ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF AGENT BANKING CHALLENGES OF UNITED BANK SHARE COMPANY

BY

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DECEMBER, 2015

ADDIS ABAB, ETHIOPIA

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List of Acronyms

AML-Anti Money Laundering

ATM-Automated Machines

B2p-Buisiness to people

CFT-Combating Financing Terrorism

FY-Fiscal year

KYC-Know your customer

MFI- microfinance institutions

NBE-National Bank of Ethiopia

POS-Point of sale

P2P-People to people

PIN-Personal Identification Number

TF-Terrorist Financing

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Abstract

There is an increasing need to promote technological and institutional innovation as a means to expand financial system access and usage, including addressing infrastructure weaknesses and empowering business enterprises by developing financial literacy and financial capability programs to bring all people on board and all to participate in economic development of a country, perhaps agent banking will offer a solution to slow pace of individuals enterprise development especially from the rural areas. The purpose of this research is to assess agent banking practice challenges in United Bann S.C of Ethiopia using primary data collected through non probability purposive sampling technique. The type of data used for the study includes qualitative and quantitative data. The source of data is through the use of questionnaires. Data collected from 71 employees who are involved in the duty of agent banking. The researcher identified some of the challenges hindering the well functioning of agent banking and from these risk, insecurity, power and network interruption, less attractive commission, lack of awareness and trust by the society, maximum transaction deposit and transaction limit, training problem are the major ones in delivering agent banking service. Generally, it pointed out major challenges related to risk, infrastructure, commission, legal and regulatory, society and technology related issues in delivering agent banking service. As a result, the researcher obtained that liquidity risk, security risk, power and network interruption, unattractive commission, maximum deposit and transaction limit, less awareness, trust and knowledge, expansion of ATM, POS, internet and mobile banking are the current challenges in delivering agent banking in United Bank share company.

Key Words*:* Agent banking, agent banking challenges

CHAPTER ONE

1.1 Background of the study

Agent banks provide regular banking functions such as deposit taking and withdrawals, loans disbursement and repayment, salary payments, pension payouts, funds transfer and mini statements issuance through shared infrastructures. In addition, the agents helps the banks in reaching out to new customers through account opening, credit and debit card applications and cheque book request (Central Bank of Kenya, 2013).

"Agent banking" means the conduct of banking business on behalf of a financial institution through an agent using various service delivery channels; **"agent"** means a person engaged in a commercial/business activity and has been contracted by a financial institution to provide the services of the financial institution on its behalf and **"bank"** means a company licensed by the National Bank to undertake banking business in Ethiopia or a bank owned by the Government; (NBE, Regulation of Mobile and Agent Banking Services Directives No. FIS /01/2012**).**

Agency banking was first developed in Brazil in 1999. Although by 2000, only 1,600 municipalities in Brazil had bank branches, by 2010, some 170,000 agents cover all of the 5,500 municipalities, and nearly 12 million accounts have been opened at agents over three years (McKay, 2011).

According to reporter issued dated November 08, 2014 United and Dashen banks, two of the local share companies operating in the banking sector, are set to start agent banking services having obtained the licenses from the National Bank of Ethiopia (NBE) in November 2014.Taye Dibekulu, president of United Bank, disclosed that United and have become one of the first private banks to obtain agent banking licenses, together with Dahsen, and is all set to launch agent banking services in Ethiopia. According to Taye, agent banking is a somewhat very important banking system for Ethiopia as it would enable banks to go down to the residential areas in contrast with the ATM banking service which seems to be limited to city-centers. He further explained that agent baking can be operated by supermarkets, malls, pharmacies and shops to ease the need to go to banks to get the services. "Kenya can be named as pioneer in the region in agent banking," Taye said. As one of the payment services, agent banking plays an important role in promoting the country's banking system, he explained further. According to the president, customers are only allowed to have a transaction up to 25,000 on a daily basis. More importantly, the system will enable people to have cash payment which other modern means in banking do not.

As per the directive No. FIS /01/2012 stated on its article No.6.4, United Bank received an approval to pilot launch the delivery of Agent Banking Service fulfilling the criteria set by the National Bank of Ethiopia including the preparation of business plans, operational policy and procedure manuals as well as risk management policy and procedures. After completing the pilot phase, During FY 2014/15 United succeeded to usher in a new service - Hibir Agent Banking - to its existing service line, following an official approval from the National Bank of Ethiopia to render the service, subsequent to a successful piloting phase. Following the permission of mobile and agent banking, United established a team responsible for the implementation of the service in line with the Bank's strategic focus on technology led banking which synchronize with its new motto "Beyond Core Banking to Technology Led Excellence". The service enables the Bank to use Banking agents that double as a kind of branch to process basic banking services including opening M-wallet account, making deposits and withdrawals, transferring funds as well as sending and receiving money. United received the approval to go on delivering the service on March 31, 2015.In its Agent Banking Services, United will provide branchless services banking especially for the unbanked society. To begin with United Bank will provide the following banking service packages using agents. These are Cash–in (Deposit accepting), Cash-out (Withdrawal),Person to Person (P2P) Money Transfer, Send cash to Walk-in customer, Receive cash by Walk-in customer, Money transfer between own accounts (internal) that is from physical account to M-Wallet and vice versa, Bulk payment dispatch (Bank payment dispatch to customers) – B2P like case of salary, remittance, etc. Additionally, Non-financial services like Account opening /Customer registration, Account balance inquiries and PIN change services are available on agent banking service. (United bank portal)

Improving access to financial services can contribute to transforming peoples' lives in developing countries. However, the majority of the ordinary people in these countries still have limited access to these services. Today, an estimated 2.7 billion people in developing countries have no access to financial services (Mthuli *et al,* 2010).

We find that agent banking systems are up to three times cheaper to operate than branches for two reasons. First, agent banking minimizes fixed costs by leveraging existing retail outlets and reducing the need for financial service providers to invest in their own infrastructure. Although agent banking incurs higher variable costs from commissions to agents and communications, fixed costs per transaction for branches are significantly higher. In an underutilized branch, fixed costs are distributed over a smaller number of transactions, resulting in significantly higher costs per transaction. Agent banking systems, on the other hand, receive a commission only if transactions are realized (Clara *et al,* 2010).

1.2 Statement of the problem

Financial services can only be delivered to a majority of poor households if the service providers—banks and Telco's—use retail distribution channels to get closer to where the poor live and at a fraction of the cost of traditional banking. These retail agents who convert cash to electronic money (e-money) or convert e-money to cash are the human face of all agent banking systems. Therefore, when building, incentivizing, and managing a network of retail agents, providers must address the operational challenges in a way that fosters a positive and consistent customer experience that will create and maintain trust in the system (Clara *et al,* 2010).

Yet, sub-Saharan African financial and banking systems remain underdeveloped. The banking systems in the region are highly concentrated and generally inefficient at financial intermediation; they are characterized by their small size and low intermediation, and despite little barriers to entry and exit - as evidenced by the dominant market share of foreign banks - competition is still limited. In this context, access to finance in sub-Saharan Africa is among the lowest in the world and presents one of the key obstacles to the activity and growth of enterprises. This in turn constrains the region from achieving its full growth potential. However, the relatively stable macroeconomic and financial environment, together with the current reform momentum and expected strong economic growth in many countries in the region, bode well for further development of the banking system. Moreover, the on-going structural changes in the banking sector, such as the emergence of mobile and agency banking as well as Pan-African banking groups, have a great potential to transform the existing business models, improve competition and efficiency, as well as access to finance and financial inclusion (Montfort *et al*, 2013).

An effective agent is well trained; trusted by customers; strategically and conveniently located; and properly incentivized to follow procedures, keep sufficient float on hand, and serve customers. Banks typically select established retail outlets, while mobile networks are more inclined to use smaller "mom and pop" shops or kiosks. When agents provide a range of services (e.g., account opening, deposits, withdrawals, bill payments, etc.) they are able to generate transaction volume and balance liquidity. An agent must maintain adequate cash and e-money float balances to meet customer cash-in/cash-out requests. If too much cash is taken in, the agent may run out of e-float and not be able to accept more deposits. If there are too many withdrawals, the agent will accumulate e-float but run out of cash. In either case, customers will get discouraged if the agent cannot provide the services they need when they need them. In addition, a secure mechanism needs to be in place to transport cash needs to and from an agent (Clara *et al,* 2010).

