EFFECTS OF AGENCY BANKING ON CUSTOMER SATISFACTION IN THE BANKING INDUSTRY IN KENYA

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ABSTRACT

The main objective of the study was to determine the effects of agency banking on customer satisfaction in the banking industry. To attain this objective, the study was guided by the following specific objectives; to determine how convenience of agency banking affects customer satisfaction, to evaluate how agent quality influences customer satisfaction, and to establish the effect of reliability on customer satisfaction. Players in the financial institution sector will find the study useful as they can use the findings to strategize on how they can mutually benefit from this development as opposed to being competitors of the same market segment. The study was carried out in selected financial institutions offering agency banking in Eldoret town. This study was based on the agency theory that seeks to explain the relationship between the principal and agent in business. A descriptive research design was adopted for this study. The population of study consisted of the agency banking customers of 9 selected banks offering agency banking. The study used a sample of 297 agency banking dealers. Primary data was collected for this study by use of questionnaires. Validation was done through careful examination of the content after a pilot study. The researcher ensured that all objectives were adequately covered by cross checking the objectives and corresponding items. Data was analyzed using qualitative and quantitative methods. The processed data was summarized and presented in form of frequency distribution tables. A regression equation of $Y = 26.123 + 0.227X_1 + 0.012X_2 + 0.118X_3$ was found with P-values less than 0.05 ($P<0.05$) thus the study revealed that convenience of agency banking affects customer satisfaction in commercial banks to a great extent, it was revealed that agent quality has a positive influence on customer satisfaction in commercial banks and reliability has a positive influence on customer satisfaction in commercial banks. Agents prior experience with the bank customers is positively related to satisfaction and time spent in agency banking is low compared to the normal banking and also the cost involved in transacting in agency banking was low compared to the banking hall. Innovation affects customer satisfaction in commercial banks. Technology innovations, product innovations, market innovations as well as process innovations affect the financial performance of the Banks. Based on the above findings, the study therefore recommends provision of sufficient information to agency customers to make informed decisions regarding borrowings and investments. The researcher suggests further studies to be carried in the following area to compliment and supplement the current study: The role of information communication technology on operations of agency banking.

Key Words: *convenience, agent quality, reliability, agency banking, customer satisfaction*

INTRODUCTION

The goal of every organisation is to meet the needs and the requirements of its stakeholders which will not only ensure the survival of the organisation but also allow it to flourish. Customers are one of the most important stakeholders in any organisation because without them, organisations are not likely to succeed. Hence, marketers emphasize on research in the area of consumer behaviour and particularly behavioural intention. Knowledge of consumer behaviour will go a long way in ensuring effective marketing policies towards the interest of customers which eventually facilitates positive customer attitude towards the organisation. More especially, since a customer`s behavioural intention is a strong indication of his actual behaviour, (Adeoye, 2007).

Agency banking refers to the delivery of financial services outside conventional bank branches, often using non-bank retail outlets that rely on technologies such as point-of sale (POS) devices or mobile phones for real time transaction processing (Modupe,2010) Globally, retailers and post offices are increasingly being utilized as important distribution channels for financial institutions. The points of service range from post offices in the Outback of Australia where clients from all banks can conduct their transactions, to rural France where the bank Credit Agricole uses corner stores to provide financial services, to small lottery outlets in Brazil where clients receive their social payments and access their bank accounts (Kumar et al, 2006).

In Malaysia, as at 2012, during the pilot run of agency banking, more than one million transactions worth more than Malaysian Ringgit (RM) 190 million had been conducted through 2,322 agency banking outlets. In India, under the Business Correspondent model, banks are entitled to engage intermediaries to disburse small value credits, recover principal and interest payments, collect small value deposits, sell micro insurance or pension products and receive or deliver small value remittances. In Bangladesh, the Central Bank has provided 10 licenses to banks to offer the full range of mobile financial services. In Ghana, up to 11% of the clients who use banking services, do not have accounts with the financial institutions and instead use agency banking facilities to transact their payment services (Kumar, 2006).

According to National Banking and Securities Commission (CNBV) of Mexico and the Alliance for Financial Inclusion (2012), the agency banking model is one in which banks provide financial services through nonbank agents, such as grocery stores, retail outlets, post offices, pharmacies, or lottery outlets. This model allows banks to expand services into areas where they do not have sufficient incentive or capacity to establish a formal branch, which is particularly true in rural and poor areas where as a result a high percentage of people are unbanked.

