

Factors Influencing the Growth of Agency Banking of Commercial Banks in Trans Nzoia County in Kenya

Nelius Waiyego Kariuki¹, Prof. Gregory S. Namusonge²

¹Master in Business Administration, student, Jomo Kenyatta University of Agriculture & Technology

²Senior Lecturer – Jomo Kenyatta University of Agriculture & Technology

Abstract: The problem of slow growth of agency banking compared to the projected growth remains a country wide challenge for Kenyan banking institutions owing to several factors, and this had to be explained through a scientific research by assessing banking related factors that may have had influence on growth of agency banking. This study was carried out to establish the factors influencing the growth of agency banking of commercial banks in Trans Nzoia County in Kenya. The study was conducted under guidance of the following objectives; To establish the influence of technology infrastructure on the growth of agency banking of commercial banks in Trans Nzoia County in Kenya. To determine the influence of agent to bank distance on the growth of agency banking of commercial banks in Trans Nzoia County in Kenya. To find out the extent to which security influences the growth of agency banking of commercial banks in Trans Nzoia County in Kenya. The study sought to test the following hypothesis; There is no significant relationship between technology infrastructure and growth of agency banking of commercial banks in Trans Nzoia County in Kenya. There is no significant relationship between distance of agent location to bank and growth of agency banking of commercial banks in Trans Nzoia County in Kenya. There is no significant relationship between security and growth of agency banking of commercial banks in Trans Nzoia County in Kenya. The study employed an ex-post facto descriptive survey research methodology with both quantitative and qualitative research designs. The study targeted a population of 222 banks' agents of commercial banks in Trans Nzoia County in Kenya comprising of; Equity Bank agents, Co-operative Bank agents, Kenya Commercial Bank agents, National Bank agents and Post Bank agents. Yamane, T. (1967) formula was applied to obtain a sample size of 69 bank agents. The primary data for the study was obtained through questionnaires and through field observations. The questionnaire was pilot tested using a sample of ten (10) respondents from Bungoma County after which its reliability was determined using correlation coefficient (r) and obtained $r=+0.68$. The secondary data for the study was obtained through document review. The sample for registered bank agents was determined through stratified sampling in accordance with the classification of the commercial banks and finally random sampling. The final data analysis was done using Statistical Package for Social Sciences (SPSS). From the study's findings, hypothesis tests revealed that; there was a significant negative relationship between technology infrastructure and growth of agency banking in Trans Nzoia County at 1% level of significance. There was a significant positive relationship between agents' to bank distance and growth of agency banking of commercial banks in Trans Nzoia County at 1% level of significance. There was a significant positive relationship between security and growth of agency banking of commercial banks in Trans Nzoia County at 1% level of significance. Based on the study findings it is suggested that banking institutions need to develop strategies that will enhance agency banking by encouraging more customers to transact at the agent terminals. The study suggested for further research as follows; Research to be carried out on the influence of network availability on growth of agency banking. Research to be carried out on the ways of enhancing agency banking to ensure maximum utilization

Keywords: Agency banking, Growth, Commercial banks, Technology, Lending, Growth, Security.

