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CONTRIBUTION OF AGENCY BANKING TO KENYA COMMERCIAL BANK'S CUSTOMER BASE 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. 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. The objective of the study was to determine the contribution of Kenya Commercial Bank agency banking to Kenya Commercial Bank's Customer Base as a competitive strategy. The theoretical framework was based on Porter's competitive strategies theory. 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. Proportionate stratified sampling method was used to get representative sample members from each of the KCB branches. Structured questionnaires were used 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 concludes that adoption of agency banking as a competitive tool in KCB is perceived to have contributed positively towards achievement of strategic objectives. The respondents perceive KCB to be a market leader in terms of agency banking. It has also increased penetration of the bank to the unbanked population. The study recommends that Kenya Commercial Banks consider coming with a clear agency banking regulatory policy which creates a universal platform and intensify the agency banking network which will ensure services accessibility by customers and thus improve financial performance.

Keywords: Agency Banking, Customer Base, Competitive Strategy, KCB Agency Model

I.Introduction

Kenya has a robust banking services sector composed of Central Bank of Kenya, as the regulatory authority, 44 banking institutions (43 commercial banks and 1 mortgage finance company), 8 representative offices of foreign banks, 9 Microfinance Banks (MFBs), 2 Credit Reference Bureaus (CRBs), 13 Money Remittance Providers (MRPs) and 87 Foreign Exchange (forex) Bureaus (Central Bank of Kenya, 2015).The organizational performance of Kenya's banking sector is characterized by hyper competition in the sector. Kenya is considered to be over banked due to the high number of commercial banks compared to the population. This is because the country has 45 banks serving 33 million people (Kithaka, 2014).

On the other hand, countries like Nigeria have their banks serving a larger population as it has 30 megabanks that serve a population of over 100 million people (Ndukhu, 2014). According to Ndukhu (2014), hyper competition is characterized by intense and rapid competitive moves in which new competitive advantages are quickly built and the old competitive advantages eroded. Factors leading to high competition includes knowledge sharing (franchise and outsourcing), brand convergence, quick niche copying (imitation), and high quality resulting from standardization, shrinking markets, and attraction of powerful new entrants to business segments with high returns (Omollo, 2013). Sources of the competition for the Kenya's commercial banks include cooperative societies, merry go rounds, and microfinance institutions amongst others (Gitau, 2014).

The concept of agency banking has been defined differently among the different scholars. Omwansa & Waema (2010) define a banking agent as a retail or postal outlet contracted by a financial institution or a bank network operator to process clients' transactions. According to Kandie (2013), the agency banking services can generally be categorized into four broad categories: Transmitting information, Processing information, Cash handling and Electronic funds transfer. Information transmission consists primarily of providing the customer with account information (e.g., balance inquiries and bank statements) and receiving account and loan applications, including transmitting know-your-customer (KYC) information. Information processing includes processing account and loan applications (and in some cases, opening accounts), analysing the credit and other personal information of loan applicants, conducting KYC procedures (i.e., verification) for account opening applications and transactions, record keeping, and selling micro insurance (Paye, 2012). Cash handling refers to deposits (or "cash in") and withdrawals (or "cash out"), often limited to small values, to or from a customer's own account (Omari, 2012).

On the other hand, electronic funds transfer may involve making bill payments, disbursing government benefits, and effecting payments (e.g., salary payments). . The CBK defines an agent as an entity that has been contracted by an institution and approved by the Central Bank to provide the services of the institution on behalf of the institution (Central Bank of Kenya, 2013). The principal institution is held completely liable for all actions and omissions of agents when providing financial services on their behalf. The principal must also maintain an effective system of internal control and oversight of the agent's functions. Furthermore, it must make sure it has proper controls in place to safeguard information, communication and technology systems. The principal must carry out risk-based reviews of critical agent banking processes to make sure the agent is following the policies, rules, regulations, and operational guidelines (Central Bank of Kenya, 2015).

Agency Banking plays a critical role in enhancing the financial inclusion at a convenient and cheaper rate among the financially excluded populations (Tshitenge, 2011). In this context, Muguchu (2013) notes that agency banking is the new innovation that banks are using to take services to the un-banked and under-banked at a cheaper rate as the concept takes customers out of the bank halls to kiosks and villages. The agency banking enhances the financial inclusion through lower transactional costs, convenience in accessing of the financial services provider, longer opening hours, quicker service due to shorter queues in the agent outlets, and more accessibility to the illiterates and the very poor who might feel intimidated in branches.

