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SECURITY IN AGENCY BANKING ON GROWTH OF COMMERCIAL BANKS IN BUNGOMA COUNTY, KENYA

Mukambi, S. W.,[*1] Wanyama, K. W.,[2] & Okumu, A. W.[3]

[*1]Master Student, Department of Business Administration and Management, Kibabii University,[KIBU], Kenya

[2] Ph.D, Senior Lecturer, Department of Business Administration and Management, Kibabii University, [KIBU], Kenya

[3] Ph.D, Senior Lecturer, Department of Business Administration and Management, Cooperative University of Kenya [CUK], Kenya

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ABSTRACT

The extent to which agency banking can be used as a tool for growth of commercial banks remains largely unstudied. The purpose of this study was therefore to establish the effect of security in agency banking on growth of commercial banks in Bungoma County. The research adopted Theory of Financial Intermediation, Agency Banking Theory and conceptual framework. A descriptive survey design was used. The population of the study comprised of eight commercial banks operating agency banking in Bungoma County. The study embraced census method since the population was sufficiently small. Data was collected using questionnaires. Reliability and validity of the research instruments was determined through test and retest techniques on the piloted sample, which yielded an alpha of 0.7808. The study used both the descriptive and inferential statistical tools to analyse collected data. Analysed data analysis was presented in form of frequency tables. Results revealed statistically significant and positive effects of security in agency on the growth of commercial banks. The study concluded that increase in security would lead to more growth of commercial banks; a unit increase in bank support would lead to the growth of commercial banks and increase in liquidity would lead to increase in the growth of commercial banks. The following were the recommendations: Security should be enhanced in commercial banks and in agency banking by ensuring enough security measures being put in place to safeguard the customers' and agents funds. Banks should invest more in reliable security systems that are not easily compromised. The study intended to help commercial bank policy makers in identifying the key challenges involved in agent banking operations and come up with strategies that would lead to improve the growth of the commercial banks in Kenya.

Key Words: *Security in Agency Banking, Growth of Commercial Banks, Bungoma County*

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INTRODUCTION

Globally, it is estimated that close to 400 million people currently do not have a bank account in a formal way (Cetorelli & Goldberg, 2012). 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 & Mandrile, 2009). According to Dondo (2003) agency banking is not new in the world. It has been used very well in Latin America and Asia. The trend of agent banking is evident in many nations all over the globe, 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 specialized Micro Finance Institutions (MFI), including non-profit organizations (NGO), cooperatives, and for profit companies as retail agents. The circular calls these agents business correspondents. In South Africa, branchless banking through retail agents is permitted only for licensed financial institutions (Harper *et al.*, 2006). Brazil has successfully implemented agent banking to a large extend. Large scale introduction of 'banking correspondents' to distribute welfare grants to unbanked Brazilians especially in rural areas, was accomplished by agents. Other countries that have adopted agency banking include Bolivia, Columbia, India, Mexico, Pakistan, Peru South Africa, Ghana, Nigeria and Kenya.

The origin of agency banking can be traced back to 2009 budget and was enshrined in the Finance Bill of 2009. Agency banking takes customers out of the bank halls to kiosks and villages (Nganga and Mwachofi, 2013). Investors have pumped billions into new platforms that offer agency banking services (Mulupi, 2011). Among the platforms are M-Kesho and 24/7 from Equity bank, Tangaza and Mobikash of MobiKash Afrika Limited, Co-op kwa Jirani of Co-operative bank among others. Given that more Kenyans without bank accounts will gain access to mobile banking services, transaction fees charged to mobile banking customers have reduced. One notable feature mobile platforms share is that their agents also serve as banking agents (Mulupi, 2011). 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 ran 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).

For many years, the banking sector could not reach all the corners of the county. It was expensive to establish branches. With the new innovation, they do not have to; they only need to find an appropriate agent. This helps the banks to increase their customer base. Market share is the percentage of an industry or market's total sales that is earned by a particular company over a specified time period. Market share is often associated with profitability and thus many firms seek to increase their sales relative to competitors. Market share is calculated by taking the company's sales over the period and dividing it by the total sales of the industry over the same period. This metric is used to give a general idea of the size of a company to its market and its competitors. Market share increases can allow a company to achieve greater scale in its operations and improve profitability. Companies are always looking to expand their share of the market, in addition to trying to grow the size of the total market by appealing to larger demographics, lowering prices, or through advertising (Mwando, 2013).