As a result of financial sector liberalization in Nigeria in the 1980s, the banking sector experienced a boom. Low entry requirements by the regulatory authority and the high premiums that could be earned through foreign exchange business led to the quick entry by new players into the lucrative banking industry. Between the period of 1985 and 1993 the number of licensed banks rose astronomically from 41 to 120. And this led to the increase of the sector's contribution to GDP and employment. Given that banks are important constituents of the sector, it can therefore be argued that banks in Nigeria have contributed a significant percentage of the country's GDP in the recent past (Adeoye, 2007).

Owing to the successes of agency banking in Brazil, in Africa, agency banking is used to enhance greater performance across the continent. Agency banking was implemented in South Africa in 2005 after amendment of the Bank Act giving banks the green light to contract nonbank third parties to collect deposits, money due to the bank or applications for loans or advances, or to make payments to such clients on the banks' behalf (Beck, 2011). In Ghana, agency banking was introduced in 2008 allowing for a bank-based model of branchless banking using nonbank retail agents (McKay, 2011).

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and the exchange controls lifted. The banking sector comprises of the Central Bank of Kenya, as the regulatory authority, 45 banking institutions (44 commercial banks and 1 mortgage finance company), 5 Deposit-Taking Microfinance Institutions (DTMs) and 126 Forex Bureaus. Thirty two of the banking institutions are locally owned while 13 are foreign owned. Banks offering agency banking are: Equity Bank; Co-operative Bank (Co-op Kwa Jirani); KCB Bank; Post Bank; Family Bank (Pesa Pap); Chase Bank (Chase Popote); Consolidated Bank (Conso Maskani); Diamond Trust Bank; Citibank and NIC Bank (Kiragu, 2012).

The Kenya Bureau of Statistic Report (2011) indicates that more than 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. Mobile technology has substantially penetrated rural Kenya and is likely to be on an upward trend in the near future. 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. Technology has therefore created greater opportunities to service providers to offer greater flexibility to their customers. To this end banks are fast developing branchless banking such as ATM`S, internet and mobile banking among others (Laukkanen & Pasanen, 2007).

For the quarter ended March 31st, 2013, the sector comprised 43 commercial banks, 1 mortgage finance company, 8 deposit taking microfinance institutions, 7 representative offices of foreign banks, 108 foreign exchange bureaus and 2 credit reference bureaus. The Banking Sector recorded improved performance as indicated by the growth in the key categories of number of bank customer deposit accounts and bank loan accounts (CBK, 2013).

In Kenya, over 30,000 outlets are currently enrolled as bank agents. This has allowed bank branches to deal with smaller pools of high net-worth clients from whom they can pick the cash-rich operations they need to roll out the agency banking model. Some banks, like Co-operative, have opted to partner with cash-rich Savings and Credit Cooperative Societies in order to roll out their products effectively. Agency banking is an emerging trend in the Banking sector where the banking Institution and management enter into contracts with selected agents to provide banking services for a commission. In Eldoret-Kenya, most financial institutions have adopted agency banking to provide fundamental banking services to customers. However, owing to the short period within which the agency banking model has existed, the extent to which the model can benefit banks, their clients and the economy remains largely unstudied. This necessitated the researcher to conduct this study to determine the effects of agency banking on customer satisfaction in the banking sector.

STATEMENT OF THE PROBLEM

In this information age, the process of searching for customers for a company is being decided by how they are being treated or by how they notice it, of course, with the objective of performance (speed, credibility, reliability, safety, quality) being permanently joined with the quality of treatment. The way to measure, the degree of satisfaction and expectations generated is based on the common concept of how quality is defined by the customer. To facilitate the understanding (NOVAES, 2005) of the customer's needs it is necessary there exist a process of continuous monitoring and learning about the customers` needs and expectations (must be anticipating conquering the customer, overruling the competitors).

Given that the contemporary consumers are more informed than ever before, (LeBoeuf2007) states that meeting their expectation is increasingly becoming more difficult. They want to get value for their money as they perceive it. Additionally, banks customers are dissatisfied with the quality of services provided by banks in some cases (Woldie, 2003). Satisfaction is the customer‘s evaluation of a product or service in terms of whether that product or service has met their needs and expectations. Happy and satisfied customers behave in a positive manner. Customer satisfaction is derived largely from the quality and reliability of your products and services.

The customer is still the responsibility of the Banks and the same has not been delegated to the agency. Service is a huge challenge for the banks as they need to train and retrain the agents so as to maintain high levels of customer service. However, almost every Kenyan bank encounters similar problems in meeting customers` expectation of their services. It was against this background that this research sought to evaluate the effects of agency banking on customer satisfaction in the banking industry in Kenya.

GENERAL OBJECTIVE

The main objective of the study was to determine the effects of agency banking on customer satisfaction in the banking industry.