1. INTRODUCTION

The Central Bank of Kenya amended the Banking Regulations and issued Agency Banking Regulations (2010) to allow commercial banks contract third party retail agents to provide financial services on their behalf. This decision was also driven by Kenya's blue print for economic development, Vision 2030, to extend access to financial services for all adult Kenyans by the year 2030. Over the past 30 years, microfinance has evolved significantly and has achieved varied success in different parts of the world. Microfinance is defined as 'the provision of financial services, primarily but not exclusively savings and credit, to poor households that do not have access to formal financial institutions (Ledgerwood & White, 2006). Agency banking came into prominence in the 1980s with the emergence of the Grameen Bank. With the evolution of microfinance, there has been a gradual paradigm shift in the way it is practiced. Traditionally, microfinance focused on providing small loans (microcredit) to the poor to help them engage in productive activities. With time, it was demonstrated that a much broader range of financial services (microfinance), including savings, money transfers, and micro-insurance, were necessary in helping the poor build their assets, increase their income and reduce their vulnerability to risks (World Bank, 2006). In recent years, the core vision of microfinance pioneers, to help the poor help themselves, has broadened to the concept of inclusive finance (Rhyne, 2007). The United Nations defines an inclusive financial sector as a 'financial sector that offers a range of financial services to the entire active population of a country. It is characterized by competition among financial service providers, a diverse range of financial service providers, sustainability with respect to the permanence of access to financial services, and legal and regulatory environments that ensure the integrity of the financial sector and access to financial services (United Nations, 2007). In the past complicated mechanism of banking did not exist. In virtually all countries of the world today, banking business has graduated from carrying out simple transactions to more complicated techniques involved in modern banking. In the international competitive business setting, banks, among other organizations, have been facing a dynamic business environment that is technologically driven, globally unbounded, and customer oriented (Ignacio, 2009). Al-Mansour (2007), affirms that these challenges, among many others, have called for extensive search for suitable strategies to be adopted by organizations for growth and survival in the changing and turbulent marketplace. According to Agier & Assuncao (2009) new products, new markets and new regulatory systems have radically altered the environment in which financial sectors operate not only opening new profit opportunities but also creating new risks. Among the most important of these changes we have, is the worldwide movement of liberalization and deregulation of the banking industry (Pearce & Robinson, 1997). Lyman et al. (2008), defined agency banking as a retail outlet contracted by a financial institution to process clients' transactions. Ignacio (2008), states that rather than a bank branch teller, it is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds, pay their bills, inquire about an account balance or even get direct deposit from their employer. Globally, these retailers are increasingly utilized as important distribution channels for financial institutions. Although agency banking is fast growing and gaining strong roots in Latin America, Asia and South Africa, it remains untapped in most of Africa. In Kenya, high proportion of population is excluded from access to financial sector with the situation being grave in rural areas. For the majority of Kenya's population, especially those living in rural areas, access to banking services has been almost non-existent. With the introduction of Mobile banking and Agency banking services in Kenya's financial systems, affordable and convenient banking services continue to be availed to the large unbanked masses. To keep up with international trends regarding the use of agency banking to enhance financial inclusion, the Finance Act of Kenya (2010) amended the Banking Act to facilitate use of third parties by banks to provide banking services. Agency banking, which leverages heavily on ICT, is a component of branchless banking that allows financial institutions to offer financial services outside the traditional brick and mortar bank premises (Mas, 2008; Mas and Siedek, 2008). It allows customers to conduct a limited range of financial transactions at third party retail outlets including post offices, supermarkets and grocery stores, pharmacies, and gas stations, among others, located in remote areas. These retail agents are mandated to manage transactions (deposits, payments and cash withdrawals) on behalf of the financial institution and are remunerated on commission basis. They are linked to the 3 institution's servers using a telephone line, and use Point of Sale (POS) device and barcode readers. Agency banking improves the bank's geographical coverage and competitiveness so that existing and potential customers can benefit from a greater level of convenience in accessing banking services. This convenience is offered through agents of the bank and when combined with new services can expand the bank's target beyond the traditional markets. The introduction of agency banking is meant to expand access to financial services, especially in rural areas where it has been expensive for banks to maintain a presence, owing to the smaller volumes. Banks tap in to the network of SACCOS and micro-finance institutions to access their front office services while guaranteeing customers' deposits. According to Sunguti (2008) banks in the world over have continued to look for ways to reach their customers profitably. This has led banks to expand their networks by opening branches to extend their reach. However this is not feasible especially in areas where transaction volumes cannot

justify the cost of setting up branches. To address this problem, banks are increasingly warming up to the idea of agency banking by partnering with local merchants to offer banking services that would otherwise be offered in the bank branches..

2. RESEARCH OBJECTIVES

General Objective:

The general objective of the study was to establish the factors influencing the growth of agency banking of commercial banks in Trans Nzoia County in Kenya

Specific Objective:

The specific objectives of this study were:

- (a) To establish the influence of technology infrastructure on the growth of agency banking of commercial banks in Trans Nzoia County in Kenya.
- (b) To determine the influence of Banks-Agents distance on the growth of agency banking of commercial banks in Trans Nzoia County in Kenya.
- (c) To find out the extent to which security influenced the growth of agency banking of commercial banks in Trans Nzoia County in Kenya

Research Hypothesis:

This research was guided by the following hypotheses:-

- (a) H_{01} : There is no significant relationship between technology infrastructure and growth of agency banking of commercial banks in Trans Nzoia County in Kenya
- (b) H_{02} : There is no significant relationship between Banks-Agents distance and growth of agency banking of commercial banks in Trans Nzoia County in Kenya
- (c) H_{03} : There is no significant relationship between security and growth of agency banking of commercial banks in Trans Nzoia County in Kenya.

