered. This operational risk mentioned has caused reputational risk, and liquidity shortfalls in the retail agent's cash drawer. Consumer protection, including resolution of consumer grievances. Use of retail agents has increased the risk that customers are unable to understand their rights and press claims when aggrieved. Customers are protected against fraud by laws and regulations. But it is not clear to customers how they are protected against fraud when they use retail agents to conduct financial transactions. For instance it may not be obvious whether the customer should hold the bank or its retail agents liable if they suffer a loss. Anti – money laundering and combating financing of terrorism (aml/cft). Whenever account opening and transaction processing is outsourced to retail agents aml/cft regulations generally require agents to conduct some aspects of customer due diligence and suspicious transaction reporting. The bank bears the risk that customers are improperly identified and that they use the retail agent to launder money or channel funding to terrorists. Legal risk whereby financial service providers have invested in a new delivery model they can predict and manage how relevant laws, regulations and legal agreements will be applied and enforced and how these things may change over time.

The agents have also encountered challenges in providing banking services and the challenges include : Liquidity risk is whereby retail agents especially those that are relatively small, unsophisticated, and remote, may not have enough cash to meet customers' requests for withdrawals and may lack experience in the more complex liquidity management required for offering financial services.

To manage liquidity effectively, retail agents must balance several variables, including turnover cash, ease of access to the retail agent's bank account, and processing time of transactions, among others. Credit risk is the risk that one party to a financial transaction will not receive the money he is owed when it is due. When banking transactions do not settle immediately and when additional parties are interposed between the customer and the bank, opportunities for credit risk multiply. For example when a customer makes deposit at a bank branch she receives a deposit receipt immediately and can be fairly certain that the funds will be credited to her account and will be available for withdrawal when desired. But when a customer makes a deposit through retail agents even if she receives a receipt immediately she bears the risk that the transaction is not communicated to the bank. On the other hand when the retail agent processes a cash withdrawal for a customer, it is the retail agent who takes the credit risk – the risk that the bank will not reimburse him the cash disbursed from his till. Operational risk refers to potential losses resulting from inadequate or failed internal processes, people, and systems or external events. For example fraud can be committed, bank equipment can be stolen, data leaks and loss from hacker attacks, inadequate physical or electronic security, or poor backup systems.

5.2 Conclusion

The findings of the study have shed light to draw pertinent conclusions about agent banking operations as a competitive strategy for commercial banks in Kisumu city. The control policies and procedures, technological advancement, and regulations put in place both by the agents and commercial banks have made agent banking operations viable. However the challenges faced by commercial banks in operating agent banking operations such as reputational risk, anti money laundering, consumer protection and legal risk. The agents on the other hand encounter challenges such as liquidity risk, operational risk, and credit risk. The commercial banks should put in place mechanisms when planning and implementing agent banking operations as a competitive strategy that can mitigate this risks that are brought about by agent banking operations.

5.3 Recommendations

A number of issues arose during the study that leads to the following recommendations: for agent banking operations to be effective as a competitive strategy for commercial banks strong internal control system should be put in place which should be flexible to be evaluated periodically. There should also be frequent updates of policies and procedures used in the industry by Kenya Bankers Association in consultation with the Central Bank of Kenya. Frequent audit should be carried out on the bank system and automation of all processes at least quarterly to determine any loopholes that should be sealed. Lastly the management of commercial banks has to train their staff and the agents regarding agent banking operations at least quarterly.

5.4 Areas for Further Study

The scope of this study was limited to agent banking operations as a competitive strategy for commercial banks in Kisumu city. During the study, it was noted that more commercial banks country wide have embraced agent banking operations and various competitive strategies. It would be worthwhile to study agent banking operations as embraced by the other commercial banks not captured in this study as well as the other competitive strategies in use.

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APPENDICES

Appendix I

Letter of Introduction
DEAR RESPONDENT
DATE: _____________________

DEAR SIR / MADAM,

RE: CONDUCTING ACADEMIC RESEARCH IN YOUR ORGANIZATION

My name is NEFA CHITELI. I am a student of the Kenyatta University in the School of Business studies pursuing a Master of Business Administration. My admission number is D53/OL/16198/2006.

I have identified your organization as a source of the required data to assist in the study of the investigation of agent banking operations as a competitive strategy for commercial banks in Kisumu city.

I am writing to introduce myself and request your endorsement during data collection process. Data will be used for study purposes only and respondents' confidentiality is highly assured.

Thank you for your cooperation,
Yours faithfully,
Nefa Chiteli

Appendix II

Questionnaire

This questionnaire seeks to collect information on agent banking operations as a competitive strategy of commercial banks in Kisumu city. Please provide information frankly and honestly. All information received will be treated confidentially and used for academic purposes only.