The agency banking model has enabled reaching of the unbanked population. For example, it is estimated that since 1999 more than 100,000 retail outlets have been turned into bank agents, reaching 13 million extra unbanked people in Brazil (Gitau, 2014). On the other hand, the bill payments and the payments of government benefits to individuals comprised 78% of the 1.53 billion transactions conducted at the country's more than 95,000 agency's in 2006 (Mureithi, 2013). In Kenya, the number of transactions by agents increased by 37.9% from 42,055,854 transactions recorded in 2013 to 57,995,472 in December 2014 (Central Bank of Kenya, 2015).

There are two models of agency banking. The bank led model of the agency banking notes that a licensed bank institution (typically a bank) delivers financial services through a retail agent composed of three entities that is the bank, retail agent and the customer (Nzioka, 2013). The bank is the developer of the financial services and products but distributes them through retail agents who handle the customer interaction (Gesora, 2014). The retail agent is outfitted to communicate electronically to the bank it is working for through the mobile phone or an electronic point-of-sale (POS) terminal that reads cards (Komen, 2011).

This agency banking thus increases the reach of banks to the people from which the traditional branch network is limited in growth by several factors such as the cost including the staffing costs and other costs compared to the benefits that is the cost benefit analysis expected of such areas (Kimathi, 2013).The agency banking thus offers a solution in this context as it offers an opportunity to expand rapidly riding on the infrastructure and manpower of third parties (Kandie, 2013; Odero, 2012).

The agency banking model has the potential to increase the financial services spread by using a variety of delivery channels (retailers/ mobile phones), a different trade partner (supermarkets) having experience and target market distinct from traditional banks, and is significantly cheaper than the bank based alternatives (Githemo, 2012). This agency banking model also has various risks associated with them. The bank led model of agency banking involves the outsourcing of the customer contact to the retail agents which is risky than the conventional customer experience in a traditional bank (Imaana, 2011). This is due to the fact that the retail agents may operate in dangerous areas, lack adequate physical security systems, or lack skilled personnel to ensure that the customer experience is seamless (Kengere, 2012).

The non-bank led model consists of the mobile network operator (non-bank), the bank that holds the reserve of the equivalent electronic value, the retail agent who acts as the third entity in this chain and deals with the customer (Kabira, 2013). The non-bank entity such as Safaricom mobile operator manages the customer electronic money account (Njunji, 2013). The retail agents confirms on the authenticity of the customer's identification document and transacts on the behalf of the nonbank using either the mobile phone or the smart card reader whereas the customer request financial services using again either the cell phone or the smart card (Komen, 2011). The customers can use the electronic money to effect the purchases of goods and services such as Lipa na Mpesa or exchange the electronic money for hard cash.

II.Research Objective

To determine the contribution of Kenya Commercial Bank agency banking to Kenya Commercial Bank's Customer Base as a competitive strategy.

III.Research Question

What is the contribution of Kenya Commercial Bank agency banking to Kenya Commercial Bank's Customer Base as a competitive strategy?

IV.Literature Review

Michael Porter Competitive Strategies

Michael Porter identified five forces that shape an organization's competitiveness and thus its organizational performance (Alloyo, 2013). These forces include the threat of new entrants, the bargaining power of the buyers, the bargaining power of suppliers, the threat of substitute products or services and the rivalry among the existing competitors (Imaana, 2011). An organization can utilize these forces to gain sustainable competitive advantage in broad (industry wide) or narrow (market segment) scope either by gaining cost advantage or differentiation (product uniqueness) strength (Kandie, 2013).

After analysing the forces that shape the organization's competitive forces, Porter identified three generic strategies that is cost leadership, differentiation and focus strategies (Gitau, 2014). The cost leadership strategy involves the organization being the low cost producer in the industry for the given level of quality (Kandie, 2013). This is informed by the fact that the organizations price their services or products above the average industry prices to earn higher prices than the competition or below the average industry prices with a view of expanding the market share (Alloyo, 2013). The cost advantage is achieved through process effectiveness, optimal outsourcing, and vertical integration of the decisions amongst other factors (Omollo, 2013).

The firm's success in cost leadership is achieved through internal strengths such as access to enough capital that represents barrier to entry that many firms may not overcome, high production skills and efficient distribution channels (Kandie, 2013). Other sources of the achievement of the cost advantage include economies of scale, proprietary technology and preferential access to raw materials (Karumbi, 2013). The low cost producer finds and exploits all sources of cost advantage through selling of a standard product and seeks to reap scale or absolute cost advantage from all sources (Kilonzo, 2012). The cost advantage seeks to gain profitability through increase in sales volumes. However, the product must be acceptable or comparable to others in the market for the strategy to work.