Agents will not provide quality service to customers without ongoing, on-site supervision and in-store training to ensure the agents are liquid, consistently branded, and following the prescribed business processes. Providers need to decide how to divide the varied management functions and whether to keep those functions in house or outsource to an independent service provider. We believe banks cannot rely on agents to cross-sell financial products. As a result, in order to increase overall customer profitability, banks may need to incur additional costs in marketing and deploying sales forces, including branch employees, to cross-sell additional financial products to agent customers. Back-office and technology costs may vary depending on the delivery channel, since a bank may lean towards more complex and higher-cost core banking systems than a telecom would because of increased regulatory requirements and more complex procedures and product offerings. Based on the data provided by institutions, our analysis assumes that fees on transactions through agents are not higher than in traditional banking channels. However, given the benefits of greater proximity, we believe there may be increased customer willingness to pay for transaction services delivered nearby (Clara *et al*, 2010).

Generally, the researcher initiates to do on this point to explore challenges related to risk, technological, social, infrastructural, income and legal and regulatory issues in delivering agent banking which are the major challenges in other countries and other commercial banks not showing immediate response for the service that is also the reason to do this research.

This study therefore sought to answer the question; are the above issues are the challenges in delivering agent banking in united bank S.C of Ethiopia. Additionally, it is the first research type in the industry of the country it can be essential to fill the current research gap on the area.

1.3 Basic research questions

1) What are the risks encountered in delivering agent service in United Bank of Ethiopia?
2) What are the challenges related to infrastructure in agent banking operation in United Bank of Ethiopia?
3) What technology advancement challenge agent banking service in United Bank of Ethiopia?
4) What are the social issues related with providing agent service in United Bank of Ethiopia?
5) What are commission related issues to be considered a challenge in the success of agent banking in United Bank of Ethiopia?

6) What are the legal and regulatory issues challenging agent banking service in United Bank of Ethiopia?
7) What are other challenges observed in agent banking service in United Bank of Ethiopia?

1.4 Objectives of the study

The general objective of the research is to assess the challenges of agent banking in United bank S.C of Ethiopia. Beyond this, the paper has its specific objectives which will be expected at the end. These includes:-

1) To know about the risk encountered in delivering agent service in United Bank S.C of Ethiopia.
2) To study the challenges related to infrastructure in agent banking operation in United Bank S.C of Ethiopia.
3) To explore challenges related to technology advancement on agent banking service in United Bank S.C of Ethiopia.
4) To identify challenges related to the society in providing agent service in United Bank S.C of Ethiopia.
5) To assess challenges related with commission on agent banking in United Bank S.C of Ethiopia.
6) To evaluate the challenges of legal and regulatory issues challenging agent banking service in United Bank S.C of Ethiopia.
7) To assess other observable challenges in agent banking.

1.5 Significance of the study

Since agent banking is the new and very recent for the country and also for United Bank S.C of Ethiopia and the Bank is pioneer in adopting it the paper assessed the challenges of agent banking. As a result, it helps as a reference for the bank to show the challenges and it also used as a reference for that other bonks intended to adopt agent banking in their modernization of services. The paper tries to point out the issues which is currently encountering of agent banking operations in United Bank S.C of Ethiopia which helps for maximizing the new service.

Besides, the study will be expected to serve

a) As a supporting material for further study in the sector.
b) The results will be inputs for the concerned bodies and policy makers and future researchers.

c) To foresee the overall challenges of agent banking in United Bank of Ethiopia.

1.6 Delimitation/scope of the study

From the entire financial sector operating in Ethiopia, the research involved only in United Bank of Ethiopia as it is the pioneer who adopted agent banking operation after completing the pilot phase. Therefore, the study discussed about the challenges that face United Bank S.C of Ethiopia. The reason behind selecting the topic is to offer a research on the new area which is not yet researched by other researchers and the product is also in the first phase of adoption it is becoming difficulty to easy detect the challenges on its application.

1.7 Organization of the research

The research was organized in to five chapters. The first chapter includes background of the study, statement of the problem, research questions, and objectives of the study, scope and significance of the study. The second chapter is about related literature review and the third about general research methodology.

The fourth chapter is about data presentation, analysis and interpretation. The final chapter finalized by forwarding, conclusion and recommendation of the study based on findings.

CHAPTER TWO

RELATED LITERATURE REVIEW

2.1 Definition of agent banking

"Agent banking" means the conduct of banking business on behalf of a financial institution through an agent using various service delivery channels; **"agent"** means a person engaged in a commercial/business activity and has been contracted by a financial institution to provide the services of the financial institution on its behalf and **"bank"** means a company licensed by the National Bank to undertake banking business in Ethiopia or a bank owned by the Government; (NBE, Regulation of Mobile and Agent Banking Services Directives No. FIS /01/2012)

2.2 Theoretical Framework for Branchless banking

Theories of branchless banking can be classified into three broad categories: Bank-focused theory, Bank-led and Nonbank-led theory.

2.2.1 Bank-led Theory

In the most basic version of the bank-led theory of branchless banking, a licensed financial institution (typically a bank) delivers financial services through a retail agent. That is, the bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction (Lyman, Ivatury and Staschen, 2006). The bank is the ultimate provider of financial services and is the institution in which customers maintain accounts. Retail agents have face-to-face interaction with customers and perform cashin/ cash-out functions, much as a branch-based teller would take deposits and process withdrawals (Owens, 2006). In some countries, retail agents also handle all account opening procedures and, in some cases, even identify and service loan customers. Virtually any outlet that handles cash and is located near customers could potentially serve as a retail agent. Whatever the 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.

Bank-led model offers a distinct alternative to conventional branch-based banking in that customer conducts financial transactions at a whole range of retail agents instead of at bank branches or through bank employees (Lyman, Ivatury and Staschen, 2006). This model promises the potential to substantially increase the financial services outreach by using a different delivery channel (retailers/

mobile phones), 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 (Tomašková, 2010).

2.2.2 Nonbank-led Theory

In this theory customers do not deal with a bank, nor do they maintain a bank account. Instead, 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. Customers exchange their cash 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). This 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. Further 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. For these reasons, 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).

2.2.3 Bank-focused Theory

The bank-focused theory emerges 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 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. Banks address these issues 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 (Kapoor, 2010).

2.3 Agent Network Structures

Providers have three options to acquire merchants that act as agents. Although many services will end up structuring their agent network from several types of merchants, some services start with one predominant approach.

1. **Use existing retail chains**. The provider enters into an agreement with a firm that operates several retail locations. This may be a chain of grocery stores or petrol stations, but it can also be other chains with many outlets, such as the post office or microfinance institutions (MFIs).
2. **Leverage a wholesale distribution system**. Every country has established distribution systems for selling consumer goods. Most prepaid airtime is not sold through MNO-owned and -operated retail stores, but through independent retailers found everywhere in the country. Its distributors (and distributors for many other products, such as soap and cooking oil) have relationships with many retailers who sell a range of products.
3. **Build a network from scratch from individual stores**. In this approach, providers build a network of agents one by one, usually with support from one or more ANMs. Some ANMs end up owning some of the outlets (Tomašková, 2010).

2.4 Challenges for agent banking

2.4.1 Upfront Capital

Agents require a lot of capital because they need to have enough cash on hand and electronic float for customers to withdraw and deposit on demand. Other costs also require upfront investment, though in much smaller amounts. Asking agents to accumulate up-front capital creates a barrier to market entry. Simply marshalling a very large sum of money may be difficult. Merchants with existing businesses may find that the amount of money required is too large to draw from the earnings or stock they already have, and borrowing such a large amount, either from informal or formal sources, may be challenging. Working capital requirements can also affect quality of service for customers and on-going costs for agents. While providers prefer agents to hold amounts that enable them to successfully service even very large deposits and withdrawals, agents make a different calculation, choosing to hold a smaller amount and turn away the infrequent large transaction, or ask the customer to break it into several smaller transactions across several days (Flaming *et al*, 2011).

2.4.2 Liquidity Management

The business of branchless banking relies on liquidity management—having cash where and when customers ask for it. Liquidity management has two components: (1) accumulating adequate e-float and cash and (2) rebalancing the two, which typically requires agents or their designees to physically transport cash. The less money agents have available to settle branchless banking transactions, the more frequently they will need to rotate those monies, yielding more rebalancing trips. Agents that seek to minimize the number of trips they make by carrying large cash and e-float balances incur a higher cost of capital. Liquidity management is the greatest expense for many agents, particularly small stores in rural areas. These are likely to see mostly cash-out transactions, have capital limitations, and operate far from rebalancing points. Liquidity costs can make the agent business unattractive or even unprofitable (Flaming *et al*, 2011).