Section A:

1. Name of the bank ……………………………………………..
2. Year of incorporation ……………………………………………………
3. Respondent job category (please select one)
   Commercial bank manager [ ] Head of Agent banking operations [ ]
4. Give the number of retail agents your bank operates in Kisumu Municipality (Tick as appropriate)
   a. 2 – 10 branches [ ]
   b. 11 – 20 branches [ ]
   c. 21 – 30 branches [ ]
   d. Above 30 branches. [ ]
5. Please indicate your gender, Male [ ] Female [ ]
6. What is the ownership category of your bank?
   a. Foreign owned
   b. State owned
   c. Private owned
   d. Other (specify)

Section B:

7. Has your bank adopted agent banking?
Yes [ ] no [ ]
8. What caused your bank to venture into agent banking?
   a. Increase territorial coverage
   b. Decongest branches
   c. Reach the poor marginalized unbanked
   d. Others (specify)

9. What are the factors that have contributed to the successful operations of agent banking by your bank? Rank in a Likert scale of 1 – 4 where 1 is very important, 2 is fairly important, 3 is important, 4 is not important,

a) Technological advancement [1] [2] [3] [4]
b) control issues [1] [2] [3] [4]
c) policies and procedures [1] [2] [3] [4]
d) others (specify)

9. How could you rate the efficiency of technological advancement as regards agent banking operations by commercial bank agents?

a) Electronic and highly efficient [ ]
b) Electronic and inefficient [ ]
c) Manual and highly efficient [ ]
d) Manual and inefficient [ ]
e) Others (specify)

10. In your opinion what has been the impact of operating agent banking on your bank?Rank in a Likert scale of 1 – 4 where 1 is very important, 2 is fairly important, 3 is important, 4 is not important,

a) Increase in customer numbers [1] [2] [3] [4]
b) Decongestion of bank branch [1][2] [3] [4]
c) Increase in network coverage [1][2] [3] [4]
d) Others (specify)

Section C:

11. Which of the following risks does your bank encounter because of operating agent banking?Rank in a Likert scale of 1 – 4 where 1 is very important, 2 is fairly important, 3 is important, 4 is not important,

a) Operational risk [1][2] [3] [4]
b) Liquidity risk [1][2] [3] [4]
c) Reputational risk [1][2][3] [4]
d) Legal risk [1][2][3] [4]
e) Others (specify)

12. Has your bank been involved in preparing agents to perform banking duties?

Yes [ ] no [ ]

If your answer is yes in 12above, how has your bank prepared the agents? Rank in a Likert scale of 1 – 4 where 1 is very important, 2 is fairly important, 3 is important, 4 is not important,

Manuals [1] [2][3] [4] trainings [1][2][3][4]

Workshops [1][2][3][4] instructions [1][2][3][4]

13. What challenges are encountered by your bank from the agents while operating agent banking? Rank in a Likert scale of 1 – 4 where 1 is very important, 2 is fairly important, 3 is important, 4 is not important,

a) Remote placement of retail agents [1][2][3][4]
b) Lack of professionalism when handling bank customers [1][2][3][4]
c) Bank standard operating procedures not adhered to [1][2][3][4]
d) Difficulty in cross-selling other existing bank products[1][2][3][4]
e) Others (specify)

14. What challenges do the agents encounter in operating agent banking?Rank in a Likert scale of 1 – 4 where 1 is very important, 2 is fairly important, 3 is important, 4 is not important,

a) Untrained staff [1][2][3][4]
b) Inadequate cash in the agents till [1][2][3][4]
c) System failures [1][2][3][4]
d) Data loss [1][2][3][4]
e) Others (specify)

15. What does your bank consider when approving an agent banking application? Tick as appropriate

a) Location of the outlet [ ]
b) Business registration [ ]

c) Analysis of bank statement [ ]
d) Existing as a bank customer [ ]
e) Education qualification of existing staffs [ ]
f) Others (specify)

16. How does your bank handle customer complaints from the bank agents?
a) Customers channel complaints through a given phone number [ ]
b) Provide a suggestion box [ ]
c) Give feedback forms [ ]
d) Others (specify)

17. What other comment would you add to the study of agent banking as a competitive strategy for commercial banks in Kisumu city?