Empirical Literature

Kenya is considered to be over banked due to the high number of commercial banks compared to the population. This is because the country has 44 banks serving 33 million people. On the other hand, countries like Nigeria have their banks serving a larger population as it has 30 megabanks that serve a population of over 100 million people (Alloyo, 2013). This has led to the hyper competition for the customer numbers and the market share. 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, 2014). The agency banking enables a wider reach of the customer hence enhancing the marker share.

V.Research Methodology

The study adopted a descriptive survey design because the researcher was interested in looking at the phenomenon without manipulation of the variables. The target population included all agents of KCB in Nakuru County. The current KCB agents in Nakuru County are 575 agents (Central Bank of Kenya, 2015). The sample size was calculated using the simplified Yaro Yamane's 1967 formula which resulted in a sample size of 236 respondents. Proportional stratified random sampling technique was used to allocate sample members to each strata(each of the KCB branches in Nakuru County). Structured questionnaires were used as the data collection instruments. A pilot study was conducted to determine the validity and reliability of the instruments. 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 with a minimum threshold of 0.7 implying the instrument is reliable as recommended by Kothari (2004).The drop and pick method was used for data collection. The researcher made reminders through the use of the short text messaging to ensure a high response rate. The qualitative data was used to substantiate the results of the quantitative data. The quantitative data was analysed using SPSS.Descriptive data processed was done using frequenciesand chi square, and tables providing a summary of the research findings.

VI.Research Findings and Discussions

The research question sought to determine the contribution of Kenya Commercial Bank agency banking to Kenya Commercial Bank's Customer Base as a competitive strategy. The results were presented in Table 1 below;

Table 1: Likert Scale Summation of Customer Base

Likert items	**SA %**	**A %**	**N %**	**D %**	**SD %**	χ^2	**P-Value**
Divert customers from crowded banking halls	107(46)	66(28)	12(5)	21(9)	26(11)	44.346	.000
There is high penetration to the unbanked population	92(40)	85(37)	5(3)	24(11)	24(11)	31.077	.000
Improved Customer Service standards	78(34)	65(28)	50(22)	11(5)	28(12)	22.189	.000
Increase geographical coverage.	88(38)	82(35)	6(3)	21(9)	35(15)	27.094	.000
Keeping up with the trend in the banking sector	54(23)	50(22)	60(26)	39(17)	29(13)	52.377	.000
The bank needs to frequently train its agents on customer service	37(16)	85(37)	11(5)	50(22)	52(22)	41.245	.000
Performance related bonuses to agents can improve customer service	108(47)	78(34)	4(2)	12(5)	30(12)	22.000	.000

The findings in Table 1 illustrated that respondents strongly agree (χ^2 =44, P≤0.001) with the argument that agency banking diverts customers from crowded banking halls. 40% of the respondents strongly agreed (χ^2 =31, P≤0.001) that there is high penetration to the unbanked population while 34% also strongly agreed (χ^2 =22, P≤0.001) there being Improved Customer Service standards. The results reveal that 38% strongly agree (χ^2 =27, P≤0.001) that agency banking has increased geographical coverage while 26% are unsure (χ^2 =52, P≤0.001) if Kenya commercial Bank is keeping up with the trend in the banking sector. On the bank needing to frequently train its agents on customer service most of the respondents agreed (χ^2 =41, P≤0.001) while 47% revealed that performance strongly agreed (χ^2 =22, P≤0.001) that bonuses to agents can improve customer service.

VII.Conclusion of the Study

The study concludes that adoption of agency banking as a competitive tool in KCB is perceived to have contributed positively towards achievement of strategic objectives. The respondents perceive KCB to be a market leader in terms of agency banking.In addition, agency banking has also increased penetration of the bank to the unbanked population as customers and potential customers can walk into any of the agent outlets for transactions account opening or inquiries and since some of the agents are locals and known to the customers they feel comfortable transacting with them.

VIII.Recommendations of the Study

The study recommends that Kenya Commercial Banks should consider coming with a clear agency banking regulatory policy which creates a universal platform. This will enhance fair market completion and thus barring financial institutions from customer exploitation.The study also recommends that the banking institutions should considered intensifying the agency banking network which will ensure services accessibility by customers and thus improve financial performance.

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