SPECIFIC OBJECTIVES

1. To determine how convenience of agency banking affects customer satisfaction
2. To evaluate how agent quality influences customer satisfaction
3. To establish the effect of reliability on customer satisfaction

THEORETICAL REVIEW

The current study was based on theories of branchless banking which are classified into three broad categories: Bank-focused theory, Bank-led and Nonbank-led theory.

Bank-Led Theory

Bank Led theory was brought forward by Lyman, Ivatury and Staschen (2006) and is based on the argument that, a licensed financial institution delivers financial services through a retail agent. The theory supports agency banking model by stating that the work of a bank is developing financial products and services, but distributes them through retail agents who handle all or most customer interaction (Lyman, et al, 2006). Retail agents have face-to-face interaction with customers and perform cash in/cash-out functions, much as a branch-based teller would take deposits and process withdrawals (Owens, 2006).Under this theory, the bank develops financial products and services but distributes them through retail agents who handle all or most customer interactions (Lyman, Ivatury & Staschen, 2006).

The bank is the provider of financial services and is the institution in which customers maintain accounts. Virtually any outlet that handles cash and is located near customers could potentially serve as a retail agent. Retail agents in some countries also handle all account opening procedures and, in some cases, even identify and service loan customers. Under this establishment, each retail agent is outfitted to communicate electronically with the bank for which it is working. The equipment may be a mobile phone or an electronic point-of-sale (POS) terminal that reads cards (Lyman, 2006).

This model promises the potential to substantially increase the financial services outreach by using a different delivery channel, a different trade partner (Chain Store) having experience and target market distinct from traditional banks, and may be significantly cheaper than the bank based alternatives. In this model customer account relationship rests with the bank (Tomášková, 2010).This model offers a distinct alternative to conventional branch-based banking in that the customer conducts financial transactions at a whole range of retail agents instead of at bank branches or through bank employees (Ivatury and Staschen, 2006).

Agents related risks arise from substantial outsourcing of customer contacts to retail agents. These retail agents may operate in hard-to reach or dangerous areas and they lack physical security systems and specially trained personnel. From a typical banking regulator's perspective, entrusting customer contacts to the types of retail agents used in both the bank-led and nonbank-led models would seem riskier than these same functions in the hands of bank tellers in a conventional bank branch. The lack of expert training may seem a particular problem if retail agents' functions range beyond the cash-in/cash-out transactions of typical bank tellers to include a role in credit decisions (State Bank of Pakistan, 2011).

The use of retail agents also potentially raises special concerns regarding consumer protection and compliance with rules for combating money laundering and financing of terrorism (Kumar, et al. 2006). Banking regulation typically recognizes multiple categories of risk that bank regulators and supervisors seek to mitigate. Five of these risk categories credit risk, operational risk, legal risk, liquidity risk, and reputation risk-take on special importance when customers use retail agents rather than bank branches to access banking services.

The bank lead theory focuses on how financial institution like banks deliver their financial services through a retail agent, where the bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction. Family bank of Kenya distributes it financial product through its Pesa pap agent, in this case the agent has face-to-face interaction with the customers and performs cash-in/cash-out functions, much as a branch-based teller would take deposits and process withdrawals.

Nonbank-Led Theory

Under this model the nonbanks are not much regulated in areas of transparent documentation and record keeping which is a prerequisite for a safe financial system. Regulators also lack experience in the realm. Therefore, allowing nonbank-led model to operate is an unnecessarily big leap and an unjustifiably risky proposition. However, this model becomes viable after regulators have gained sufficient experience in mitigating agent related risks using bank led model and need to think about mitigating only e-money related risks (Kapoor, 2010).

The nonbank-led theory customers` do not deal with a bank, nor do they maintain a bank account. Customers deal with a nonbank firm either a mobile network operator or prepaid card issuer and retail agents serve as the point of customer contact. Cash exchange by customers is done for e-money stored in a virtual e-money account on the nonbank's server, which is not linked to a bank account in the individual's name (Kumar, et al. 2006). The model is riskier as the regulatory environment in which these nonbanks operate might not give much importance to issues related to customer identification, which may lead to significant Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT) risks. Bringing in a culture of Know Your Customer (KYC) to this segment is a major challenge.

In an attempt to mitigate the e-money risks (which are peculiar to Nonbank-led model), necessary changes in the existing regulations are required. It starts by bringing non-banks under financial regulatory net by giving these entities special status of some sort of quasi-bank/remittance agent etc. Granting of this status depends upon meeting pre-specified standards of transparency, financial strength and liquidity. There should be clear, well-defined limits on nature, type and volume of transactions that such entities can undertake. To avoid insolvency, these entities may be required to deposit their net e-banking surplus funds with scheduled banks meeting certain minimum rating criteria (State Bank of Pakistan, 2011). The Nonbank-led Theory explains how agent deals with customers on behalf of the bank.

