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Effect of Agent Selection on Growth of Commercial Banks in Eldoret Town, Kenya

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Abstract:
The role played by agent banking in enhancing commercial banks' effectiveness cannot be underestimated. This study established the influence of agent selection on growth of commercial banks. The study was anchored on growth theory, Diffusion of Innovation Theory and Institutional Theory. The explanatory research design adopted. Target population were 1230 agency banking officers. The sample size was 162 agent banking officers stratified random sampled. A structured questionnaire was used to collect data. Standardization of research instruments were done by use of factor analysis and reliability determined using Cronbach's alpha coefficient. Validity tested through expert judgement. Data collected was analyzed by descriptive and inferential techniques. There is a significant positive influence of agent selection and growth of commercial banks (r =0.755, p=0.000). The selection of agents become thorough the growth of commercial banks improved. Commercial banks through the Central Bank of Kenya should allow agents in cross- selling additional financial products such as giving out loans, opening savings account for the customers and managing the customer accounts as this would increase the overall profitability of the commercial banks.

Keywords: *Agent, selection, growth, commercial banks*

1. Introduction

It is important to note that amidst competition banks need to grow for continued stability and sustainability. Several studies report a number of bank growth indicators. Chief among the growth indicators include an increase in customer base, revenue and profitability (Kimathi, 2014). The indicators are given different measure of strengths in different commercial banks. While in one stance, a bank would boast of increase in deposits, another would be realizing an increase in branches. At times all these indicators work simultaneously. Mwangi (2012) noted that the number of branches a bank has, implies the growth and expansion of a bank.

Agency banking has been in existence for less than two decades with Brazil being the first country to adopt it in its municipalities in 2000 (National Banking and securities, 2012). In the earlier years, agency banking was acceptable only for commercial services but this stance has changed over the years to allow other non-banking financial institutions to open up agents to effectively serve citizens in Brazil (Mckay, 2011). The success of commercial banks is directly linked to how easy customers may access the monetary services. Failure to serve the public effectively would portray a poor banking or financial systems sector leading to reduced financial performance of the said banks.

To facilitate financial services access by the public, the Central Bank of Kenya formulated a legal Act in 2010, which saw commercial banks get the permission to contract agents as third parties overseeing retail networks (Aduda, 2012). Agency banking is a way through which an organization achieves long-term objectives. It is created to ensure that an organization achieves its basic objectives and goals through appropriate execution. The key role of agency banking strategy is to recognize the main approaches that a firm uses to achieve its objectives (Barnat, 2014).

Permissible agent banking activities vary from country to country. This is because Agent banking operational rules are provided by the central banks of the respective countries, owing to distinct operational environments (CBK, 2012). The following types of entities can act as agents: companies, entrepreneurs, and associations (Enhancing financial innovators and access (Alexandru, Genu, & Romanescu, 2010). The effectiveness and efficiency of agent banking strategy calls for proper daily management and development of agent network. Success of agent banking can be attributed to technological advancement. The technology adapted is mainly a point of sale (POS) and a phone.

The introduction of agent banking in Kenya has addressed issues of low financial inclusion, financial services agents face a number of challenges, which this research seeks to uncover. According to a study by Mwangi (2012), there is a substantial agent in the banking sector and that agency finance is an effective strategy for service delivery. The bank management needs to ensure that this aspect is properly handled.

Agent banking by commercial banks entails proper planning and control of the activities of its agents. The banks need to ensure that the proper process is used in the selection of a network, i.e. there is a good network set up in place. The bank also needs to ensure the agents and their staffs are trained so as to realize their objectives (Mwangi, 2012). This, means that agent banking has the potential of influencing growth of commercial banks in consideration to the bank size.

The Central Bank of Kenya (2014) report on development of the Kenyan banking sector as at June 2014 highlights a slow growth of agent banking. According to the report, 15 banks had contracted agent banking services, and the number of active agents was 26,750. However, individual banks recorded different percentages of growth (particularly on agent banking and overall growth index). Equity bank investor briefing quarter 3 financial results highlights a 60% growth year on year of agent banking, from about 875 agents in 2011 to over 8612 by September 2013. At the same period, however, KCB had over 6713 agents from less than 500 at the beginning of 2011, while Coop Bank had 7099 from 800 at the beginning of 2011 (Mwangi, 2013). Their contribution to the overall financial performance also differs from bank to bank.

In Kenya agency banking is employed by commercial banks to enhance their growth (CBK, 2010). The Kenya financial sector stability report (2014) indicated that the commercial banks has had low growth across all performance indicators in the year ended December 2014. On balance commercial banks growth has been on a slow increase as compared to other institutions. The gap which arises is to establish whether the selection of agency banking has succeeded in achieving the set objectives of the commercial banks. From the previous studies on agency banking none of them has established the relationship between agency banking selection and growth of commercial banks.