2.4.3 Rigid Staff and Space Costs

If liquidity management costs tend to matter more to smaller rural agents than larger agents, staff and location expenses hit larger agents harder than smaller ones. Higher transaction volumes eventually require more staff and space dedicated to handling the branchless banking business. This creates a rigid cost "floor" that leaves agents with a lot less flexibility on how many transactions are needed for the agent business to be attractive (Flaming *et al*, 2011).

2.4.4 Security Risks

Crime follows money. As a branchless banking service grows, agents attract increasing interest from criminals. One aggregator for M-PESA reports that 10 percent of agents were robbed in 2009.[14] In Brazil, 93 percent of agents interviewed by CGAP report that being an agent increases the risk of being robbed, and 25 percent say they have been robbed at least once during the past three years. The amount of upfront capital an agent requires to begin operating can be increased by the cost of security improvements. But the expense from actually being robbed is much more substantial (Flaming *et al*, 2011).

2.4.5 System interruptions

Agent profitability is highly sensitive to service disruptions. This is particularly true for agents with capital, staff, and space costs dedicated to the agent business, as the agent incurs these costs whether or not revenue is being earned. Losing a few days of business may be enough to make the month unprofitable for an agent (Flaming *et al*, 2011).

The availability of network is key to an agent performance while poor connectivity constraints the number that are handled at the agent location (Charles and Dr. Agnes, 2014).

2.4.6 Complaint resolution

Banks and their agents have to contend with customers complaints in cases such as, customer being debited with cash he did not receive because of incomplete withdrawal transactions, an urgent deposit ‗hangs' somewhere else other than the beneficiary account due to system failure, where the agent has erroneously entered the wrong account number or bill account. This could mean a stranded commuter, a son or daughter somewhere being sent home for non-remitted school fees, a punitive disconnected of utility supply. How such complaints or errors are handled could mean retention or loss of the customer for good (Charles and Dr. Agnes, 2014). Bindra, (2007) states that a satisfied customer will tell one other customer about the experience but a dissatisfied customer will tell a crowd.

2.4.7 Effect on Agent's Other Line of Business

In most branchless banking operations, most agents have an existing business that continues to be important to the agent's total income. How the branchless banking business affects it is important. Merchants may also lose money because of agent activity. Customers could crowd a small shop and literally squeeze out people trying to access the pre-existing business, or at least distract the owner enough so that some transactions are lost. The large amounts of cash handled by agents may make them a more attractive target for robbery. It is also important to recognize that some agents may have motivations beyond direct or indirect profit (Flaming *et al*, 2011).

2.4.8 Adequate Revenue at Start-up

The provider in an agent-based financial service channel is likely to launch the initiative with sufficient capital to fund losses until the cash flow turns positive, a process that could take several years. Other companies in the supply chain may be able to do the same. But agents typically have limited resources to endure a prolonged period of unprofitable activity. Providers need to think carefully about how to provide sufficient remuneration to agents during the start-up phase. Some providers have opted to create a separate cadre of customer sign-up promoters to accelerate customer growth. Results have been mixed. This approach may be necessary where merchants are too distracted by their main business to promote the product aggressively in their stores or do not have the budget for extensive marketing (Flaming *et al*, 2011).

2.4.9 Major Costs Related to Growth

Most new agents can begin their agent business part-time using their existing premises and dedicating most of their time to their existing businesses. However, as the agent business grows, agents incur additional expenses. Some of these expenses, such as transport costs for rebalancing, are directly proportional to the volume of business and can rise and fall as volumes rise and fall. Other expenses are substantial one-off costs that can jeopardize agent profits (Flaming *et al*, 2011).

2.4.10 Fragmenting Demand across Too Many Agents

The ratio of customers to agents is a key driver of agent network revenue. This ratio is almost always low at start up. The service provider needs to establish enough agents to make the service attractive to customers, and then recruit customers fast enough to convince agents that their business will be profitable in the near future. But the ratio can deteriorate even after it reaches an optimum point (Flaming, *et al*, 2011).

2.4.11 Cost of Banking

Dorine and Dr. Fred, 2013 stated that Agency banking represents a significant opportunity to reduce transaction costs such as travel for clients by bringing financial services to hard-to-reach and geographically dispersed areas. This is especially true in Africa where some areas are sparsely populated leaving long distances between the customer and the bank. Moreover, in these areas overall literacy levels are fairly low. Also, banks and other financial institutions often do not have sufficient incentive or capacity to establish formal branches in these areas. Obviously, the set-up of agent banks is less costly and more flexible than for traditional bank branches since it reduces the need to invest in staff and physical infrastructure.

In countries where agency models have been successfully implemented, regulators and supervisors have tried to address the potential risks of using a large number of agents to deliver financial services by adopting risk-based approaches to supervision where agents are supervised indirectly and banks must assume full responsibility for their agents (Dorine, and Dr. Fred 2013). Kasekende (2008) argues that regulation enabling agent banking allows for sufficient business incentives for both agents and financial institutions to increase outreach by delivering financial services through a network of agents. Many of these initiatives not only enhance the value of the model but they reduce the overall cost of banking for the low-end bank client.

2.4.12 Customer service

Customer service has been defined as customers' overall impressions of an organization's services in terms of relative superiority or inferiority (Bindra, 2007). Further, service quality is considered to not only meet but to exceed customer expectations, and should include a continuous improvement process (Walker & Cheung, 1998). Service quality arises from a comparison of the difference between service expectations developed before an encounter with banks and the performance perceptions gained from the service delivery based on the service quality dimensions (Bindra, 2007). Berry et al. (1985) and Zeithaml and Bitner (1996) indicated that service quality consisted of five dimensions as Follows; Tangibles: appearance of physical facilities, equipment, personnel and written materials. Reliability: ability to perform the promised service dependably and accurately. Responsiveness: willingness to help customers and provide prompt service.

2.4.13 Convenience

Proximity: Assessed whether the distance covered to access bank services and the associated time and cost of transport are real incentives to alter the customer decision whether to visit the bank or the agent. According to (Kithuka, 2010) distance does not influence the frequency of customer transactions. This cannot be interpreted to mean proximity has zero effect on agency adoption. ―Customers will not knowingly incur more in terms of time and financial cost to do a bank transaction at the bank unless it is not available at the agent (CBK Governor, 2011) ‗Lower transaction costs were incurred since client/ entrepreneurs would visit agency any time without incurring any additional cost like transport cost to bank their cash. Agencies are more accessible for illiterates and the very poor who might feel intimidated in branches with low amount of money they would wish to withdraw and deposit. Though most people are not aware of these costs, to some extent they do influence the customer decision to use agency banking or not to use the agency banking hence influences the performance and growth of agency banking (Ombutura & Mugambi, 2013).

2.4.14 Agent quality

Agent quality was assessed using three parameters namely float adequacy, age of an agent in agency business and the core business of the agent (Dorine and Dr. Fred 2013). Agent float: This is the cash at hand and bank balances set aside by the agent for agent banking operations. According to CGAP (2011), the top concerns among agents are low remuneration, liquidity management and network availability. The operation of the agency is such that a customer deposit at the agent means customer giving cash to the agent and is accounted by the bank by debiting the agent account at bank and crediting the customer‘s account at the bank . It is therefore not possible for an agent to receive a deposit unless the agent has sufficient credit in the bank. A customer withdrawal at the agent means the agent gives cash to the customer and the bank accounts by debiting the customer‘s bank account and crediting the agent‘s account at the bank. An agent then can only pay out a withdrawal if they have cash in their till at the shop. This means the agent has to have both cash in the bank and cash in till. This is a key challenge to banks as most agents are not able to balance the cash holding or have inadequate capital. For some reason banks have not been able to convince some businesses like large retail chains which could be ideal for agency banking. Some of the reasons given are the inability of the banks to provide reconciliation mechanism which has led to the chains loosing cash. The situation of float is even worse for remote agents who have to travel to the banks to replenish their deposits when balances run low. Erratic nature of finance services daily cash limits are also to be considered as part of anti- money laundering initiative by CBK, agents cannot transact above certain limit. Hitting this limit means the agent can only close for the day unless they have applied for higher limits. In Brazil many agents complain about downtime –POS ―frozen by bank once cash limit reached, pending deposit of cash at branch, but often with a lag until POS is unfrozen (CGAP,2010)

Age of agency: Agents are expected to take time to establish themselves and the normal growth curve is expected to apply. This means lower foot print in the beginning of a new outlet that keeps on growing to maturity if the correct factors for growth are cultivated or closure or dormancy of agency if the right factors are not exhibited (Dorine and Dr. Fred 2013).