Bank-Focused Theory

The bank-focused theory begins when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers. Examples range from use of automatic teller machines (ATMs) to internet banking or mobile phone banking to provide certain limited banking services to the banks' customers. This model is additive in nature and may be seen as a modest extension of conventional branch-based banking. Although the bank-focused model offers advantages such as more control and branding visibility to the financial institutions concerned, it is not without its challenges. Customers' primary concerns are to do with the quality of experience, security of identity and transactions, reliability and accessibility of service and extent of personalization allowed. These issues are addressed by Banks by providing a branchless banking service with an easy to use interface, made secure with the help of multi-factor authentication and other technology, capable of running uninterrupted 365 days a year. With the use of agents banks achieve economies of scale by serving many customers at low cost (Kapoor, 2010). This theory emerges when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers. With the use of agent banking, a bank achieves economies of scale by serving many customers at low costs; it does not provide the ways in which financial performance is attained by the commercial bank.

EMPIRICAL REVIEW

An agency bank is an organization that acts in some capacity on behalf of another bank. It cannot accept deposits or extend loans in its own name. Acts as agent for the parent bank. It is a retail outlet contracted by a financial institution or a mobile network operator to process clients' transactions. It is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds, inquire about an account balance, pay their bills, or receive government benefits or a direct deposit for their employer (Central Bank of Kenya, 2014).

An evaluation of the role of Agency Banking in the performance of commercial banks in Kenya, found out that some of the effects of regulations on the performance of commercial banks attributable to agency banking were influenced by the board of directors and executive management, accountability and quality control (Mwangi, 2013). Based on the study it was concluded that infrastructure cost and security influence the performance of commercial banks attributable to agency banking to a very great extent. Recommendations made indicated 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. Recommendations made also indicated that the banks should explore 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 an audit trail, and protecting data confidentiality and integrity (Mwangi, 2013).

Consistent economic growth has brought new wealth and demand for financial services in many developing countries while liberalization has led to increased competition in retail financial services in many places over the past decade. The reach and coverage of the formal financial sector has grown as a result. Technology has played a role in this expansion, though we should not overstate its role to date. Information technology has primarily helped to enable expansion through more conventional banking channels, such as branches and ATMS (Rhyne, 2009). Branchless banking schemes to date largely have been built around payments and domestic remittance services. Ultimately, scale and ubiquity are best achieved by tapping into shared or interoperable networks of agents that serve multiple banks; much like a POS enabled store today can accept cards from Visa or MasterCard issued by any bank in their respective associations. More than half of M-PESA customers use the service primarily for remote person-to-person payments; payments to businesses make up three quarters of transactions at Brazilian correspondents. However, services beyond payments are already on offer and are used by low-income customers (Mas and Siediek, 2008).

Currently, over 30,000 outlets around the country are enrolled as mobile money transfer agents, leaving banks with a smaller pool of businesses from which they can pick the cash-rich operations they need to roll out agency banking model. Some banks, like Co-operative, have instead opted to partner with cash-rich Sacco’s in order to get around this issue. The development could force some banks to consider deeper partnerships with mobile firms, a solution that the government has increasingly been advocating for. Analysts have confirmed that in addition to making it easier to collect deposits, agents are reducing costs for commercial banks CBK (2009). The development may arise from the fact that many of the available outlets have already been snagged by mobile phone companies, who have relied on their agents to fast-track uptake of mobile money solutions. The CBK encourages banks to share infrastructure to gain economies of scale; and to reduce overheads through increased use of ICT, agency, and mobile banking.

In comparison to the other countries, a relatively large proportion of the Brazilian population is ‘banked’ (43%).This can partly be attributed to the fact that Brazil has the largest agency network in the world and is widely cited as a country where banking agents have been successfully used to expand financial access. An extra 13 million unbanked people have been reached (AFI, 2011) and more than 160,000 retail outlets turned into correspondents since 1999. These agents can be found in all municipalities in Brazil. Most agents are commercial establishments, such as grocery stores, post offices, notaries and lottery outlets. More than 47,000 of these outlets are authorized to handle deposits and open accounts (CGAP, 2010). Ivatury and Mas (2008) describe a system whereby the agent has a contract with at least one bank but may service customers of other banks with which it does not have a direct contract as long as the agent transactions for these other issuing banks are governed by the contract between the agent and its own acquiring bank and a separate agreement between the issuing bank and acquiring banks.