Research has shown that only 22.6% of the adult population had a bank account (Safaricom, 2011),

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while the Financial Sector Deepening Report of 2010 indicates that only 19% of adult Kenyans have access to a formal and regulated financial services while over a third (38%) have completely no access to even the most rudimentary form of informal financial services. This leaves about 75% outside the orbit of the reach of the mainstream banking. According to the National Financial Access Survey (2009), 32% of Kenya's bankable population remains totally outside the orbit of financial services and many more are being served by the informal financial system. This necessitated the Central Bank together with the Kenya Bankers Association to commission agency banking in Kenya in April 2010 with an aim of deepening financial access and inclusion. The main objective of agency banking is to take the financial services closer to the people who in turn ought to have a direct impact on the socio economic welfare of the people through modernized saving and access to loan facilities to boost business and agriculture.

Furthermore, the Kenya Bureau of Statistic Report (KBS, 2011) further emphasizes that more than seven (7) million adult rural Kenyans are either under-banked or unbanked. This is partly because of the high cost of maintaining the bank branches and the low nature of business transactions in rural Kenya - a situation which makes opening of new branches in the rural areas a less productive venture. Banks and other financial institutions which have traditionally relied on physically established branches to provide banking services are now gearing towards the adoption of mobile banking services (MBS) as a form of branchless banking. This has the consequence of lowering cost of banking (Mwando, 2013). Technology has therefore created greater opportunities to service providers to offer great flexibility to the customers. To this end banks are fast developing branchless banking such as ATM, internet and mobile banking among others (Laukkanen & Pasanen, 2007).

Lyman *et al*. (2006) indicate that protecting client funds is priority for many financial regulators under agency banking, as loss of funds can have serious consequences for customers, as well as for public confidence in financial systems. Therefore, agency banking needs to be regulated and banks should comply with prudential rules created to ensure systematic stability and depositor protection. Countries with the most prominent branchless banking models have taken varied approaches to handling and protecting client's funds. Hence, although agency banking is a bank based model, it has different regulatory treatment from the branch banking (Collins, 2010). Studies have indicated that agency banking has been able to improve the lives of many Kenyans and also improved the structure of the banks. Agents have taken the role of being the intermediaries between the clients and the banks so as to bring efficiency to the banking sector and to make sure that more under banked and unbanked Kenyans have access to financial services.

Though the distance which the entrepreneurs and customers take to bank their cash is shorter, insecurity should be a big concern to the entrepreneur, customer and the bank. Security around the agent entrepreneurs should be enhanced. The security level also influences the amount of cash which can be kept by the agent entrepreneurs at any given point hence affects their performance (Kemunto, 2013). Society depends on computer systems. Interactions in business and with the government are often carried out over the Internet, and even social networks are moving online. While people get convenient access to important services around the clock, great challenges also emerge in terms of security and privacy (Vutsengwa, 2013) Security concerns in agency banking include the security of the systems in place and the physical location of the agent. Customers are more comfortable to transact in a secure environment and also have their bank details safe. As a branchless banking service grows, agents attract increasing interest from criminals. One aggregator for M-PESA reports that 10 percent of agents were robbed in 2009. In Brazil, 93 percent of agents interviewed by CGAP report that being an agent increases the risk of being robbed, and 25 percent say they have been robbed at least once during the past three years (Cracknell, 2010).

According to Bold (2011) in Brazil found that some countries restrict the location of agents which at times becomes an obstacle to financial inclusion. Initially due to concerns that agents could threaten bank branches, Brazillian regulatory originally restricted agents only to municipalities that did not have bank branches. Experience has shown that overly restrictive location requirements can complicate business case for viable agent-based banking and ultimately work against financial inclusion goals. Real time nature of most of the agent services has enabled remote supervision, thereby obviating one of the central arguments for location restrictions. These regulations often impose some form of fit and proper requirements, mandating a form of agent due diligence that requires financial institutions to verify that aspiring agents are reputable and have no criminal records and that they have the finances to sustain the agents. These regulations usually attract extra costs which hamper the growth of agency banking thus affecting financial performance of banks.