Agent‘s type of core business: The type of agent business is critical in number of ways. First the nature of business determines the hours of business. For example retail shops, supermarkets and hotels are known to open 365 day a year, they open early and close late. Chemists are known to open late in the day but extend late in the night. Majority of other businesses like the hard-ware shops open between 08.00hrs and 18.00 hrs. The more formal businesses like the SACCOs and microfinance have similar hours of business to those of banks and remain closed for businesses on weekends and public holidays (Dorine and Dr. Fred 2013).

2.4.15 commission

The key measure of performance at the agency is the commissions earned at the end of the month. The research has however realized the agents will be more at ease discussing number of transactions than they would on the commissions earned. This is because first nobody wants to discuss their earnings especially if they are too high or too low and second the agent has to calculate or rely on memories since the cumulative commissions are paid once in a month. However number of transactions per day can easily be obtained with ease from the agent records. Commissions earned are a factor of number of transactions done in a given period. If an agent remains closed for a day for various reasons then the agent earns zero on such a day. The independent variable under investigation are likely to influence the agent performance as follows: customer service – when customer are satisfied they gain confidence in the agent and because of customer retention and growth the agent is expected to grow the number of customers who are attached to the agent and thus an increase in transaction numbers which will then translate to commissioned earned (Dorine and Dr. Fred 2013).

2.5 Agent Banking Systems versus Bank Branches

Gardner (2000) contends that agent banking systems are up to three times cheaper to operate than branches for two reasons. First, agent banking minimizes fixed costs by leveraging existing retail outlets and reducing the need for financial agent banks to invest in their own infrastructure. Although agent banking incurs higher variable costs from commissions to agents and communications, fixed costs per transaction for branches are significantly higher.

This argument is further supported by Kitaka (2001) who argues that setting up an agent costs 2 to 4 percent of the cost of a branch cashier. So even when functioning at maximum capacity, a branch cashier incurs more than 78 cents in fixed costs per transaction, compared to just 11 cents for a POS-enabled agent and 4 cents or less for a bank-enabled agent or bank wallet. Second, acquisition costs are lower for bank-enabled agents and bank wallets. By using banking agents instead of payment cards, bank wallets and bank accounts linked to a bank wallet are able to acquire entrepreneurs at less than 70 percent of the cost of a branch or POS-enabled agent. He further argues that in some countries, bank wallets may benefit from lower-cost Know Your Customer (KYC) requirements, such as the elimination of requirements to provide photographs and photocopies of documents.

2.6 Agency Banking as a Tool for Financial Sector Deepening

2.6.1 Increased Number of Branches

Central banks play a key regulatory role in any financial market. They have been at the center of the growth of Agency banking in developing countries. In Kenya, the Central Bank of Kenya has played a pivotal role in enhancing penetration of the agency banking model. In 2009 for instance, the CBK commenced measures to open up banking channels to non-bank agents. An amendment to the Banking Act allowed banks to start using agents to deliver financial services. It was then argued that using small shops, petrol stations, pharmacies and other retail outlets as agents could have a dramatic impact on improving access to financial services, especially in rural areas. This resulted into mushrooming of many agency banks in the country (Baron 2002).

2.6.2 Enhanced Accessibility to Banking Services

According to Berger (1998), agent banks offer similar services as a real bank. This ranges from cash deposits and withdrawals, disbursement and repayment of loans, payment of salaries, pension, transfer of funds, and issuance of mini-bank statements, among others. Berger further argues that, the agent also facilitates new account opening, credit and debit card application, cheque book request, hence eliminating the need for the commercial bank to have branches all over. This is being replicated across the country, especially in rural areas.

2.6.3 Wider Market Coverage and Customer Loyalty

According to Christopher (2002) the process of loyalty building can be seen in the form of a ladder in which the customer has to be converted into a client then into a supporter, an advocate and ultimately to a partner. Finding loyal entrepreneurs requires targeting those segments to which the bank can deliver superior value. The economic benefits of customer loyalty often explain why one bank is more profitable than its competitors. Therefore, building a highly loyal customer base cannot be done as an add-on; it must be integral to a bank's basic business strategy. The agency banking model has played this role in a great way.

According to Cohen (2002) the ongoing global expansion of a high-tech telecommunications infrastructure, coupled with the increased availability of advanced information technology services, is having an impact on almost every emerging industry. Emerging industries are newly formed or reformed industries that have been created by technological innovations, shifts in relative cost relationships, emergence of new consumer needs or other economic and sociological changes that evaluate a new product or service to the level of a potentially viable business opportunity. The agency banking model is expected to continue playing a catalytic role in expanding the reach of banks within a rapidly changing technological environment.

2.7 Commercial Banks and Agent Banking

Banking through retail agents is a concept that is beginning to appeal to policy makers and regulators. It has the potential to extend financial services to unbanked and marginalized communities. Agent – assisted banking is a relatively new concept. What makes agent banking work are information and communication technologies which customers, retail agents and banks use to record and communicate transaction details quickly, reliably and cheaply over vast distances. For example even in rural areas many poor people have access to low cost mobile phones and prepaid airtime dealers. For banks agent banking is used to reduce the cost of delivering financial services, relieve crowds in bank branches and establish presence in new areas (Kumar et al, 2006).

According to Chaia et. al. 2011 Correspondent (or agent) banking has become one of the most promising strategies for offering financial services in emerging markets. In this model, financial institutions work with networks of existing nonbank retail outlets such as convenience stores, gas stations, and post offices to deliver financial services. This approach can be especially powerful when serving the unbanked poor because of its ability to reduce banks costs and reach low income workers where they live. Agent banking benefits a range of stakeholders. The poor gain convenient access to financial services in their own communities. Financial institutions reach a vast new customer segment. Agents increase their sales volumes and have an opportunity to develop deeper relationships with the customer. However implementing correspondent strategies can be tough. It may be hard to build networks of partners that can fulfill the correspondent role. The economics are still uncertain for players that do not offer a range of services. And because the strategy is relatively new for financial service providers, it is difficult to know exactly what will work in each particular community.

According to Veniard, Bill and Gates Foundation 2010 in the article " how agent banking changes the economics of small accounts " one of the primary impediments to providing financial services to the poor through branches and other bank based delivery channels is the high cost inherent in these traditional banking methods. The amount of money expended by financial service providers to serve a poor customer with a small balance and conducting small transactions is simply too great to make such accounts viable. In addition when financial service providers do not have branches that are close to the customer, the customer is less likely to use and transact with their services. However we see the emergence of new delivery models as a way to drastically change the economics of banking the poor. By using retail points as cash merchants (defined here as agent banking) banks can offer saving services in a commercially viable way by reducing fixed costs and encouraging customers to use the service more often, thereby providing access to additional revenue sources. Agent banking systems are up to three times cheaper to operate than commercial bank branches for two reasons. First, agent banking minimizes fixed costs by leveraging existing retail outlets and reducing the need for banks to invest in their own infrastructure. Second, acquisition costs are lower for agents. By using mobile phones linked to bank accounts they are able to acquire customers at less than 70 percent of the cost of a branch.

Costs are incurred only if transactions are realized. Agent banking systems receive a commission only if transactions are realized. On the other hand in a commercial bank branch, fixed costs are distributed over number of transactions resulting in significantly higher costs per transactions especially if the branch is under-utilized. As a result of lower transaction costs and a transaction driven revenue model, agent banking systems are more cost effective for transactional accounts with low balances and frequent transactions. Challenges to the profitability of agent banking by commercial banks include the following: it is believed that banks cannot rely on agents to cross sell financial products. As a result, in order to increase overall customer profitability, banks may need to incur additional costs in marketing and deploying sales forces, including branch employees, to cross sell additional financial products to agent customers. Back office and technology costs may vary depending on the delivery channel, since a bank may lean towards more complex and higher core banking systems because of increased regulatory requirements and more complex procedures and product offerings (Mas et.al. 2008).