Agents in Peru are mainly pharmacies, grocery stores and other retail establishments. They tend to be small retail establishments but there are some larger agents such as La Curacao a large retail chain. Roughly 8% of districts, accounting for 16% of the population, now have access to bank services exclusively through agents. These agents facilitated approximately 3.8 million transactions per month (45 million transactions in the year). However, 3 times this amount of transactions per month were performed at ATMs, and the total value through ATMs was at least 2 times larger than agent transactions. In 2010, less than 50% of the total financial system transactions were conducted inside traditional bank branches and ATMs; POS terminals accounted for 36% of total transactions (SBS & CGAP, 2010).

CONCEPTUAL FRAMEWORK

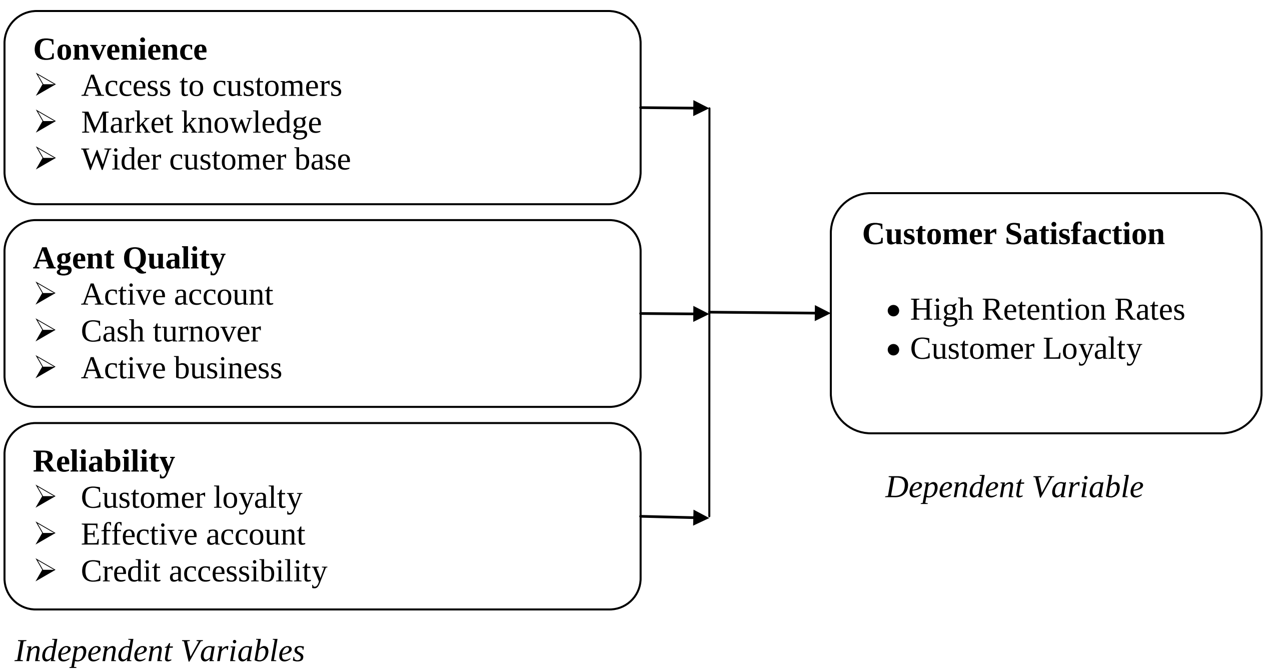

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

The study adopted a descriptive research design. Descriptive research design was chosen because it enables the researcher to generalize the findings to a large population. The descriptive research approach also was appropriate due to the fact it allowed analysis and determination of the relationship between dependent and independent variables. The study was conducted in Uasin Gishu County, which is among the 47 Counties in Kenya. The management or senior personnel were the respondents since they can provide the reliable information. The study targeted a population of 750 respondents consisting of 297 agency banking dealers and 453 agency banking customers in Uasin Gishu County. Stratified random sampling was used in identifying the respondents. The researcher classified the banks engaged in agency banking after which purposive sampling was used to select customers who are using agency banking.

Primary data was collected for this study. Primary data was collected by administering a semi-structured questionnaire. The study used both quantitative and qualitative data in order to gain a better understanding and more insightful interpretation of the results. Primary data was collected from the respondents sampled. The data was collected using a self administered questionnaire which had a set of carefully selected open ended and also closed ended questions presented in a likert scale. Each questionnaire was developed to address specific research objectives of the study. The questionnaire was ideal because the researcher gave the respondents time to respond to the items after they do their banking.