Statement of the Problem

For many years, the banking sector could not reach all the corners of the County. It was expensive to establish branches. With the new innovation, they do not have to; they only need to find an appropriate agent. This helps the banks to increase their customer base through greater market reach and expanded geographical reach (Kitaka, 2001). Through agency banking, huge savings have been made by banks in terms of construction cost and leasing cost. The banks are now able to minimize on expansion by way of new branches and increase on their agents and also improve their innovation so as to come up with services unique to agency banking but also available in the main banks. The banks have also reduced on human resource expenses as they do not have to hire agents and training costs are minimal. Agency banking has made the banking services accessible to customers. Clients do not have to travel long distances to access the simple services of depositing and withdrawals of money. The unbanked individuals are also able to access the banking services with ease. It has become very convenient for customers who need to do late transactions like SME's (Mwangi, 2011).

People in the marginalized areas still put their savings under rocks or under mattresses. This in itself is risky and there is a possibility of easily being stolen or any other misfortune. According to the National Financial Access Survey (2009), agency banking has enabled these people to open accounts and continue to enjoy some banking services from the agents. This has improved the culture of savings and investment. According to the EFIA (2011), commercial banks, microfinance institutions and other financial institutions establish branches in urban centers leaving out the rural areas which exclude a significant population from accessing financial services yet about 79% of Kenya's population live in rural areas. According to Mulupi (2011), agency banking is being used by banks to take their services to the unbanked and under banked at a cheaper rate and yet this not reached the rural areas. The aim of agency banking should take customers out of the banking halls to kiosks and villages in their neighborhood. Mulupi (2011) again notes that the mobile platforms are expected to yield economic growth due to increased access to financial services by the unbanked and under banked because of elimination of barriers of access, time and cost. Moreover, Aduda *et al*. (2012) allude that despite the growth of agency banking in Kenya, research into the field remained scanty. Statistically, this is not exactly what is happening currently as banks are still crowded with long queues. This makes the banks to spend a lot of time serving these retail customers who could easily get the basic bank services from agents and allow banks to have more time to deal with their high net worth clients and small and medium entrepreneurs (SMEs). Some agent operators lack consistency in their operations. Either they are not fully operational or closed most of the time and for those whose doors are open, some only concentrate on their businesses and turn away customers to seek the banking services elsewhere. It is in light of these underlying issues that the researcher intended to establish the effects of agency banking on the growth of commercial banks in Bungoma County.

LITERATURE REVIEW

Theory of Financial Intermediation

Theory of Financial Intermediation was fronted by Allen and Santomero (1996). Intermediation involves the "matching" of lenders with savings to borrowers who need money by an agent or third party, such as a bank. If this matching is successful, the lender obtains a positive rate of return, the borrower receives a return for risk taking and entrepreneurship and the banker receives a return for making the successful match. If the borrower's speculative play with the depositor's funds does not pay off, the depositor can lose the savings borrowed by the borrower and the bank can face significant losses on its loan portfolio. The skill of identifying potential successful new entrepreneurs who can take market share off competitors or develop whole new markets is one of the most vital (and intangible) skills any banking system can possess.

In the traditional Arrow Debreu model of resource allocation, and households interact through markets and financial intermediaries play no role. When markets are perfect and complete, the allocation of resources is Pareto client and there is no scope for intermediaries to improve welfare. Moreover, the Modigliani Miller theorem applied in this context asserts that financial structure does not matter: households can construct portfolios which offset any position taken by an intermediary and intermediation cannot create value (McDonald, 2011).

Agency Banking Theory

Consistent with Meckling and Jensen (2000), agency relationship agreement exists among one or more individuals-the principal (s) and some other individual (agent) to carry out some service on their behalf, which entails delegating some decision making authority to the agent. Agency Theory evolution additionally owes much to the corporate governance literature, which analyzes the hassle of separation of ownership and control (Grabling *et al*., 2004. The principal- agent conflict is illustrated in agency theory, wherein principal (owner) lacks motives to accept as true with their agents (managers) because of information asymmetries and contradictory reasons (Hillebrandt, 2000). The primary proposers of the agency theory have been the scholars Mitnick and Ross (2006) of their working paper series university of Pittsburg they proposed that, a concept of agency be created and to absolutely begin its advent, independently and more or less simultaneously. Ross is chargeable for the foundation of the economic theory of agency, and Mitnick for institutional theory of agency. This concept is anchored to give an explanation for the influence of managers in permitting or proscribing access to document as well as permitting reporting framework that guarantees confidentiality, privatization and effectiveness of working with agency banking.

