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EFFICIENCY OF AGENCY BANKING IN TIME SAVING AT KENYA COMMERCIAL BANK AS A COMPETITIVE STRATEGY

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Abstract

The introduction of agency banking in Kenya was meant to facilitate and enhance access to affordable financial services especially to the poor, low-income households and micro and small enterprises, which largely comprise those segments which are un-served and under-served by the financial sector. ***.*** *The objective of the study was to determine the efficiency of agency banking in t.,.ime saving at Kenya Commercial Bank as a competitive strategy. The theoretical framework was based on Silber's Constraint Theory of Innovation. The research design of the study was the descriptive survey design. A sample size of 236 respondents derived through the Yaro Yamane formula was used. Stratified sampling method was used to get representative sample members from each of the KCB branches. The study used structured questionnaires as the data collection instruments. The research findings were analysed through SPSS and the results presented in tables. The descriptive statistics that were used include the frequency distribution and chi square. The study concluded that adoption of agency banking as a competitive tool in KCB has led to increased geographical coverage by the bank and that the use of agency banking as a competitive tool has led to improved customer service standard within the bank branches. It recommends that the banking institutions intensify the agency banking network to ensure services accessibility.*

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Keywords: Agency Banking, Competitive Strategy, KCB Agency Model

I.Introduction

The introduction of agency banking in Kenya was meant to facilitate and enhance access to affordable financial services especially to the poor, low-income households and micro and small enterprises, which largely comprise those segments which are un-served and under-served by the financial sector. This was based on the promise that financial access leads to widespread economic development; and hence the development of the financial sector is seen as essential to the realisation of Vision 2030.

In fact, the realization of vision 2030 goals hinges upon widening financial access and use of affordable financial services and products by a majority of the Kenyan population (Chepkiyeng, 2009). The need to embrace innovative changes in financial sector aimed at enhancing financial access, led to publication of agency banking guidelines published by the CBK in 2010, where effective December 2010, financial institutions were allowed, under strict conditions to operate agencies through third parties (Cracknell, 2012). This was further motivated by agency banking model widespread and success over the past decade in Latin America and Brazil. Latin America is the only region with the strongest development towards agency banking with Brazil being the most developed market where agency banking has significantly lead to developments in the financial system structure (Barro, 2000).

The banking sector is facing hyper competition in Kenya. The hyper competitive environment in the banking sector is indicated by the competition in profitability among the top five banks (Ngenoh, 2013). The Kenya's banking sector operates under a monopolistic competition market structure dominated by Barclays, Kenya Commercial Bank, Standard Chartered, Cooperative Bank and Equity Bank (Abdi, 2014; Chepkiyeng, 2009; Ganale, 2012). According to Central Bank of Kenya (2012), the most profitable banks in Kenya in profit before tax (PBT) in 2011 were KCB (14.081 billion), Equity Bank (12.10 billion), Barclays Bank (12.01 billion), Standard Chartered Bank (8.25 billion) and Cooperative Bank (6.16 billion). This changed in 2012 financial year. According to Central Bank of Kenya (2013), the most profitable banks in PBT were Equity bank (16.06 billion), KCB (15.75 billion), Barclays Bank (13.02 billion), Standard Chartered Bank (11.51 billion) and Cooperative Bank (9.57 billion).

The 2012 financial year saw Equity bank displace KCB as the most profitable bank in Kenya. There were further changes in the 2013 financial year. According to Central Bank of Kenya (2014), the most profitable banks in terms of PBT were Equity bank (18.23 billion), KCB (17.76 billion), Standard Chartered Bank (13.31 billion), Barclays Bank (11.92 billion), and Cooperative Bank (10.70 billion). The year saw Barclays bank move from the third position to the fourth position in terms of profitability. Despite the super profits enjoyed by the Kenyan banks, the banks have registered above average return on shareholders' funds compared to their global counterparts (Mutai, 2012).