2. Literature Review

2.1. The Growth of Commercial Banks Concept

Growth of commercial banks is defined by indicators that include; an increase in customer base, and profitability (Kimathi, 2014). The indicators are given different measure of strengths in different commercial banks. While in one stance, a bank would boast of increase in deposits, another would be realizing an increase in branches. At times all these indicators work simultaneously.

Growth refers to a positive change in the size of a bank's assets and operations, often over a period of time. The way the commercial banks manage their portfolio determines the level of profits and growth. Growth of commercial banks in Kenya is important since it has implication as far as financial deepening and inclusion is concerned. Agency banking as an innovation is supposed to remedy the problem of monetary enclosure. The financial deepening in Kenya is expected to facilitate the growth of the economy in line with Vision 2030. In contrast, this study used a set of different variables as the dependent variable (growth in profits) was measured in terms of the return on equity.

2.2. Agency Banking Concept

On a global scale, few studies on agency banking exist, these include Auta (2010); Bakar and Tahir (2009). Majority of the global studies seem to focus on mobile banking probably because agency banking is most beneficial to developing economies with poorly deepened financial crisis. This is achievable through Agent banking (Flaming, 2011). The dependent variable was the total commissions earned by agents from time to time at intervals of six months. A review of existing studies reveals divergent findings on the agency banking effect on growth of profits of commercial banks (Aduda, 2013, Mwando, 2013; Kamau, 2012). However, the most common position is that agency banking has a positive relationship with growth of profits of commercial banks.

Mwangi (2012) noted that the number of branches a bank has, implies the growth and expansion of a bank. An understanding of the factors contributing to the growth of commercial banks is important due to the dynamics of competition. Access to banking services especially in rural areas in Kenya was often a rigorous endeavor. It required customers to travel long distances and make queues at banking halls to receive services from banks. For this reason, commercial banks sought to move closer to customers by developing agents within local towns (Mwende, Bichanga and Mosoti, 2015).

2.3. Agent Selection and Growth of Commercial Banks

Agent selection is the process of appointing an agent who would provide propermonetary services needed by all customers equally (CBK, 2016). According to CGAP (2011), the operation of an agency ensures customer deposits at the agent meaning that the customer gives cash within the transaction. Atandi (2013) identifies liquidity/float related problems as a challenge on agent banking. Lack of float has a negative impact on the number of transactions, which also reduces performance of the agency business. This study investigates the relationship between the agent selection and agency banking and growth of commercial banks.

2.4. Theoretical Framework

Diffusion of Innovation theory advanced by Rogers (1995) describes DOI as the method by which a communication about an innovation trickles down through definite networks over a time frame amongst the people involved. It is a different kind of communication, in that new ideas are also communicated. As such, innovation refers to any object, practice or idea that is believed to be fresh by the people.

Diffusion of Innovation is a concept of why, at what rate and how individuals and the organization receive the new ideas and technology. The model perceives inventions as being communicated in a certain way, via specific communication modes over a period contained by a specific shared structure (Sarker & Sahay, 2004). DOI theory tries to describe and enlighten the mechanisms of implementing new innovations in this instance internet banking in a way it becomes effective.

The theory presumes that the rate of implementation of innovations mostly depends on the willingness of the organization to perceive its relative advantage, trialability, observability, compatibility and complexity. According to Diffusion of Innovations model, in companies, innovation is connected to independent variables. Thus, the decision to implement agency banking should follow a similar process and take place in distinct stages (Sarker & Sahay, 2004).

This is in effect gives the bank a competitive advantage in agent banking as the customers easily identifies with the product. This is a competitive strategy that the current study will delve into. The rate of diffusion of agent banking will depend on many factors and one of them is the training of the agents on agent banking which is of interest in this study. The target group of agent banking has different characteristics and thus required different strategies for them to take up agent banking.

3. Research Methodology

The explanatory research design was adopted. It also includes quantitative research which attempt to identify the effects and interactions among the variables (Maxwell & Mittapalli 2008). The use of terms such as influence, impact and effect are common in quantitative research and such terms imply causal relationship. The explanatory research design was suitable because the study was mainly be concerned with quantifying a relationship or comparing groups purposely to identify a cause-effect relationship. The study was conducted within commercial banks in Eldoret town, Uasin Gishu County.

The study population comprised of agent banking officers of commercial banks Eldoret town, Kenya. There are 32 registered commercial banks in Eldoret town, Kenya but only 10 have agency banking with a total of 1230 agent banking officers. Cochran (1977) sample size formula used to determine the sample size. From thetargetpopulation of 1230 Agent banking officers, a sample size of 162 respondents was selected proportionately. Primary data collected using questionnaire that address specific objectives. The questionnaire was administered to Agent banking officers in charge of agent banking who will participate in the study.