2.9 Empirical literature review

Fred, 2013 tries to show Perceived credibility/trust, Liquidity problem, Unavailability of capital, Network failure and Insecurity regarding to agent banking operations. As a result, related to insecurity the finding shows the research question targeted to determine the extent of insecurity among bank agents and their customers and how it has affected development of their operations. On administration of the question, all respondents that is; 40 (100%) said that they have never experienced any incident that suggested insecurity among them or on their customers. For the second one regarding to liquidity problem/capital shortage it observes and was established that on average, agents had initial startup capital of kshs. 100,000 (hundred thousand Kenya shillings) and also 100% of the informants said the amount was not easy to rise and so affordability of starting the business was low. The sources of funds included family savings, sell of animals and sell of private property and land. In addition, 100% of respondents also run other businesses for upkeep. Affordability is low due to the hard economic times experienced across the country; hence most families cannot raise the amount required. similarly, finding on liquidity shows that It is clear that (20) 50% of respondents mentioned liquidity related problems as one of major problems affecting agency banking while an equal number of 20 (50%) never mentioned this as a problem. The other one is network failure and in this case the finding is Availability of network as a challenge to agency banking in North Pokot was mentioned by 40 (100%) of the respondents It can be noted that 90% of the respondents admitted that they experience an average of 5hour per day without the network, this affects mainly agent locations in North, East and South Pokot, Only four agents in West pokot representing 10% said they only experience this problem for four hours per day and especially between 9AM and 2PM.the final point related to trust of customer the finding says ,36(90%) of the agents admitted that clients within their vicinities were willing to transact at their agent locations while only 4(10%) of the agents said clients are not really willing to transact at their agent locations. Clients who showed unwillingness are those who have at one time been disappointed by network failure, liquidity problem or insecurity issues.

The other paper was written on focusing on Assessment of Factors Influencing Adoption of Agency Banking in Kenya by Charles *et al* 2014 study was intended to asses some of the factors that contribute to the adoption of agency banking in Kenya. The results indicate that System availability contributes to service reliability. High reliability increases the adoption of agency banking. Complaints resolution time does not affect the adoption of agency banking. Agency banking is delivering convenience in form of extended hours of banking and by bringing the banking service closer to the customers leading to increased adoption of agency banking. High quality of agents increases the adoption of agency banking while poor quality agents inhibit the adoption of agency banking. Commissions earned by agents grew from one period to the other signifying adoption and growth of agency banking.

The third paper by Nefa 2013 it was revealed that the 3 commercial banks in Kisumu city that had engaged in agent banking operations had achieved expansion in geographic coverage, during peak periods like when schools are opening it was noted that the banking halls were not congested compared to the 2 that do not engage in agent banking operations, and increase in customer numbers had been experienced from the agents. The technological advancement had enabled adoption of agent banking operations by the commercial banks. The three commercial banks engaged in agent banking operations have embraced internet banking and mobile banking and on these platforms have rolled out agent banking operations. The three commercial banks engaged in agent banking operations apply tight controls, measures and regulations to govern agent banking operations. Each of the three commercial banks has internal control's put in place to monitor the operations of the agents, they have laid down procedures and policies, and on the other hand the agents too have their own individual operation procedures. The commercial banks have encountered challenges in agent banking operations as follows: Reputational risk; some retail agents have underperformed and some have been robbed, and as a result the bank's public image has suffered. This operational risk mentioned has caused reputational risk, and liquidity shortfalls in the retail agent's cash drawer. Consumer protection, including resolution of consumer grievances, Use of retail agents has increased the risk that customers are unable to understand their rights and press claims when aggrieved. Customers are protected against fraud by laws and regulations. But it is not clear to customers how they are protected against fraud when they use retail agents to conduct financial transactions. For instance it may not be obvious whether the customer should hold the bank or its retail agents liable if they suffer a loss. Anti – money laundering and combating financing of terrorism (aml/cft). Whenever account opening and transaction processing is outsourced to retail agents aml/cft regulations generally require agents to conduct some aspects of customer due diligence and suspicious transaction reporting. The bank bears the risk that customers are improperly identified and that they use the retail agent to launder money or channel funding to terrorists. Legal risk whereby financial service providers have invested in a new delivery model they can predict and manage how relevant laws, regulations and legal agreements will be applied and enforced and how these things may change over time. The agents have also encountered challenges in providing banking services and the challenges include : Liquidity risk is whereby retail agents especially those that are relatively small, unsophisticated, and remote, may not have enough cash to meet customers' requests for withdrawals and may lack experience in the more complex liquidity management required for offering financial services. To manage liquidity effectively, retail agents must balance several variables, including turnover cash, ease of access to the retail agent's bank account, and processing time of transactions, among others. Credit risk is the risk that one party to a financial transaction will not receive the money he is owed when it is due. When banking transactions do not settle immediately and when additional parties are interposed between the customer and the bank, opportunities for credit risk multiply.

The fourth paper focuses on An Investigation on Slow Adoption of Agent Banking Services in Kenya by Zachary and Rachel 2014.The paper tries to describe the service aspect of agent banking while delivering it to the end users. The main findings of this paper are; The first is about customers awareness level of existence of Agent Banking Services, majority of the respondents admitted that they did not use these services although many had access to or aware of the services in their neighborhood; they were in agreement that the banks were easily identifiable to the brand although they had no idea of various services being offered or were they able or confident to know if the agent bank they were dealing with was genuine or not. The respondents were in a position to establish whether agent banks were providing adequate services or whether these agents are in a position to give them more information regarding Agent Banking Services because they do not visit them. Second it is dealt with challenges facing customers using Agent Banking Services; cost of the services came up as one of the biggest challenge on the adoption of these services compared to the normal banking services such as ATM charges. Agent banking is not so popular because most of the respondents indicated that ATMs, mobile banking and internet banking services were being offered by their banks which were far much reasonably priced compared to Agent Banking services. However the challenges of trust as a result of visiting specific agent banks and banks creating awareness proved to be the least of the challenges. Other major challenges facing adoption of Agent Banking Services include Charges not being clear, transport costs incurred to use the services, Agent Bankers to be trustworthy, in security when transacting, Power and System failure challenges and Liquidity issues. The finding is about factors affecting adoption of Agent Banking Services. In general the respondents were in agreement that Agent Banking Model is beneficial to the customer and it's a major factor that can be considered in implementation and sustenance of this product by financial institutions. However, the financial institutions should implement mechanisms to ensure

KYC regulations are adhered to through identification of the customer to ascertain authenticity or genuineness of the customer. Other factors include: reliability or efficiency of Agent Banking Services, Agent Banking services meeting customer's needs, Agent Bankers demonstrating sufficient knowledge on the services, Agent Banker providing sufficient customer services and security of the Agent Bank premises, errors or incorrect transaction and correction of these errors or incorrect transactions.

The other paper which is written in September 2011 by Daisy identifies the main factors for agent banking adoption. On the paper the main findings were agent banking best for cost reduction in provision of banking services, followed by enhancement of customer service, market outreach, technology and competition. Chief among the specific factors were risk management, availability of appropriate retail channels, and availability of appropriate information and communication technology infrastructure. There were significantly divergent views as regards the impact of collaboration with other banks in provision of various agent banking services for example receiving agents deposits on behalf of other banks. Sharp differences were also noted as to whether agent banking should be experimented on a limited basis before roll out. There was a clear indication that the banking sector is enthusiastic about agent banking, particularly given the Safaricom M-Pesa success in Kenya and the opportunity to reach the un-banked and under-banked population in otherwise remote areas.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

In this section the researcher wants to demonstrate the methodology which was used in the research work. It consists of research design, sample, population & sampling techniques, types of data and instruments of data collection, procedure of data collection and methods of data analysis.

3.1 Research Design

To meet the objective of the study and answer the research questions, exploratory research design was used. The attempt of the study was to explore the present state of affairs of the United bank S.C as it exists without having any control over the variables, that is, the current challenges of agent banking service.

The relevant information required to answer the research question is the data obtained from respondents through structured questionnaire. Hence, primary data source were used. Respondents were those bank staffs who have the duty related to agent banking operations in each branch.

3.2 Populations and Sampling Techniques

Non probability sampling applied followed by Judgmental sampling technique. This is due to the fact that, it provides and ensures better for the researcher to answer research questions. By doing so, the researcher believes more accurate and special finding can be obtained.

The sample of the research incorporates those staffs in united bank assigned to conduct in the duty of agent banking in their respective branch. From the total 126 branches 81 of them select as a sample for this research and each branch has one staff represent on the duty of agent banking. This sample selected based on the year of operation of the branch which is earlier and those branch that have incorporate agents working with them. The researcher were not include agents response on this paper mainly due to, they are not yet fully engaged on the service, short life time on the business of agent banking and difficult to collect date from them regarding they are performing their formal business.

3.3 Types of Data and Instruments of Data Collection

The type of data used for the study includes qualitative and quantitative data (mixed). Primary source of data were used for the study. The main primary source of data is through the use of questionnaires. The questionnaire was structured one in the form of open and mainly close-ended.

Open-ended question offered the respondents the opportunity to freely express themselves on the issues under consideration.

3.4 Procedures of Data Collection

To collect the required data from respondents structured questionnaire was employed. The primary data was collect from selected personnel at agent banking area of the bank using questioner. The researcher gathered the opinion of various personnel working at different branches who have the duty on agent banking operations and have an experience since the starting of agent banking in November 2014.