The shifting market shares among the leading banks in the country further illustrate the banking sector hyper competitiveness .This is due to the entry and retaining of the multinational banks in the country such as Eco Bank and United Bank of Africa (UBA) as well as the rise of indigenous banks such Equity bank and KCB (Nzioka, 2013). According to Central Bank of Kenya (2012), KCB had 14.52% market share, Equity bank (9.98%), Barclays Bank (8.90%), Cooperative Bank (8.41%) and Standard Chartered Bank (7.74%) for the 2011 financial year. In 2012 financial year, KCB had 13.54% market share, Equity Bank (10.06%), Cooperative Bank (8.74%), Standard Chartered Bank (8.29%) and Barclays Bank (8.08%) (Central Bank of Kenya, 2013). The 2012 financial year saw the market share for KCB eroded while Equity bank marginally gained. For the 2013 financial year, KCB had 12.83% market share, Equity bank (9.79%), Cooperative Bank (8.61%), Standard Chartered Bank (8.096%) and Barclays bank (7.65%) (Central Bank of Kenya, 2014a).

Agency banking acts as a competitive strategy through financial inclusion in commercial banks (Githemo, 2012). The financial inclusion plays a critical role as a competitive strategy for the commercial banks in a hypercompetitive market environment such as that of commercial banks in Kenya (Kengere, 2012). The financial inclusion enables the commercial banks to have a competitive edge by enabling the banks to increase their market share and profitability in different ways (Maeri, 2012). The financial inclusion enables the increase in the market share by reaching to the unbanked customers, enabling customers to take more products per customer due to the cost effectiveness of the agency banking channel, and facilitates an increase in the frequency of the usage of the bank's products due to cost effectives and convenience of location of the agency banking (Ogetange, 2014).

II.Research Objective

To determine the efficiency of agency banking in time saving at Kenya Commercial Bank as a competitive strategy.

III.Research Question

How doesefficiency of agency banking in time savingat Kenya Commercial Bank affectits competitive strategy?

IV.Literature Review

Silber's Constraint Theory of Innovation

This theory is attributed to Silber who propagated it in 1975 and 1983 (Kabiti, 2012). The theory argues that the financial innovations such as agency banking attempt primarily to maximize the profitability of the financial institutions through addressing the challenges or restrictions of such profit maximization (Kesavan, 2015). These restrictions whenever they occur reduce the efficiency of the financial institutions so the institutions strive to eliminate them through innovation processes (Ishengoma, 2011). The restrictions could either be internal or external hence reducing the competitiveness of a financial player which must thus be eliminated (Kimathi, 2013). The theory thus considers the product or service innovation as a response of the organization to the constraints placed up on it (Omwansa & Waema, 2010). The innovation is thus purely driven by getting solutions to challenges such as the loss of deposits, desire to enter new geographic or product markets and deliver services with cheaper and better technology (Bergamo & Denis, 2010).

The financial services usage deals with more than basic adoption of banking services. It focuses on the permanence and depth of financial service / product use. It details the regularity frequency and duration of use over time (Omwansa & Waema, 2010). Usage also involves measuring what combination of financial products is used by any one person or household such as: insurance, cashless transactions, mobile transactions, deposits, remittances, uptake of credit facilities (Odero, 2012).

Empirical Literature

The agency banking model is useful in enhancing the banking services usage across the world. For example, in Brazil an extra 13 million unbanked people had been reached through the 160,000 agency outlets from 1999 (Ndiema, 2013).More than 47,000 grocery stores, post offices, notaries and lottery outlets have agency banking capacity across Brazil (Saropa, 2013). By the year 2006, the bill payments and the payments of government benefits to individuals comprised 78% of the 1.53 billion transactions conducted at Brazil's more than 95,000 agencies (Watiri, 2013). In Peru, the agency banking services through pharmacies, grocery stores and other retail establishments were processing 3.8 million transactions per month within the year of 2013 (Wairi, 2011).

There has been tremendous usage of the financial services usage through agency banking as illustrated by the CBK statistics. In this context, Central Bank of Kenya, (2013) notes that the as December 2012, there were 16,333 agents that facilitated over 38 million transactions valued at Ksh. 195.8 billion. The overall number of agents and the transaction executed through the agency banking continued to rise in 2013.The total number of agents increased to 23,477 with the total number of transactions hitting 42,055,854 transactions in December 2013 (Central Bank of Kenya, 2014). The agency continued being embraced by Kenyans as illustrated through the number of agents at the end of December, 2014 where the agents stood at 35,789 agents who effected 57,995,472 transactions (Central Bank of Kenya, 2015).