3. JUSTIFICATION OF STUDY

It is hoped that the findings of this study will be important for the following reasons;

By establishing the factors influencing the growth of agency banking of commercial banks within Trans Nzoia County, the affected banks within the county will be able to use the findings of the research to develop strategies for improving agency banking in order to optimize their potential. It is hoped that by implementation of new strategies based on the study findings will lead to increased transactions at agents thus reducing long queues in the banking hall; improving customer satisfaction, efficiency and convenience and finally increasing the bank financial resources through agents' commissions (Goals of the financial institutions). The findings of the study will be used by other scholars and researchers to carry out more research in the related fields.

4. LITERATURE REVIEW

This study is based on the following theories;

Agency Theory:

The theory of agency was first explicitly modeled by Jensen & Meckling (1976) in their study of structure of the firm. Agency theory addresses all exchanges involving cooperative effort and delegation of work and decision making by one party (principal), to another party called agent. Jensen & Meckling (1976) describe an agency relationship as a contract (implicit or explicit) in which one or more persons, the principal(s) engage another person, the agents, to take actions on their behalf. It thus involves delegation of some decision making authority to the agent. It is taken as unquestionable that an informed principal can benefit from this delegation to an informed agent and that it is in fact optimal for an uninformed principal to do so given their lack of skills, knowledge and experience. Agency theory postulates that the firm consists of a contract between the owners of economic resources (principals) and managers (agents) who are charged with using and

controlling those resources. Furthermore, agency theory is based on the premise that agents have more information than principals and that this information asymmetry, adversely affects the principals ability to effectively monitor whether their interests are being properly served by the agents. It also assumes that principals and agents act rationally and that they will use the contracting process to maximize their wealth. This means that because agents have self-seeking motives they are likely to take the opportunity to act against the interests of the owners of the firm, for example allocating themselves huge pay perks. The notion of agency is widely used in economics, legal and social sciences albeit with different comparable meaning. Human agents autonomously choose to engage relations with principals presumably because doing so promotes or does not conflict with their own interest. By engaging in agency banking relationship, however, an agent is bound to moral and legal rights that protect the interests of the principal through a legally enforceable contract entered into by both the principal and the agent. Agency theory seeks to determine the most efficient contract governing the two parties, given its assumption about the parties, organization and its formation. In agency banking, the contracting bank is the principal while the retail outlet or shops are the agents.

Technology Acceptance Model (TAM):

There are several models existing that have been used to investigate adoption of technology. Several studies focusing on adoption of mobile services have their roots in Technology Acceptance Model (TAM) originally proposed by Davies in 1986. The model is originally designed to predict user's acceptance of Information Technology and usage in an organizational context. TAM focuses on the attitude explanations of intention to use a specific technology or service; it has become a widely applied model for user acceptance and usage. There are a number of meta-analyses on the TAM that have demonstrated that it is a valid, robust and powerful model for predicting user acceptance (Bertrand and Bouchard, 2008).