Empirical Review

Research by Curran and Meuter (2005), however, have shown that the confidentiality element may act as a positive force so that feeling comfortable about providing personal information through electronic banking system positively influences internet banking. Kaynak and Harcar (2005), noted that the desire for personal face to face service has been identified as a key reason for consumers not using internet banking , however over 50% of respondents in a study indicated lack of face to face contact did not discourage them from adopting internet banking. Further, according to Curran and Meuter (2005), found that need for interaction did not predict attitude towards internet et al. (2003), the importance attached to face to face contact positively predicted the importance of using internet banking.

Mwangi (2011) did a research on the evaluation of the role of agency banking in the performance of commercial banks in Kenya. Results illustrate that some of the effects of regulations on the performance of commercial banks in Kenya attributable to agency banking were influenced by board of directors and executive management, accountability and quality control.

It was further revealed that infrastructure cost and security influence the financial performance of commercial banks attributable to agency banking to a great extent. It was recommended that agency banking should be given more attention on security measures including risk based approach and that the banks should find better ways of screening their agents to ensure that the large cash transactions handling is effectively carried out on their behalf. It also recommended that banks should find other services other than money transfer only to improve their performance through agency banking which include: secure operating systems capable of carrying out real time transactions, generating audit trail and protecting data confidentiality and integrity.

METHODOLOGY

This study employed descriptive survey design. The study was carried out in Bungoma County. Target population included the bank managers in the commercial banks comprising of the branch managers, the agent supervisors and the bank agents in Bungoma County. A census was conducted on all the 46 respondents since the number was reasonable and accessible. The study used the questionnaires to collect data collection. Three (3) bank managers, three (3) agent supervisors and the three (3) bank agents from Kenya Commercial Bank, Cooperative bank, and Equity bank in Kakamega County were used during pilot study. The three forms of validity, that is, content, face and construct were established through pilot testing where the responses of the subjects were checked against the objectives.

The pilot study assisted the researcher in correcting ambiguities in the questionnaires. Modifications and adjustments to the questionnaire were made on the questionnaires after the piloting in preparation for the main research. Reliability analysis carried out that yielded an alpha value of 0.7808. Analysis involved the use of both descriptive and inferential statistics. Descriptive statistics used mainly the means and standard deviations; while inferential statistics employed linear regression analysis. Regression analysis was used to test levels of significance and strength of relationship among study variables. Inferential statistics were used to test research hypotheses at p-value of 5% (0.05) at confidence interval of 95%.

FINDINGS AND DISCUSSIONS

To measure the effect of security on the growth of commercial banks in Bungoma County, the questions in the questionnaires were scored based on a Likert Scale with strongly agree= 5, agree= 4, fairly agree=3, disagree=2 and strongly disagree=1 as shown in Table 1. Descriptive statistics for security in agency banking was as the following in terms of means and standard deviations: Security is a major concern in agency banking had a mean of 4.3409 and standard deviation of 0.86113; transactions are always secure and confidential at agent location had a mean of 2.6364 and standard deviation of 1.58615; customers feel secure while transacting at agent location had a mean of 4.182 and standard deviation of 1.0842; information security and confidentiality is highly maintained at agent location had a mean of 3.9773 and standard deviation of 1.15111 and the physical location of agents highly affects their operations had a mean of 4.2955 and standard deviation of 1.13259.