The top three services requested through the agency banking services include cash deposits, cash withdrawals and account balance requests (Central Bank of Kenya, 2013, 2014, 2015).In this context, the cash deposits effected in 2012 were 12,554,299 transactions valued at 101,170.6 million Kenya shillings. This figure had risen in 2013 to 18,531,811 transactions valued at 160,789.9 million Kenya shillings (Central Bank of Kenya, 2014). The cash deposits had again risen by the end of 2014, to 25,967,462 transactions valued at 236,045.47 million shillings (Central Bank of Kenya, 2015). In the context of the cash withdrawals, there were 11,862,412 transactions that were valued at 49,609.5 million shillings in 2012 (Central Bank of Kenya, 2013). The figure had similarly risen to 16,981, 903 transactions in 2013 valued at 73,893.5 million shillings (Central Bank of Kenya, 2014). On the other hand, by the end of December 2014, there were 24,900,283 cash withdrawal transactions valued at 104,999.73 million shillings.

V.Research Methodology

The research design of the study was the descriptive survey design.The target population of this research included all agents of KCB in Nakuru County. The current KCB agents in Nakuru County are 575 agents (Central Bank of Kenya, 2015). A sample size of 236 respondents derived through the Yaro Yamane formula was used. The stratified sampling method was used to get representative sample members from each of the KCB branches. The study also used structured questionnaires as the data collection instruments. The researcher conducted a pilot exercise for the same aimed to determine if or not the questions would measure what it was supposed to, test the clarity of wording and find out if there is researcher bias and if questions provoke a response. After piloting and making the necessary amendments, the researcher evaluated whether the questions were clear and specific and if the balance of questions was correct.The validity was examined through the use of raters who were experienced persons in the subject matter such as senior bank officials at KCB in charge of agency banking as well as the research supervisors.Reliability of the research instrument was calculated using Cronbach's coefficient alpha for either even or uneven items based on the order of number arrangement of the questionnaire items.According to Kothari (2004) as a rule of thumb, a proposed psychometric instrument should only be used if an á value of 0.70 or higher is obtained on a substantial sample.The data was collected through the use of drop and pick method. The research findings were analysed through SPSS and the results presented in tables.

VI.Research Findings and Discussion

The study sought to determine the efficiency of agency banking in time saving at Kenya Commercial Bank as a competitive strategy. The respondents were required to indicate the efficiency of banking industry. The responses were presented in Table 1.

Table 1: Likert Scale Summation of Efficiency in Time Saving

Likert items	SA %	A %	N %	D %	SD %	χ^2	P-Value
The agent banking process is simple	107(46)	66(28)	12(5)	21(9)	26(11)	15.962	.003
The quality of staff is a major determinant	92(40)	85(37)	5(3)	24(11)	24(11)	22.377	.000
Control systems are well-organized	78(34)	65(28)	50(22)	11(5)	28(12)	18.577	.000
Organizational discipline is high	88(38)	82(35)	6(3)	21(9)	35(15)	11.538	.000
Processing of transactions are fast	54(23)	50(22)	60(26)	39(17)	29(13)	23.509	.000

Table 1 shows that 96% percentage of the respondents strongly agreed (χ^2 =15, P≤0.001) that the Agency banking was saving on time during transactions since there are no long queues which tend to take too long to serve the customers. The findings also revealed that majority of the respondents agreed (χ^2 =22, P≤0.001) that the quality of staff is a major determinant while on Control systems are well-organized 34% agreed (χ^2 =18, P≤0.001) to that statement. On Organizational discipline being high 38% strongly agreed (χ^2 =11, P≤0.001) while on processing of transactions being fast was 23% strongly agreed (χ^2 =23, P≤0.001).

VII.Conclusion of the Study

The study reveals that adoption of agency banking as a competitive tool in KCB has led to increased geographical coverage by the bank since now KCB customers in rural areas where there is no formal bank branch can access banking services through KCB Mtaani outlets. The study further reveals that the use of agency banking as a competitive tool has led to improved customer service standard within the bank branches since staffs have more time to dedicate to customers who visit the bank branches for service.

VIII.Recommendations of the Study

The study recommends that the banking institutions should consider intensifying the agency banking network which will ensure services accessibility by customers and thus improving financial performance.

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