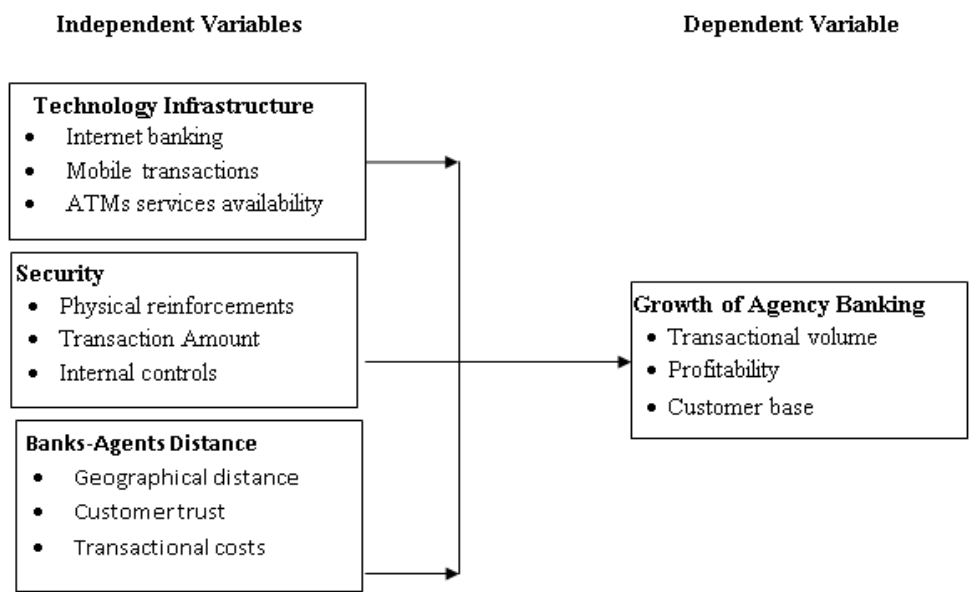
The TAM model which deals with perceptions as opposed to real usage, suggests that when users are presented with a new technology, two important factors influence their decision about how and when they will use it (Davis, 1989). These key factors are: Perceived usefulness (PU) .This was defined by Davis as "the degree to which a person believes that using a particular system would enhance his or her job performance" and Perceived ease-of-use (PEoU) - Davis defined this as "the degree to which a person believes that using a particular system would be free from effort". Technology adoption especially, in banking systems has shown a great momentum and spread at an unbelievable pace across the world. Considering the importance of banking system's high presence and affordability, there is great potential of using this in agency banking for provision of banking services to unbanked community. However, technology systems have associated data and network security risks which make them susceptible for conducting financial transactions. Technology risks regarding information and data security based on applicable models of agency banking have been reported thus creating uncertainty to the clients. Financial Institutions are required to plan and act for long term development and prosperity of their agents for them to reach the targeted customers at a set population. As the technology changes rapidly, banks have been greatly affected in its operation, whereby application of the technology ensures quick and effective services to the clients. However, banking agents do not change their system as frequent often leading to system failure and the consequent delays in transaction execution. This leads to customer inconvenience and trust over the security/safety of transaction lodged with agency banks. Moreover, these constant systems failure makes transactions with banking agents vulnerable to fraud. Use of technology increases the risk that customers cannot understand their rights and press claims when aggrieved. It is not always clear to customers how they are protected against fraud when they use agents to conduct financial transactions whenever a problem occurs. To create confidentiality to the customers Financial Institutions and technology service provider should have proper technology infrastructure backup, disaster recovery plan and technical security infrastructure in place to ensure timely services availability to all clients. Appropriate customer protection against risks of fraud, loss of privacy and even loss of service is needed for establishing trust among consumers as trust and customer confidence is the single most necessary ingredient for growth of agency banking. Agency banking is the new innovation that banks are using to take services to the un-banked and under-banked at a cheaper rate. Agency banking was introduced during the 2009 budget and was enshrined in the Finance bill of 2009. Agency banking takes customers out of the bank halls to kiosks and villages. Investors have pumped billions into new platforms that offer agency banking services (Mulupi, 2011). Cost saving and accessibility of financial services are the main forces driving banks to embrace agency banking in their operations. Banking agent is a retail or postal outlet contracted by a financial institution or a mobile network operator to process client's transactions. Rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transactions and lets clients to deposit, withdraw and transfer funds, pay their bills, inquire about an accounts balance or release government benefits or direct deposit from their employer. According to Pickens (2009), banking agents can be pharmacies, supermarkets, convenient stores, lottery outlets, post office and many more. Globally, these retailers and post offices are increasingly utilized as important distribution channels for financial

institutions. There is still cases of selected use even when a client has chosen to embrace the new technology, they still use some and rely on the traditional methods they are used to for some activities despite the fact that it could also be done through mobile and agency banking. This suggests apathy in technology adoption.

Innovation Theory:

The world is witnessing today profound transformations and acceleration as a result of the tremendous development of information technology and the steady growth of volume of information, which has led to the emergence of new types of transactions and activities in various fields. The banking sector has been one of the first sections that have adopted many electronic applications to improve performance and gain a competitive advantage strategy. In light of the extensive use of information and communication technologies, the financial services industry and banking has provided new systems and applications that maximizes the use of modern technology and are now available. Therefore it has become necessary for banks to change the concept of traditional banking service to remote banking services because of the rapid growth of electronic banking services by customers and increased competition among banks to reduce costs, raise efficiency and attract more customers. Hence the bank agents have thrived and are currently estimated to have 33% penetration. The number of banks opening branches has decreased and is attributed to affordable agent banking and lowers service charges. Innovation in banking should be directed to at improving the infrastructure that fosters efficient financial services and international trade. In this study, innovation theory was used to show how modern payment systems had transformed the technology of banking and facilitated changes in the strategy and structure of financial services organizations. Design, implementation and dissemination of payments systems and costs have come down according to bank case studies (Michael and Bloodgood, 2010). Currently agent banking is an integral part of modern banking in many countries and the market is still growing