The primary data collected was cleaned coded and entered into SPSS version (22). Data was analyzed using qualitative and quantitative methods. For qualitative methods, thematic analysis was employed to analyze the data. For quantitative methods, data was analyzed using descriptive statistics and inferential statistics. For descriptive statistics the study employ the use of frequencies and percentages. The processed data was then summarized and presented in form of frequency distribution tables where it was used to facilitate description, explanation of the study findings and at the same time used to draw generalization and conclusions. A regression analysis model was used to show the relationship between agency banking and customer satisfaction. The model took the form of;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Whereby, Y= Customer satisfaction; X_1= Reliability as measured by total cash withdrawals and deposits done through bank agents; X_2= Convenience as measured by number of customers; X3= Agent Quality as measured by employees education and years of experience; β_1, β_2, and β_3 are coefficients of determination, ε is the error term which was assumed to be zero in this study.

RESEARCH RESULTS

The findings of the study are based on 262 questionnaires from the bank agents (out of 297) which were fully answered and returned translating to 88.2% return rate and 450 questionnaires from the customers (out of 453) which translated to 99.3% return rate.

The study established that agency banking indeed affects customer satisfaction of commercial banks in Kenya to a great extent. The study revealed that convenience of agency banking affects the customer satisfaction of commercial banks to a great extent. It was revealed that agent quality has a positive influence on customer satisfaction of commercial banks. Agent's prior experience with the banks customers is positively related to both satisfaction and time spent in agency banking is low compared to the normal banking and also the cost involved in transacting in agency banking was low compared to banking hall.

From the study, all customers 450 (100.0%) were aware of agency banking and the technology, 448 (99.6%) of the customers agreed to have transacted through agency banking. It is evident that majority of the clients had used the withdrawal service more often with very few not having used the service. This implies that most clients have adopted the agency banking services and were fully using it to carry out their day-day activities. Christopher (2002) explains that Banking agents are the backbone of banking since it enable clients to convert cash into electronic money and vice versa which can be sent over their banking agent Especially in remote and rural locations, where cash is still the most important way to pay. Majorities were those who used the deposit service more often and the minority had not used the service. Most customers have embraced agency banking which according to these clients represents a significant opportunity to reduce transaction costs such as travelling by bringing the services closer to them. Loan repayment is also a service offered by agency banking and results showed that, 120(26.7%) of the clients said they had used the loan repayment option very often to service their loans, 80(17.8%) had used it often, 200(44.4%) said they rarely use the service and 50(11.1%) had not used it whatsoever. Majority 200(44.4%) were those who rarely used the loan repayment service.

According to some of these clients they preferred visiting their branches to settle their loan issues rather than using the agency outlets for fear of being regarded as defaulters. Some even claimed that they needed a one on one confirmation from the loan officers on their loan repayment status thus prompting them to abandon the agency outlets. Account opening being another agency banking service revealed that, 280(62.2%) agreed to have very often used the agency outlets to open accounts, 70(15.6) said they used it often, 100(22.2%) rarely use and 10(2.2) had not used. It is obvious that most clients preferred to use agent outlets to open their account. This may be due to the availability of agent outlet within their localities hence helping the client minimize costs.

Looking at balance inquiry, 360(80.0%) confirmed that they used it very often, 60(13.3%) used it often, 20(4.4%) rarely used and 10(2.2%) had not used. Most of the respondents claimed to have used the balance inquiry service from the agent outlet as compared to a very small number who claimed not to have used it. On whether customers used agent outlets to check their account statement, 280(62.2%) forming the majority, said they did so very often, 70(15.6%) often, 100(22.2%) said they rarely use agent outlets to check their account statement and 10(2.2%) said they did not do so. Utility payment is also a service that can be accessed in agent outlet and results on this showed that, 381(84.7%) of the customers said they use it very often, 20(4.4%) use it often, 40(8.9%) and 9(2.0%) said they did not use. It is evident that most clients preferred agency outlets in payment of their utilities. On transfer of funds, 380(84.4%) said they use outlets very often to transfer funds, 40(8.9%) said they use it often while 30(6.7%) said they rarely use. Transfer of funds was the only service that had been used by the respondents with none admitting not to have used it.

On whether agency banking employees were friendly and courteous, 100(22.2%) said they were very satisfied, 90(20.0%) were satisfied, 155(34.4%) were neutral, 85(18.9%) were unsatisfied and 20(4.4%) were very unsatisfied. Most of the clients were satisfied on how friendly and courteous the agency banking employees were. However another group of clients 155(34.4%) were neutral on the same which might be that they had mixed options and could not give a straight opinion of whether satisfied or not satisfied. It is therefore of great importance than agent outlets should invest in employees who have knowledge and experience in handling customers of all categories. This therefore implies that the agent outlet should train their employees on how to relate with clients and should always maintain the slogan that “a customer is always right”.