Validity is the the extent the instrument measures what it is supposed to (Cooper & Schindler, 2010). Content validity established using expert judgement. Construct validity was measured using factor analysis by principal component technique. Cronbach's coefficient alpha used to determine the reliability (Sekaran, 2006). The pilot tests were carried out in two selected commercial banks in Nakuru town that had adopted agency banking to confirm the validity and reliability of the study instruments. Data was analyzed using descriptive and inferential statistics.

4. Results

4.1. Descriptive Analysis for Independent Variable

Most of the respondents were not sure on the statements agent selection as indicated by their means; whether the physical security and confidentiality of clients (2.49), availability and access to or convertibility of cash (2.92), cash at hand and bank balances (3.09). The respondents disagree that technology service provider should have proper (2.37). The means for the items were in the range 2.13 to 3.1 and the attendant standard deviations in the range 1.23 to 1.45. This result implies that the agent selection in commercial banks relied on the physical security and confidentiality of the agents, technical security infrastructure in place.

Agent Selection	Mean	Std. Dev	Skewness	Kurtosis
The physical security and confidentiality	2.4885	1.23017	.757	-.389
Availability and access to or convertibility of cash	2.9160	1.28923	-.104	-1.233
Cash at hand and bank balances	3.0992	1.44571	-.021	-1.352
Technology service provider should have proper	2.3740	1.37749	.590	-.815
Technical security infrastructure in place	2.4885	1.22391	.398	-.883

Table 1: Descriptive Statistics of Independent Variable

4.2. Descriptive Analysis for Dependent variable

During the study the dependent variable was growth of commercial banks measured using five statements on a five-point Likert scale as presented in Table 2. On the five statements explaining growth of commercial banks the respondents disagreed that agency banking has led to an increase in gross revenue (2.015), increase in profitability (2.4), increase in those customers who access finance (2.34), given the bank a competitive edge (2.37) and led to an increase in shareholder return (2.33).

The descriptive statistics for the items of growth of commercial banks indicated that the means were in the range 2.012 to 2.40. The standard deviations were in the range 1.18 to 1.35. The relatively high standard deviation value indicates that the growth of commercial bank was rated to be low. The agency banking had sometimes led to the growth of commercial banks through the increase in gross revenue, profitability, and increase in those customers who access finance, given the bank a competitive edge and led to an increase in shareholder return.

Growth	Mean	Std. Dev.	Skewness	Kurtosis
Agency banking increased gross revenue	2.0153	1.34727	1.007	-.488
Agency banking increased profitability	2.3969	1.31664	.772	-.637
Agency banking led to an increase customer who access finance	2.3435	1.18173	.524	-.796
Agency banking has given the bank a competitive edge	2.3740	1.35497	.874	-.438
Agency banking has led to an increase in shareholder return	2.3282	1.16647	.513	-.833

Table 2: Descriptive Analysis for Dependent variable

4.3. Correlation Analysis of the Variables

Pearson's moment correlation was used to establish relation between variables. It was appropriate because all the variables were in interval scale. There is a significant positive influence of agent selection and growth of commercial banks (r =0. 755, p=0.000). This implies that as the selection of agents become thorough the growth of commercial banks improved. This agrees with Atandi (2013) that liquidity/float related problems as a challenge on agent banking.

		Growth	Selection
Growth	Pearson Correlation	1	
	Sig. (2-tailed)		
Selection	Pearson Correlation	.755**	
	Sig. (2-tailed)	.000	.000

Table 3: Correlation Analysis of the Variables
***. Correlation Is Significant at the 0.01 Level (2-Tailed)*
a. Listwise N=131

5. Conclusion

The agent selection in commercial banks relied on the physical security and confidentiality of the agents and availability and access to or convertibility of cash. Agent selection positively influence on growth of commercial banks.

6. Recommendation of the Study

Commercial banks through the Central Bank of Kenya should allow agents in cross- selling additional financial products such as giving out loans, opening savings account for the customers and managing the customer accounts as this would increase the overall profitability among banks.

The mangers of commercial banks should increase the number of agents in order to improve accessibility of financial services in Kenya.

The CBK should require the maintenance of higher floatation costs to by the agent banks. This creates more confidence on the customers in transacting through the agents. This will increase the transactions though agents and hence improved profitability.

From a regulatory perspective, the Central Bank of Kenya should regularly review existing regulations to ensure that they facilitate the continued growth of agency banking and safeguard the interest of the banks and the customers. The regulations should also ensure that there are adequate safeguards against illegal practices such as money laundering, since agents are less likely to have rigorous customer identification procedures as compared to bank branches.

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