Conceptual framework:



5. REVIEW OF VARIABLES

Technology infrastructure:

According to Suoranta and Mattila (2004), as technology continues to be an important element in financial service delivery, understanding the factors that influence the behavior of consumers towards using electronic banking technologies will continue to be an important area of research. According to the European Fencing Industry Association (EFIA) (2010), Microfinance Institutions (MFIs) commercial banks and other financial institutions have tended to establish their traditional branches in urban centre leaving out on areas that often do not have incentive or capacity to establish formal branches, this leaves out a significant population from accessing banking services. Accessing financial services ensures that an individual can access credit for personal development. MFIs and banks today can take their financial services to this hard to reach and geographically dispersed areas and tap this segment of clientele through agent banking. According to the Oxford policy management (2010), the agents make use of the mobile phone technology and internet banking technology to connect to the server of the principal institution to carry out customer transactions. This

model provides significant opportunity to reduce transaction cost such as travelling by clients to seek services in established branches. According to CBK (2009), there are many technological and operational challenges in employing a successful agency banking strategy. Technology should be in place to enable banks and their customers to interact remotely in a trusted way through existing local retail outlets. Agent banking requires a generally good infrastructure in terms of road network, communication and information technology. Considerations should be made for areas that are hard to reach due to a poor fixed infrastructure and poor transport system rural areas, insufficient cash flow in rural areas some areas may lack agents who meet financial qualifications, low penetration of credit and debit cards, low volumes of utility payment bills for electricity, water, telephone and other pressing social concerns such as poverty, drought, famine, diseases and unemployment. It is however noteworthy that these challenges are surmountable and once due attention is given to them, agent banking can still be implemented (CBK, 2009). According to Ignacio (2008), agency banking strategies rely on agents that operate outside of banks branches. Agent banking is undoubtedly a necessity in Kenya. However, in comparison to Brazil and Colombia, Kenya suffers the following disadvantages; poor fixed line infrastructure, high incidence of fraud, insecurity-robberies, theft, carjacking, hijacking, level of technological literacy in rural areas still low, low financial education, poor transport system. According to Marketing Intelligence (2003), computerization in the Kenyan banking industry got off to a slow start and only picked up momentum in the 2000's. By linking up technological developments in telecommunications and Information Technology, real-time on-line electronic funds transfer came into existence. Today, commercial banks in Kenya have the privilege of various delivery channels for their products and services. These include the brick and mortar branch office networks, automated teller machines (ATM's), tele-banking or mobile banking via the telecommunication channel, internet banking and agency banking (Mwirigi, 2010). Mobile banking is the provision of banking services with the help of mobile devices. The banking sector has had to adopt technological change to remain competitive. Quite a number of banks have innovated various mobile banking products for instance Equity bank, 'Mkesho', KCB, 'Mobibank', Family bank, 'Pesa pap' and Co-operative bank, 'Mcoopcash'. Mobile banking removes geographical limitations to customers and therefore bringing convenience. There is no time limitation that if banking may be performed throughout the day and any place. The innovation of mobile banking has affected the growth of agency banking because of its convenience, privacy and cheap rates. Most of the customers prefer to use mobile banking than working to the agents. The other technological infrastructure affecting the growth of agent banking is internet banking. Many customers have adopted internet banking in which they are able to access almost all financial services through the same system thus no need to visit bank agents. The customers with internet banking are able to do bank transfers, check balances, print statements and even pay bills at the comfort of their desks thus reducing the number of customers visiting agents. The success of agent banking is also based on the ease of banking by the agent. In Brazil for example, the available technological network allows any agent to deposit cash received in any bank to be transferred to his own bank at no fee. It is therefore not necessary for an agent of one bank to travel long distances to deposit cash in his own bank branch. Availability of agent channels is vital in ensuring a wide reach by the bank through its retail agents especially in rural areas. Urban areas have numerous delivery channels for example shops, supermarkets and pharmacies. (Kumar, Nair, Parsons and Chong (2008) also stated that low income earners see themselves as incredible for bank accounts. According to Anderson (2007), people remain unbanked in the U.S due to reasons which include: lack of understanding about the banking system, expectations for having a bank account, and lack of documentation needed to open a bank account. One of the most accepted solution to this problem is the shift from the branch based banking system to the adoption of the branchless banking system. Guatam (2008) opined that if the unbanked Africans cannot go to the bank, it is the bank that must reach out to them and this is only possible through agency banking. African banks are now moving closer to the 230million unbanked households in Africa's rural areas through advanced satellite technologies (Guatam, 2008). Chong (2008) also revealed that, the rapid growth of agency banking is reducing the cost and expanding the availability of such service to those in developing countries who lack access to financial services (Urdapilleta, 2006).