3.5 Methods of Data Analysis

The data collected was summarized and presented by means of tables. This offered a pictorial presentation to enhance the understanding of the data. The data presentation was also analyzed using descriptive tools such as frequency and percentage. The findings would present in a table form. Further, the researcher tries to support the findings from other literature as it is necessary.

3.6 Ethical Consideration

Before the research was conducted, the researcher informed the participants of the study about the objectives of the study, and was consciously consider ethical issues in seeking consent, avoiding deception, maintaining confidentiality, respecting the privacy, and protecting the anonymity of all respondents. A researcher must consider these points because the law of ethics on research condemns conducting a research without the consensus of the respondents for the above listed reasons.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

This study was, as described in the aforementioned chapter, aimed at assessing challenges of agent banking of United Bank S.C. The data were collected from assigned staffs on agent banking of the bank in different branches. To gather relevant data for the purpose of the study, questionnaire means of data instruments were employed. Therefore, the data collected from the target population of the study through these instruments were presented and discussed in this chapter. In doing so, the data gathered through the questionnaire were presented in tables.

4.1. Overview of the Research

In conducting this research used mainly primary source. The primary source is conducted through the use of questionnaire. A total of 81 questionnaires were distributed to those individuals who are working in agent banking area of United Bank S.C. Out of the total 81 questionnaires distributed to the staffs 71 questionnaires have been fully completed and returned to the researcher. Thus, the researcher believes that the returned questionnaire i.e. 88.75% of the total will be representative for the study under consideration.

Questionnaires were prepared in English. Accordingly, the respondents gave their responses about the challenges of agent banking of United Bank S.C. Therefore: the data found from the respondents were analyzed and discussed in line with the research questions as follows.

Generally speaking, the analysis was done in primary data sources. The primary data were analyzed using frequency distribution tables.

4.2 Demographic data of respondents

The demographic information of the agents in this study comprised of sex, experience, age and level of education.

Table 1: Demographic characteristics of respondents

		Frequency	Valid Percent	Cumulative Percent
	female	22	31	31
	male	49	69	100.0
experience	1-4 years	35	49.3	49.3
	5-9 years	31	43.7	93.0
	10-19 years	3	4.2	97.2
	20-30 years	2	2.8	100.0
age	below 25 year	16	22.5	22.5
	25-34 year	41	57.7	80.3
	34-44 year	13	18.3	98.6
	45-54 year	1	1.4	100.0
Qualification	Diploma	19	26.8	26.8
	BA/BSC Degree	49	69.0	95.8
	masters and above	3	4.2	100.0
Total		71		

Respondents were characterized basing on their gender, experience, age and level of education. With regard to of gender, 49 respondents who covered 69% of the respondents were found to be males while 22 (31%) were female. In terms of experience 35(49.3%) respondents have less than four year experience, 31(43.7%) respondents have experience between five and nine years, 3(4.2%) respondents have experience between 10-19 years and 2(2.8%) of respondents have an experience of above 30 years. On the other hand the age range of the respondents, 16(22.2%) are below 25 years age, 41(57.7%) between age of 25-35 years, 13(18.3) between 34-44 years and 1(1.4) of the respondents has age between 45-54 years. In terms of level of education, 19 (26.8%) of the respondents were found to have college diploma, 49(69%) of the respondents have BA/BSC degree and 3 (4.2%) respondents have masters degree. There were no respondents who have other qualification. The age demography is important to know about the participation of both sex on the research. Further, the experience and qualification are essential to easily understand the research question and to obtain reliable data.

4.3 Data analysis and discussion on risk related issues

Table 2: Security risk in agent banking

Security is the major challenges of money related activities; as a result agent banking also has insecurity on its operation.	Frequency	Valid Percent	Cumulative Percent
strongly disagree	12	16.9	16.9
Disagree	25	35.2	52.1
No opinion	7	9.9	62.0
Agree	23	32.4	94.4
Strongly agree	4	5.6	100.0
Total	71		

Related to security issues in agent banking from the above table it is observed 12(16.9%) of the respondents strongly disagree, 25(35.2%) disagree, 7(9.9%) no opinion, 23 (32.4%) agree and 4(5.6) strongly disagree that insecurity affects agent banking operations. More than half of the respondents disagree with stated point. On the other hand 38% of respondents positively answer the question and insecurity is the risk for agent operations. This type of risk is high for remote areas commonly. Most of these agencies are in areas that are what would be considered ‘high Risk’. The Bank needs to audit the security measures being taken by the agencies to ensure safety of the customer and the agent (Dorine and Dr. Fred, 2013). The amount of upfront capital an agent requires to begin operating can be increased by the cost of security improvements. But the expense from actually being robbed is much more substantial. Agents can be liable for some or all of funds lost via theft (Flaming *et al*, 2011)

Table 3: Liquidity risk in agent banking

Liquidity risk is the one which is affecting agent operations and a challenge for agents.	Frequency	Valid Percent	Cumulative Percent
Strongly disagree	6	8.5	8.5
Disagree	18	25.4	33.8
No opinion	11	15.5	49.3
Agree	26	36.6	85.9
Strongly disagree	10	14.1	100.0
Total	71		

On the above table 6(8.5%) of the respondent respond that liquidity risk is not a challenge on agent banking and they strongly disagree and similarly 18(25.4) of the respondents disagree on the issue.11 (15.5%) have no opinion about liquidity risk in agent banking. But, 26(36.6%) which is the highest percentage of respondents answered that agent banking has liquidity risk and it is the challenge and agree on the issue and similarly 10(14.1) of respondents strongly agree on the issue. Retail agents, especially those that are relatively small, unsophisticated, and remote, may not have enough cash to meet customers' requests for withdrawals and may lack experience in the more complex liquidity management required for offering financial services. To manage liquidity effectively, retail agents must balance several variables, including turnover of cash, ease of access to the retail agent's bank account, and processing time of transactions, among others. (Focus note N.38, 2006). The business of branchless banking relies on liquidity management—having cash where and when customers ask for it. Liquidity management has two components: (1) accumulating adequate e-float and cash and (2) rebalancing the two, which typically requires agents or their designees to physically transport cash (Flaming *et al*, 2011).

Table 4: Robbery risk for agent banking

Agent's robbery is the risk in remote area of the country.	Frequency	Valid Percent	Cumulative Percent
Strongly Disagree	6	8.5	8.5
Disagree	24	33.8	42.3
No opinion	28	39.4	81.7
Agree	12	16.9	98.6
Strongly agree	1	1.4	100.0
Total	71		

Regarding robbery on delivering agent banking service, 6(8.5%) of the respondents strongly disagree, 24(33.8%) disagree, 28(39.4%) have no opinion, 12(16.9%) agree and 1(1.4%) strongly disagree. But, it is outlined that severe impact theft can have on the business case of an agent. Once community members know that the agent is keeping extra stocks of cash in his or her store, the agent may become a target. Agents are vulnerable inside their stores but especially outside as they travel back and forth to the bank managing liquidity. The severity of the problem varies from market to market (Flaming *et al*, 2011).

Table 5: Risk related to stolen of mobile for agent banking

Description	Strongly agree(5)		Agree (4)		Neutral (3)		Disagree (2)		Strongly disagree (1)	
	F	%	F	%	F	%	F	%	F	%
Mobile usage										
Agent banking face risk related to stolen of mobile device.	5	7	17	23.9	10	14.1	29	40.8	10	14.2
There is risk related to sharing of mobile device in the society.	11	15.4	18	25.4	6	8.5	26	36.6	10	14.1

Note: 'F' stands for frequency and'%' stands for valid percentage value

Regarding risk related to mobile usage 10(14.1%) respond strongly agree that stolen of mobile device has risk on agent operations. Similarly, 29(40.8)) disagree on the isuue.10 (14.1%) have no opinion, 17(23.9%) agree and 5(7%) strongly disagree about the risk related to delivering agent banking operation. On the other hand, for the risk related to sharing of mobile device 10(14.1) strongly disagree, 26(36.6%) disagree, 6(8.5%) no opinion, 18(25.4%) agree and 11(15.5%) strongly disagree.