Appendix III

Questionnaire for agents

Section A:

1. Name of the bank the agent operates under……………………………………………..
2. Please indicate your gender, Male [ ] Female [ ]

3. What are the factors that have contributed to the successful operations of agent banking? Rank in a Likert scale of 1 – 4 where 1 is very important, 2 is fairly important, 3 is important, 4 is not important,
a) Technological advancement [1][2][3][4]
b) control issues [1][2][3][4]
c) policies and procedures [1][2][3][4]
d) others (specify)

4. How could you rate the efficiency of technological advancement as regards agent banking operations?
a) Electronic and highly efficient [ ]
b) Electronic and inefficient [ ]
c) Manual and highly efficient [ ]
d) Manual and inefficient [ ]
e) Others (specify)

Section B:

5.Which of the following risks does your bank encounter because of operating agent banking? Rank in a Likert scale of 1 – 4 where 1 is very important, 2 is fairly important, 3 is important, 4 is not important,
a) Operational risk [1][2][3][4]
b) Liquidity risk [1][2][3][4]
c) Reputational risk [1][2][3][4]
d) Legal risk [1][2] [3][4]
e) Others (specify)

6. Have you been prepared by the bank to perform banking duties?

Yes [ ] no [ ]
If your answer is yes in 6 above, how has the bank prepared the agents? Rank in a Likert scale of 1 – 4 where 1 is very important, 2 is fairly important, 3 is important, 4 is not important,
Manuals [1] [2][3][4] trainings [1][2][3][4]
Workshops [1][2][3][4]instructions [1][2][3][4]

7. What challenges are agents encountering in operating agent banking? Rank in a Likert scale of 1 – 4 where 1 is very important, 2 is fairly important, 3 is important, 4 is not important,
a) Untrained staff [1][2][3][4]
b) Inadequate cash in the agents till [1][2][3][4]
c) System failures [1][2][3][4]
d) Data loss [1][2][3][4]
e) Others (specify)

8. In your opinion what has been the impact of operating agent banking on your business?
   a) Increase in customer numbers [ ]
   b) Customer loyalty [ ]
   c) Good reputation [ ]
   d) Others (specify)

8. Please provide any other information that may be important to this study

Appendix IV

List of Commercial Banks in Kisumu city operating Agent Banking

1. Cooperative Bank of Kenya
2. Equity Bank
3. Kenya Commercial Bank

(Source: CBK Bank Annual Report, (2010)

Appendix V

List of Agents In Kisumu City

Kcb Bank

1. Dubbz Enterprises
2. Jodeo Supplies
3. Nyatama Construction Company
4. Andrew Nyerere
5. Jacob W Otieno
6. Lleds Kenya Ltd
7. Migori Auto Spares
8. Phepes Computers & Stationers
9. Eunice AtienoOnyalo
10. John O Ogonda
11. Titanic Caretakers
12. William M Olusala

Equity Bank

1. Alice Nanzala - bus park
2. Blueseal dry cleaners
3. Dominic oduor – kibuye market
4. Douglas Oduor – kaloleni
5. Elizabeth Awuor
6. EmillyAdhiambo – Jua kali
7. Eunice Were – Kondele
8. G4S
9. Geneva guest house – kondele
10. Humphrey siele – kibos
11. IrineMokeira – Kisumu
12. Jackline – manyatta
13. Jennifer olala – kibuye
14. Joel otieno – kondele
15. John odera- bus park
16. Kenneth rotich – carwash
17. Lleds Kenya ltd – Kisumu
18. Maurice ondiek – chiga
19. Mobiwa connections – Kisumu
20. Nicholas otieno – dunga beach
21. Nyanza gulf pharmacy – manyatta
22. Peter onyango – otonglo

23. Pheleciaomuullo
24. Samorco emporium – kondele
25. Sbenterauma - kachok
26. Sibuoche enterprises - whitegate

Cooperative Bank

1. Lleds
2. Rift pharmacy
3. Rajope construction
4. Tell – Tell investments
5. Vivid focus – milimani
6. Vivid focus – Nairobi road
7. Vivid focus – carwash
8. Eunice atieno
9. Felicahomullo

(Source: KCB 2012, EQUITY 2012, COOP 2012.)

Appendix VI: Budget

	QUANTITY	**UNIT COST** KSHS	**TOTAL COST** KSHS
STATIONERY			
LASER PAPERS	10 Reams	400	4000
WRITING PADS	10	100	1000
FLASH DISKS	3	2000	6000
PHOTOCOPYING SERVICES AND INTERNET TIME			10000
PRINTING	Proposal and final paper	20 per page	15000
DATA ANALYSIS			14000
TOTAL			**50000**

Appendix VI: Work Plan

		WEEK						
		1	2	*3*	*4*	*5*	*6*	*7*
ACTIVITY	INSTRUMENT VALIDATION-PILOT TESTING							
	ACTUAL DATA COLLECTION							
	DATA PROCESSING							
	DATA ANALYSIS & INTERPRETATION							
	REPORT WRITING							
	REPORT SUBMISSION							