Security:

According to Charles, N (2014), society depends on computer systems. Interactions in business and with the government are often carried out over the Internet, and even social networks are moving online. While people get convenient access to important services around the clock, great challenges also emerge in terms of security and privacy. There are various risk implications of use of agents by banks. Entrusting retail customer Contact to the agents is riskier than these same functions in the hands of bank officer in a Conventional bank branch. Special attention should be paid to credit risk, operational risk, Liquidity risk and reputation risk. The use of retail agents potentially raises special concerns regarding consumer protection and compliance with rules for combating money laundering and financing of terrorism which

deserves the institution's attention. The time lag between collection from customers and depositing the same to the bank by the retail agents generates credit risk. There are chances of customer or retail agents committing fraud, loss of bank's equipment or other property from a retail agent's premises, data leaks or data loss from hacker attacks, inadequate physical or electronic security or poor backup systems. All these factors lead to operational risk. Retail agents that are relatively small, unsophisticated and remote may not have enough cash to meet customer's requests for withdrawals and may lack experience in the more complex liquidity management required for offering financial services. When retail agents underperform or are robbed, the bank's image may suffer causing reputational risk which may also be caused by operational risks such as loss of customer records or leakage of confidential customer data, as can liquidity shortfalls in the retail agents' cash drawer. Banks bear the risks that customers are improperly identified and that they use the retail agent to launder money or channel funding to terrorists, with or without the agent's knowledge or complicity. There is need to consider all of the above risks and extend the risk management program to cover the same. Proper assessment of agent's credit worthiness and proper limit structure for agents' various activities commensurate with this assessment should be in place. Proper dispute resolution mechanisms should be in place as should proper communication of its complaints redressed set up to the Customers. Appropriate customer protection against risks of fraud, loss of privacy, and loss of service is needed for establishing trust among consumers as trust and customer confidence is the single most necessary ingredient for growth of any branchless banking model. As it deals with a large number of first time customers with low financial literacy level, agent banking requires that adequate measures for customer protection, awareness and dispute resolution are in place. Physical security can pose a challenge with regard to security of cash and even the people managing and working with agents. The specific security challenges are robbery, theft and fraud. Distance to the nearest bank branch may be a challenge particularly in the rural areas. In Brazil for instance, some commercial banks have accounts with other banks with branches near the location of their agents to enable them safeguard their money.

Banks-agents distance:

Customers will not knowingly incur more in terms of financial cost to do a bank transaction at the agent unless the bank is not available (CBK Governor, 2011). The customer will prefer to visit the bank than agents if the bank is near. This is because the customer may trust a bank officer more than the agent in terms of confidentiality, reliability and satisfaction and also taking into consideration the transactional costs is cheaper at banks. Thus if agents are located near the banks they may not have a lot of customers thus these influences the performance and growth of agency banking. On the other hand if the agent is located away from the bank it tends to have more customers transacting because the customer will prefer to save time and transport cost to the bank. Thus the bank agents who are located away from the bank tend to perform better than those near the bank branches. Finally the physical location of the agents affects its performance especially those located in remote areas where the number of people in need of financial services are very low. In such places there is poor performance of agency banking and hence low growth rate and even some end up to be dormant.

Growth of Agency Banking:

The key measure of the growth of agency banking is the commission earned by the bank agents and banks at the end of each financial year. The research however realized that the bank agents were not at ease discussing the commission earned than discussing the average number of transactions done per day or per month. On the other hand, the banks were also reluctant to disclose the commissions they earn under agency banking services. This is because nobody wants to discuss their earnings with anybody. However number of transactions per day was easily obtained with ease from the agents' records and also banks' records. The commission earned is a factor of number of transactions done. The independent variables under investigation were likely to influence the growth of agency banking as follows; Technology infrastructure- advancement in banking technology infrastructure would affect the growth of agency banking of commercial banks in Trans Nzoia County this is because many customer may prefer to embrace technology where they can do their transactions at the comfort of the offices any time than going to look for bank agents or bank branches. Sometimes internet banking and mobile banking is considered more convenient and cheap than visiting branches and bank agents for services. This may lower the number of transactions done by the bank agents' thus affecting the growth of agency banking of commercial banks in Trans Nzoia County in Kenya. Security-Physical security is a challenge with regard to security of cash and even people managing and working with bank agents. The agents may avoid holding bulk cash for the fear of loss at the premises where they are operating or when on transit. The customers should also be assured security by the banks for using bank agents by taking responsibility for all transactions carried out by the bank agents. Even though common law provides for liability of the principal for the act of the agent, the existing exceptions to this general rule may not provide the necessary confidence that a customer need when transacting with agent (CBK 2009).