Looking at the customers views on the agents’ products and services, 180(40.0%) said they were very satisfied with the products and services offered by the agent banking outlets they had visited, 120(26.7%) were satisfied, 110(24.4%) remained neutral, 30(6.7%) were unsatisfied and 10(2.2%) were very unsatisfied. Majority of the customers were satisfied with the agency banking products and services. Kitaka, (2011) elaborates that Agents help reach more people in areas where bank branches do not exist or by easing traffic at existing branches. While initially focused on traditional payments products such as the payment of bills or taxes, agents in a number of countries are now authorized to offer a broader range of financial services, such as withdrawals, deposits, pre-approved credit lines, simplified current accounts, and international remittances. Examination on efficiency of service delivery showed that, 120(26.7%) of the customers were very satisfied, 192(42.7%) were satisfied, 100(22.2%) were neutral, 34(7.6%) were unsatisfied and 4(0.9%) were very unsatisfied. A large number of the customer respondents were satisfied with the efficiency of service delivery by the agent outlets while a very small number was unsatisfied.

Some of the unsatisfied customers claimed that some of the agent outlets they visited could not offer the needed service; the agent employee who served them was slow and did not accord them the needed assistance among other complaints. Customer recognition and value is a key business strategy employed by many businesses across the globe. Investigation on whether the agency outlets across the region practiced this showed that, 95(21.1%) of the customers were very satisfied that the agent employees recognized and valued them as their clients, 141(31.3%) were satisfied, 136(30.2%) were neutral, 70(15.6%) were unsatisfied and 30(6.7%) were very unsatisfied.

With regard to professional and attractive appearance of the agent outlet employees revealed that, 60(13.3%) were very satisfied, 90(20.0%) were satisfied, 160(35.6%) were neutral, 100(22.2%) were unsatisfied and 40(8.9%) were very unsatisfied. Majority were neutral on the professional and attractive appearance of the agent outlets personnel. In any normal setting people prefer something good and professional. Therefore most clients will go to an outlet that is attractive and this includes the personnel. Queuing and service time was also brought to perspective and it showed that, 112(24.9%) of the customers were very satisfied of the queuing and service time offered in the agent outlets, 58(12.9%) were satisfied, 180(40.0%) were neutral, 65(14.4%) were unsatisfied and 35(7.8%) were very unsatisfied. Most client were neutral on this which means the agent outlets should improve on their service time and that more agent outlets be set up to curb the long queues thus meet the customer needs on time.

On the accuracy of information the study showed that, 280(62.2%) of the customer who constituted the majority said they were very satisfied on the accuracy of their transactions, 70(15.6%) said they were satisfied, 56(12.4%) were neutral, 28(6.2%) were unsatisfied and 16(3.6%) were very unsatisfied. This showed that most personnel in the agent outlets were very keen in handling customer transactions which in turn translated to accuracy, customer satisfaction and improved turnover. This was rated using Very Satisfied, Satisfied, Neutral, and Unsatisfied, Very unsatisfied as shown below. Results on customer satisfaction levels reveal that, 210(46.7%) of the customer said that they were very satisfied with agency banking, 140(31.1%) said they were satisfied, 50(11.1%) were neutral, 20(4.4%) said they were unsatisfied and 30(6.7%) said they were very unsatisfied. Therefore majority of the respondents were satisfied with Agent banking.

Various factors influence customer satisfaction including, Agents behavior, performance of services and bank products and service offered at an agent outlet. From the results above, it can be observed that 440(97.8%) of the customers are very likely to use an Agent banking outlet again in the future while 10(2.2%) were very unlikely to use agency banking in the near future. Some of the suggestions that customers put across to improve Agent banking services included: expanding the premises of the outlets of the outlets; additional facilities such as customer care services; upgrading of systems against system failures; extensive training of employees to improve service delivery to customers; outlets to be located in a more secure place; increased promotions and advertisements; high regulation measures to enhance its safety; increased publicity; among others.

In Kenya, the CBK bars faith-based organizations, not-for-profit organizations, Non-Governmental Organizations (NGOs), educational institutions, and Forex bureaus from acting as agents. Individuals are also not expressly permitted to be agents but are often approved as informal sole proprietorships. For an agent to be registered, it must have been operating as a business for at least 18 months and not been classified as a deficient, doubtful, or non-performing borrower during the period. The principal institution must assess the moral, business, and professional suitability of an agent before such agent is registered (CBK, 2010).

The study further revealed that the reliability of agency banking within banking agencies compared to the main bank branches acted as a lock in strategy where majority of the customers preferred using local banking agencies thereby ensuring the sustainability of the local agency banking which contributed to customer satisfaction. Innovation affects customer satisfaction of commercial banks. Technological innovations, product innovations, market innovations as well as process innovations affect the financial performance of the Banks. The study established that offering the best service to the markets, identifying better (new) potential markets as well as product development is important in both the supply of the core product as well as in the support part of any offer affects financial performance of the Company. The study further established that agency banking made it easier for commercial bank to reach out to many potential clients without investing so much in opening branches hence it's a cost effective measure. It also increased the ease of expansion hence outreach to far flung market pockets of bankable populations.