4.4 Discussion on infrastructure issues

Table 6: Interruption of power and network on agent banking

There is very high interruption of network and power on providing agent banking service.	Frequency	Valid Percent	Cumulative Percent
Strongly disagree	5	7.0	7.0
disagree	20	28.2	35.2
no opinion	4	5.6	40.8
agree	32	45.1	85.9
strongly disagree	10	14.1	100.0
Total	71		

For the question on challenges of agent banking related to interruption of power and network it is observed that 5(7%) respondents strongly disagree and 20(28.2) respondents disagree on high interruption of network and power on delivering agent banking service. But, 32(45.1%) and 10(14.1%) respondents strongly agree and agree respectively that interruption of power and network is very high.4 (5.6%) respondents have no opinion on the issue. According to CGAP (2011), the top concerns among agents are low remuneration, liquidity management and network availability. Agent profitability is highly sensitive to service disruptions. This is particularly true for agents with capital, staff, and space costs dedicated to the agent business, as the agent incurs these costs whether or not revenue is being earned. Losing a few days of business may be enough to make the month unprofitable for an agent (Flaming, McKay, Pickens, 2011).

Table 7: Network and power system regarding real time transaction

On article no. 4 sub article 4.4.2 of NBE directive agents should have to perform real time transaction and authorization. From this point the current network and power system is available enough.	Frequency	Valid Percent	Cumulative Percent
strongly disagree	9	12.7	12.7
disagree	31	43.7	56.3
no opinion	8	11.3	67.6
agree	21	29.6	97.2
strongly agree	2	2.8	100.0
Total	71		

From the above table it is shown that the availability of current network and power facility is not enough to perform real time transaction. From the total respondents 9(12.7%) strongly disagree and 31(43.7%) disagree on enough availability of network system and power. And the rest, 8(11.3%) no opinion, 21(29.6%) agree and 2(2.8%) strongly agree with the availability of enough network system and power to conduct real time transaction. The availability of network is key to an agent performance while poor connectivity constraints the number that are handled at the agent location. (Charles and Dr. Agnes, 2014).The literature support the above similar challenges are occurring in remote areas of Kenya due lack of network and electricity power and wireless signals required in remote areas (Mosoti and Mwaura, 2014)

Table 8: Road infrastructure availability for agent banking

Current road infrastructure is the problem to perform agent banking in rural area of Ethiopia.		Frequency	Valid Percent	Cumulative Percent
Valid	strongly disagree	10	14.1	14.1
	disagree	30	42.3	56.3
	no opinion	16	22.5	78.9
	agree	13	18.3	97.2
	strongly agree	2	2.8	100.0
Total		71		

From the above table the respond indicated that majority of the respondents answered the existing road infrastructure is not a problem to deliver agent banking service. It is found that 10(14.1%) strongly disagree and 30(42.3%) disagree about the road infrastructure problem and 16(22.5%) have no opinion on the issue. On the other hand 13(18.3%) of respondents agree on the problem and 2(2.8%) strongly agree that road infrastructure availability is the problem in delivering agent banking.

4.5 Discussion on technology related issues

Table 9: Expansion of internet, mobile banking and agent banking

In the expansion of new technologies like mobile banking, Internet banking agent banking is not more preferable.	Frequency	Valid Percent	Cumulative Percent
strongly disagree	17	23.9	23.9
disagree	22	31.0	54.9
no opinion	5	7.0	62.0
agree	19	26.8	88.7
strongly agree	8	11.3	100.0
Total	71		

On the above table 17(23.9%) and 22(31%) of the respondents strongly disagree and disagree for the point expansion of mobile banking and internet banking does not make agent banking more preferable. For this point 5(7%) have no opinion and 19(26.8%) and 8(11.3) agree and strongly disagree.

Table 10: Preferably of agent banking compared to ATM and POS machines

Agent banking preferable better than ATM and POS machines.	Frequency	Valid Percent	Cumulative Percent
strongly disagree	9	12.7	12.7
disagree	35	49.3	62.0
no opinion	7	9.9	71.8
agree	14	19.7	91.5
strongly agree	6	8.5	100.0
Total	71		

The response of 9(12.7%) and 35(49.3%) respondents strongly disagree and disagree respectively and indicated that agent banking is not preferable better than ATM and POS machines. From the total respondents 7(9.9%) have no opinion on the point and the rest 14(19.7%) and 6(8.5%) agree and strongly agree on the issue. But, more than 63% of the respondents answer indicate ATM and POS machines are preferable than Agent banking.

Table 11: Providing fast service by agent banking compared to Internet, mobile, ATM, POS, SMS and the like.

Agent banking provides fast service than internet, mobile, ATM, POS, SMS and the like.	Frequency	Valid Percent	Cumulative Percent
strongly disagree	6	8.5	8.5
disagree	34	47.9	56.3
no opinion	7	9.9	66.2
agree	21	29.6	95.8
strongly agree	3	4.2	100.0
Total	71		

From the above table it is observed that, more than half of the respondents respond that agent banking does not provide fast service like Internet, mobile, ATM, POS, SMS and the like. The response indicated that 6(8.5%) strongly disagree, 34(47.9%) disagree, 7(9.9%) no opinion, 21(29.6%) agree and 3(4.2%) strongly agree. The growth of cell-phone based banking provides opportunities for banks to expand their operational reach while also introducing new competitors in the form of the telecommunications companies. The benefits from these developments to consumers have been sizeable, but they also pose challenges from both a financial stability and consumer protection perspective (Montfort *et al*, 2013).

Table 12: Difficulty of agent banking system to use it on mobile

Description	Strongly agree(5)		Agree (4)		Neutral (3)		Disagree (2)		Strongly disagree (1)		**Total**	
	F	%	F	%	F	%	F	%	F	%	**F**	**%**
Technology related												
The system and mobile application to use agent banking is very easy	23	32.4	33	46.5	3	4.2	9	12.7	3	4.2	**71**	**100**
Agent personal computer damage affects the operation of agent banking.	10	14.1	14	19.7	7	9.9	24	33.8	16	22.5	**71**	**100**

Note: 'F' stands for frequency and'%' stands for valid percentage value

Regarding to the easy of the current agent banking system and application to use in mobile the response shown that 23(32.4%) strongly agree, 33(46.5%) agree, 3(4.2%) no opinion, 9(12.7%) disagree and 3(4.2%) strongly disagree. For the other point on agent personal damage affects operation of agent banking 10(14.1%) strongly agree, 14(19.7%) agree, 7(9.9%) no opinion, 24(33.8%) disagree and 16(22.5%) strongly disagree.

4.6 Discussion on social related issues

Table 13: Social aspects on agent banking

Description	Strongly agree(5)		Agree (4)		Neutral (3)		Disagree (2)		Strongly disagree (1)		**Total**	
	F	%	F	%	F	%	F	%	F	%	F	%
Social related issues												
The society prefer agent banking for their use.	1	1.4	13	18.3	16	22.5	31	43.7	10	14.1	71	100
The current awareness of the society enough for using agent banking.	4	5.6	6	8.5	5	7	32	45.1	24	33.8	71	100
The life style of the society like working hour habit preferable for delivering agent banking.	7	9.9	25	35.2	7	9.9	22	31	10	14.1	71	100
Agent banking benefits the society in the current circumstance.	14	19.7	38	53.5	6	8.5	11	15.5	2	2.8	71	100
The current attitude and behavior of using agent banking developed.	1	1.4	9	12.7	12	16.9	33	46.5	16	22.5	71	100
The society has	-	-	8	11.3	7	9.9	33	46.5	22	31	71	100

knowledge on the services of agent banking.												
The societies aware of the advantage and disadvantage of using agent banking.	1	1.4	5	7	12	16.9	39	54.9	14	19.7	71	100
Agent banking trusted by the society.	4	5.6	8	11.3	19	26.8	29	40.8	11	15.5	71	100
Agent banking is new for the country and the society as a result there is resistance to accept it.	12	16.9	40	56.3	6	8.5	9	12.7	4	5.6	71	100

Note: 'F' stands for frequency and '%' stands for valid percentage value

Regarding to agent banking preferable by the society for their use it is the shown in the above table that 10(13.9%) respondents strongly disagree, 31(43.1%) disagree, 16(22.2%) no opinion, 13(18.1%) agree and 1(1.4%) respondents strongly disagree. From this it is observed generally currently the society not tend to use agent banking as a first choice. For the other question related to the awareness of the society in agent banking service 24(33.3%) respondents strongly disagree on the awareness of the society and 32(44.4%) of the respondents disagree on society awareness. The response rate of agree on the point is 6(8.3%) and strongly disagree is 4(5.6%).The remaining 5(6.9%) of respondents answered no opinion on the point. This can be done also by enhancing awareness among bank customers of the services offered by banking agents through strategic marketing. Banks should invest in awareness campaigns and also financial training of customers as part of their corporate social responsibility (Andrew *et al*, 2015).