Then, if this is not clear to customers they may prefer to be served from their bank branches where security is assured leading to low transactions at the bank agent terminals hence affecting the growth of agency banking of commercial banks in Trans Nzoia County in Kenya. Banks-agents distance- the distance from the agent to the nearest bank branch is a challenge particularly in rural areas therefore agents have to travel long distance to deposit cash or withdrawal cash for operational services. This may be too costly for the bank agents leading to some of them abandoning agency services. The customers who are near the bank branches may prefer to get services from the bank than to visit bank agents. The customers may feel that they trust the bank officials more than agents and therefore they may prefer to be served from banking hall. These may lead to lower transactions at the bank agents' terminals thus affecting the growth of agency banking of commercial banks in Trans Nzoia County in Kenya

6. RESEARCH METHODOLOGY

RESEARCH DESIGN:

A research design is the plan or structure of the investigation used to obtain evidence to answer research questions. The design describes the procedures for conducting the study, showing when the study was done from and under what conditions in which data was collected (Sincich Benson, 2008). While carrying out the study, the researcher utilized descriptive survey and literature review to structure the research. Descriptive survey is a method of collecting information by interviewing and administering questionnaires to a sample of individuals, (Orodho 2003). Descriptive studies are classified into three categories; Survey Studies, Interrelationship Studies and Developmental Studies (Borg, & Gall 2003). Specifically, survey research was employed in this study. The surveying research method investigates a contemporary phenomenon within its real-life context.

TARGET POPULATION:

According to Mugenda (2008), the target population comprises of all individuals, objects or things that the researcher can reasonably generalize his or her findings to. The target population for this study were all registered bank agents of commercial banks in Trans Nzoia County. According to the Central Bank of Kenya September, 2014 report, there were 222 registered bank agents spreading across the five constituencies in the county. The distribution of the agent banks were as shown in table 3.1.

Distribution of bank agents per each commercial banks in Trans Nzoia County

Commercial Banks	Number of Agents
Equity Bank	87
Co-operative Bank	62
Kenya Commercial Bank	56
National Bank	10
Post bank	7
Total	222

SAMPLE SIZE AND SAMPLING TECHNIQUE:

The sampling techniques the researcher adopted were; First, stratified sampling was applied whereby the researcher classified the respondents in five main strata according to the financial institutions offering agency services in the county (Equity bank, Co-operative bank, Kenya commercial bank, National bank and Post bank). This was to increase efficiency because it was important to treat homogenous parts of the population as populations in their own rights as a result of the population not being homogeneous. Secondly, random sampling was applied whereby the following agents were selected from each bank, Equity bank 24, Co-operative bank 17, Kenya commercial banks 16, National bank 7 and Post banks 5.. A sample is a smaller group or sub group obtained from accessible population (Mugenda & Mugenda, 2009). This study adopted Yamane (1967) formula for sample size determination. Yamane (1967) provides a simplified formula for sample sizes as;

$$n = \frac{N}{1 + N(e)^2}$$

Where;

n = the sample size

N = the population size.

e = the error margin.

In this case at 90% confidence interval, $n = \frac{222}{1+222(0.1)^2} = 69$

Thus the targeted sample size for registered agent banks was 69 agents.

DATA COLLECTION METHODS:

The core of the study was formed by primary data that was collected from the field. It was important in providing the basis of the study and the conclusions. This primary data was collected through questionnaires and field observations. The questionnaire as a tool was used because it is familiar to most people (Berdie et al. 1986). The questionnaire is a convenient tool especially where there are large numbers of respondents to be handled because it facilitates easy and quick derivation of information within a short time (Kerlinger, 2004). The questionnaire was arranged into four sections; section one dealt with general information, section two focused on technology infrastructure, section three to deal with agent location to bank distance and section four captured information on security.