REGRESSION ANALYSIS

In order to establish the relationship between the Agency banking and customer satisfaction in the banking sector in Kenya, the study conducted a multiple regression analysis. The findings were as shown in the table 1 below:

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.608[a]	.370	-.260	2.40644

a. Predictors: (Constant), convenience, agent quality, reliability

Coefficient of determination explains the extent to which changes in the dependent variable (customer satisfaction) can be explained by the change in the independent variables or the percentage of variation in the dependent variable (customer satisfaction) that is explained by all the independent variables (Agent quality, convenience and reliability). The three independent variables that were studied, explain only 37% of the changes in the customer satisfaction as represented by the R^2. The study shows at there is a weak positive significant correlation between agency banking and customer satisfaction.

Table 2: ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	6.797	2	3.399	.587	0.006[a]
	Residual	11.582	2	5.791		
	Total	18.379	4			

a. Predictors: (Constant), agent quality, convenience and reliability
b. Dependent Variable: customer satisfaction

The probability value of 0.006 which is less than 0.05 ($P<0.05$) with an F value of 0.587 with degree of freedom of 2 indicates that there is a significant relationship between agency banking and customer satisfaction in the banking sector in Kenya, this shows that the overall model was is significant.

Table 3: Coefficients of Determination

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	26.123	1.947		3.414	0.006
	Convenience	.012	.394	.213	.030	0.003
	Agent quality	.118	2.108	.395	.056	0.000
	Reliability	.227	1.119	0.308	0.045	0.002

a. Dependent Variable: Customer Satisfaction

The researcher conducted a regression analysis so as to determine the relationship between agency banking and customer satisfaction of banking industry in Kenya. The regression equation ($Y = \beta 0 + \beta_1 X_1 + \beta_2 X_{2\,+}\, \beta_2 X_3$) was:

$$Y = 26.123 + 0.227X_1 + 0.012X_2 + 0.118X_3$$

Whereby Y = customer satisfaction of agency banking customers in Kenya; X_1= Reliability, X_2 = Convenience, X_3 =Agent Quality

According to the regression equation established, taking all factors (convenience, agent quality and reliability) constant at zero, the customer satisfaction in the banking sector will be 26.123%. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in number of users will lead to a 0.012 increase in customer satisfaction of the banking sector, a unit increase in the amount of money moved through agency banking will lead to a 0.227 increase in customer satisfaction in the banking sector and a unit increase in the education level and years of experience of bank agents will lead to a 0.118 increase in customer satisfaction. This notwithstanding, the study shows that there is a significant correlation between agency banking and customer satisfaction given that all the variables had P-values less than 0.05

($P<0.05$) Therefore, it can be deduced that agency banking has an impact on customer satisfaction in commercial banking thus we reject the null hypothesis and accept the alternates.

CONCLUSIONS

The study concludes that in as much as agency banking has played and continues to play a key role in enhancing financial deepening and inclusion in the countries where it has been adopted, the model is still bedeviled with some challenges which if not handled could reverse the gains made. Banks must, therefore, address the challenges that are posed by agency banking in order to maximize on the benefits of having this channel of banking. There is need to pay special attention, especially, to the quality of services rendered by agents in order not to undersell the mother bank.

There is growing interest in many parts of the developing world in delivering financial services through retail agents, including post offices, airtime resellers, and local shops. Being able to transact at local retail agents has many potential advantages. For providers of banking services, it allows the rollout of a much more granular distribution network without incurring the large fixed setup and operational costs of branch and ATM networks. Retail agents are very cheap to set up and are typically remunerated on a per-transaction basis, so their cost to the provider is largely variable. Financial service providers can use agents to decongest branches, expand coverage to areas where they do not have branches, or develop lower-cost services for lower-value customer segments. For the customer, agents further reduce the cost of accessing financial services by cutting down on travel time and waiting time at banking outlets.

Modern agent networks rely on technology to eliminate credit risk and ensure the finality of transactions at the point of transaction between customer and agent. Some schemes use point-of-sale devices at the store in combination with customers ‘bank cards, while others use people’s existing mobile phones as both a virtual bank card and a POS device. In either case, the technology platform is used to ensure that the bank or account issuer is able to authorize and execute transactions in real time.

RECOMMENDATIONS

Based on the findings, the study therefore recommends provision of sufficient information to agency customers to make informed decisions regarding borrowings and investments.

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