Table 1: Security in Agency Banking

Descriptive Statistics					
Questions	N	Minimum	Maximum	Mean	Std. Deviation
Security is a major concern in agency banking	44	1.00	5.00	4.3409	0.86113
Transactions are always secure and confidential at agent location	44	1.00	5.00	2.6364	1.58615
Customers feel secure while transacting at agent location	44	1.00	5.0	4.182	1.0842
Information security and confidentiality is highly maintained at agent location	44	1.00	5.00	3.9773	1.15111
The physical location of agents highly affects their operations	44	1.00	5.00	4.2955	1.13259
Valid N (list wise)	44				

Key: 5=strongly agree, 4= agree, 3= fairly agree, 2=disagree and 1=strongly disagree; Source: Field Data; n=44

It should be noted that out of these five (5) variables, only one (1) had a mean less than 3.0, an indication that the respondents were in agreement of the questions asked on security in agency banking; security plays a key role in the growth of agency banking in Bungoma County. This was because information security and confidentiality form the backbone of the banking industry where information leaks to the third parties is highly discouraged. Results from qualitative data revealed that Regional/Area Supervisors received a lot of complaints on the customer confidentiality and information security.

Regression coefficient (B), analysis of variance (ANOVA) and t-test were used to test the hypotheses tested at 0.05 % significance level, with 95% confidence, which is acceptable in social sciences and also to measure the strength of relationship between security in agency banking and growth of commercial banks. Results are as shown in Table 2. The second study tested the following null hypothesis:

H_0: There is no significant effect of security in agency banking on the growth of commercial banks in Bungoma County.

Table 2: Regression Results of Security in Agency Banking and Growth of Commercial Banks

Model Summary

R	R Square	Adjusted R Square	Std. Error of Estimate	Change Statistics	F Change	df1	df2
0.799[a]	0.638	0.588	0.77624	0.638	12.715	5	36

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	38.308	5	7.662	12.715	0.000[b]
Residual	21.692	36	0.603		
Total	60.000	41			

a. Dependent Variable: Growth of Commercial Banks

b. Predictors: (Constant): Security in Agency Banking

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta (r)		
(Constant)	1.182	0.872		1.356	0.000
Security in Agency Banking	0.728	0. 163	0.656	4.462	0.000

a. Dependent Variable: Growth of Commercial Banks

b. Predictors: (Constant): Security in Agency Banking

Significance level <0.05

Source: Field data, 2014

The test criterion was set such the study rejects the null hypothesis H_0 if $\beta_2 \neq 0$. Means of security in agency banking was regressed with mean of growth of commercial banks and the results were as shown in Table 2. Results showed that security in agency banking had a positive, linear and significant (p-value is less than 0.05) with the growth of commercial banks {regression coefficient, B=0.728, correlation coefficient, beta=0.656, ANOVA, F=12.715 and t-test value, t=4.462}.

The results were represented in the model:

$Y = \beta0 + \beta_1 X_1 + \varepsilon$

Where Y= growth of commercial banks,

$\beta0$= 1.182 (constant)

β_1= 0.728

X_1= security in agency banking

ε = error term

Replacing in the equation above, the model becomes: $Y= 1.182+ 0.656X_1+\varepsilon$

The results therefore clearly indicated existence of a statistically, positive and significant relationship between security in agency banking and growth of commercial banks in Bungoma County. Security in agency banking accounted for 63.8% (R^2 = 0.638) variations in the growth of commercial banks in Bungoma County. In the test criterion, the null hypothesis is accepted when the p-value is more than 5% (0.05) and the null hypothesis is rejected when the p-value is less than 0.05. From the results, the null hypothesis was rejected since a positive, linear and significant (p-value is less than 0.05) was established between security in agency banking and growth of commercial banks in Bungoma County.

The results were consistent with the findings by Curran and Meuter (2005) who observed that the confidentiality element may act as a positive force so that feeling comfortable about providing personal information through electronic banking system positively influences internet banking. One shortcoming of most of today's branchless banking system is that they provide security at the network layer only and do not implement any application layer cryptography.

CONCLUSIONS AND RECOMMENDATIONS

The effect of security on the growth of commercial banks was strong and significant (B = 0.728 ($p<0.05$). Unit increase of 0.728 of security would increase the growth of commercial banks. Therefore, increase in security would lead to more growth of commercial banks. Security should be enhanced in commercial banks by ensuring enough security measures being put in place to safeguard the customers' and agents funds. Banks should invest more in reliable security systems that are easily compromised.

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