PILOT TEST:

Content validity of the instrument was established in two stages. First, the researcher critically considered each item in the instrument to see if it contains a real representation of the desired content and if it was to measure what it was expected to measure after considering the constructs to be measured. Secondly, the instrument was presented to two research experts from Jomo Kenyatta University of Agriculture and technology Kitale campus then to the supervisor who evaluated the applicability and appropriateness of the content, clarity and adequacy of the instrument construction from a research perspective. They indicated by tick or cross for every item in the questionnaire if it measured what it was expected to measure or not. The recommendations of the research experts and the supervisor were considered and incorporated in the final instrument. Mugenda and Mugenda (2002), defines reliability as the degree to which a research instrument yields constant results or data after repeated trials. It is concerned with the internal properties of a measure and indicates the accuracy or precision of the research instrument. Koul (1993), states that the reliability of a test refers to the ability of that test to consistently yield the same results when repeated measurements are taken of the same individual under the same conditions

7. CONCLUSION

Correlation between Security and Growth of Agency Banking:

Security	Growth of Agency Banking		
	N	P-value	Pearson rho
	66	.000	.695**

** Correlation is significant at the 0.01 level (2-tailed). *Correlation is significant at the 0.05 level (2-tailed).

Correlation Between Bank Agent Transactions and Security Related Factors:

Security Factors	Bank Agent Transactions		
	N	P-value	Pearson rho
Float Level	66	.000	.584**
Police Posts	66	.000	.654**
General Security	66	.000	.768**

** Correlation is significant at the 0.01 level (2-tailed).

Correlation Between Bank-Agent Distance and Growth of Agency Banking:

Bank-Agent Distance	Growth of Agency Banking		
	N	P-value	Pearson rho
	66	.000	.621**

** Correlation is significant at the 0.01 level (2-tailed). *Correlation is significant at the 0.05 level (2-tailed).

Correlation Between Bank Agent Transactions and Distance Related Factors:

Distance Factors	Bank Agent Transactions		
	N	P-value	Pearson rho
Distance to Bank	66	.000	.762**
Distance to ATM	66	.000	.732**
Travel Costs	66	.000	.689**

** Correlation is significant at the 0.01 level (2-tailed).

The correlation between technology infrastructure and growth of agency banking was -0.714 with a p - value of 0.000, since the p - value was a value less than 0.05, then at 1% level of significance, we reject null hypothesis and accept the alternative hypothesis that there is significant relationship between technology infrastructure and growth of agency banking of commercial banks in Trans Nzoia County in Kenya. The correlation between Bank-Agents distance and growth of agency banking was 0.621 with a p – value of 0.000. Since the p - value was a value less than 0.05, then at 1% level of significance, we reject null hypothesis and accept the alternative hypothesis that there is significant relationship between Bank-Agents distance and growth of agency banking of commercial banks in Trans Nzoia County in Kenya. The correlation between security and growth of agency banking was 0.695 with a p – value of 0.000. Since the p - value was a value less than 0.05, then at 1% level of significance, we reject null hypothesis and accept the alternative hypothesis that there is significant relationship between security and growth of agency banking of commercial banks in Trans Nzoia County in Kenya.

The study recommends that;

Based on the findings the of this study that banking technology infrastructure negatively influences on growth of agency banking of commercial banks in Trans Nzoia County while agents' to banks distance and security conditions positively influenced the growth of agency banking in Trans Nzoia County it is recommended that banking institutions need to develop strategies for enhancing agency banking by encouraging more customers to transact at the agent terminals. The banks should come up with a technology which will be integrated with Point of Sale machines (POS) such that when carrying out some transactions customers has to use agency services to complete such transactions. This will increase utilization of agency banking hence growth of agency banking. There is a need for banks to educate both banks' agents and customers on advantages of using agency banking and to handle their complaints with urgency, such that even if the agent is located near ATM or a bank the customer would prefer to be served by the banks' agents. The banks should also review the charges downwards at the agents' terminals to motivate customers to be served at the agents' terminals. The banks' management should come up with the way as incentive of helping the banks' agents to transfer bulk cash from and to the bank to ensure maximum security. This will help the agents to reduce loss when cash is in transit. The banks should come up with policies describing the nature and standard of structure or building within which the agents should operate. This will help the agents' to hold a lot of float without fear of loss, thus the agent will be able to increase transactions due to float availability.

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