For the question related to the life style of the society like working hour habit and providing agent banking service 10(13.9%) strongly disagree, 22(30.6%) disagree, 7(9.7%) no opinion, 25(34.7%) agree and 7(9.7%) strongly agree on the point. Majority of the respondents which is 44.4% respond positively that the current working hour habit is preferable and good to deliver agent banking service and on the opposite 44.5% of the respondents respond the working hour habit of the society is not preferable for agent banking service. Regarding to the other question about the benefit of agent banking for the society it is found that 38(52.8%) respondents agree and 14(19.4%) respondents strongly agree. From the total respondents 11(15.3%) disagree on the benefit of agent banking on the current circumstance and 2(2.8%) strongly disagree. The rest 6(8.3%) have no opinion on the issue. Bean, (2009), states that agent banking has reduced cost and enhanced efficiency in the financial sector with a possibility and availing financial services at much lower cost to consumers. Financial services are essential for people to manage their lives; this statement is as valid for the poor as it is for the wealthier readers of this paper. Actually, it may be even more important to the poor, who need to get by with very little means. A portfolio of the poor shows how poor people spend a great amount of resources to manage their limited financial assets. They creatively combine different financial instruments and thereby leverage a whole portfolio of solutions for their financial needs: they pay people, goods or services, save small amounts they are sometime able to accumulate, lend to and borrow from their relatives or neighbors (Daryl *et al*, 2009). Branchless banking enables people to make those small transactions outside of bank branches. It saves them the inconvenience of travelling to a location, which is often far away from where they live and work (Claire, 2011).

For the question with respect to the development of the society attitude and behavior about agent banking 16(22.2%) strongly disagree, 33(45.8%) disagree 12(16.7%) no opinion, 9(12.5%) agree and 1(1.4%) strongly agree. The response indicated that the current attitude and behavior of the society for agent banking is not yet developed. Similarly, related to the degree of knowledge of the society about the service of agent banking it is observed that from the total 71 respondents

22(30.6%) strongly disagree, 33(45.8%) disagree, 7(9.7%) no opinion, 8(11.1%) agree and the rest 1(1.4%) respondent answer strongly agree. From this the knowledge about agent banking service in the society is very low. The other related question is about the awareness of the society regarding to the advantage and disadvantage of agent banking 14(19.4%) strongly disagree, 39(54.2%) disagree, 12(16.7%) no opinion, 5(6.9%) agree and the rest 1(1.4%) respondent answer strongly agree. Cohen *et al* (2008) in their report mentioned that customers are highly confused regarding transactions fees, and very few people know how much it costs to perform such transactions. Customer's frustration occurs when transactions fail, such as funds withdrawal since customers do take into account the charges for different transactions. Such as charges relating to balance inquiries or transferring money.

Regarding to the society trust on agent banking majority of the respondent answered that agent banking is not trusted by the society. The response found that 11(15.3%) strongly disagree, 29(40.3%) disagree, 19(26.4%) no opinion, 8(11.1%) agree and the rest 4(5.6%) strongly agree. Agents play a pivotal role in convincing prospective customers that the new service is reliable and trustworthy. As such, they must be trusted themselves. (Flaming, McKay, Pickens, 2011) Trust issues are very critical in banking industry, customer account details must be kept private and confidential to be able to earn trust. Banking agents must be trusted so as to be able to attract many clients to transact with them. Simply the principal institution must be trusted (Wang et al, 2003).The other question related to the acceptance of agent banking by the society as a new product in the country 12(16.9%) strongly agree, 40(56.3%) agree, 6(8.5%) no opinion, 9(12.7%) disagree and 4(5.6%) strongly disagree that there is resistance by the society related to agent banking service is new for the country.

4.7 Data analysis and discussion on commission issues

Table 14: Attractiveness of commission for agents

The current commission for agent service attracting agents and the bank.	Frequency	Valid Percent	Cumulative Percent
strongly disagree	22	31.0	31.0
disagree	30	42.3	73.2
no opinion	9	12.7	85.9
agree	8	11.3	97.2
strongly agree	2	2.8	100.0
Total	71		

For the attractiveness of the current commission from agent banking to both the bank and the agent the respondents answer, 22(31%) strongly disagree, 30(42.3%) disagree, 9(12.7%) no opinion, 8(11.3%) agree and 2(2.8%) strongly agree. Majority of the respondents answered the current commission is not attractive for both the agent and the bank. The key measure of performance at the agency is the commissions earned at the end of the month. The research has however realized the agents will be more at ease discussing number of transactions than they would on the commissions earned. This is because first nobody wants to discuss their earnings especially if they are too high or too low and second the agent has to calculate or rely on memories since the cumulative commissions are paid once in a month (Dorine and Dr. Fred, 2013).

Table15: Collecting commission from agents and retaining them

The commission for agent banking transaction is collected from the customers. As a result, it is difficult to retain customers and motivate them to use agent banking.	Frequency	Valid Percent	Cumulative Percent
strongly disagree	2	2.8	2.8
disagree	25	35.2	38.0
no opinion	6	8.5	46.5
agree	25	35.2	81.7
strongly agree	13	18.3	100.0
Total	71		

For the point related to collecting commission from the client and retain them as a customer is difficult on the above response which is followed 13(18.3%) strongly agree and 25(35.2%) agree which is totally 53.5% of the respondents. On the other hand, 2(2.8%) strongly disagree and 25(35.2%) disagree on the point that collecting commission from customers does not affect to retain them. On the point 6(8.5%) have no opinion.

Table 16: Deposit and withdrawal charges on agent banking and formal branches

In the case of formal banks providing services like withdrawal and deposit they make it freely but not the case for agent banking which affects agent banking negatively.	Frequency	Valid Percent	Cumulative Percent
strongly disagree	3	4.2	4.2
disagree	18	25.4	29.6
no opinion	7	9.9	39.4
agree	33	46.5	85.9
strongly agree	10	14.1	100.0
Total	71		

10(14.1%) 0f the respondents strongly disagree and 33(46.5%) agree that collecting commission from customers during deposit and withdrawal affects agent banking which is not the case on normal bank branches. On the other hand, 3(4.2%) and 18(25.4%) strongly disagree and disagree respectively regarding collecting commission for deposit and withdrawal from customers on agent banking. The response of no opinion is 7(9.9%).Based on the data provided by institutions; our analysis assumes that fees on transactions through agents are not higher than in traditional banking channels. However, given the benefits of greater proximity, we believe there may be increased customer willingness to pay for transaction services delivered nearby (Clara *et al,* 2010).

Table 17: Unprofitable on agent banking for more than three months

Agents continuing on the business when unprofitable for more than three months.	Frequency	Valid Percent	Cumulative Percent
strongly disagree	7	9.9	9.9
disagree	18	25.4	35.2
no opinion	33	46.5	81.7
agree	12	16.9	98.6
strongly agree	1	1.4	100.0
Total	71		

The respondents asked whether agent continue the business when unprofitable for more than three months and replied 7(9.9%) strongly disagree, 18(25.4%) disagree, 33(46.5%) no opinion, 12(%16.9%) agree and 1(1.4%) strongly agree. The provider in an agent-based financial service channel is likely to launch the initiative with sufficient capital to fund losses until the cash flow turns positive, a process that could take several years. But agents typically have limited resources to endure a prolonged period of unprofitable activity. Providers need to think carefully about how to provide sufficient remuneration to agents during the start-up phase (Flaming *et al*, 2011).

Table 18: Essentiality of agent banking commission for the bank

Agent banking commission is vital and essential for the bank.	Frequency	Valid Percent	Cumulative Percent
strongly disagree	10	14.1	14.1
disagree	16	22.5	36.6
no opinion	10	14.1	50.7
agree	27	38.0	88.7
strongly agree	8	11.3	100.0
Total	71		

From the total respondents 10(14.1%) strongly disagree for the essentiality of commission for the bank and 16(22.5%) disagree. On the other dimension, 27(38%) respondents are agreed on the essentiality of commission to the bank and also 8(11.3%) strongly agree. 10 (14.1%) of the respondents have no opinion for the case. By bringing the channel closer to the client, agent transaction platforms may also benefit from additional revenue associated with transactions acquired by the agent, such as person-to-person transactions and bill payments (Clara *et al,* 2010).

Table 19: Pushing to deposit customers twice to get more charge by agents

In the case of deposit agents get 0.50 birr per transaction it pushes the agent to persuade customer to deposit twice rather than once.	Frequency	Valid Percent	Cumulative Percent
strongly disagree	8	11.3	11.3
disagree	16	22.5	33.8
no opinion	15	21.1	54.9
agree	25	35.2	90.1
strongly agree	7	9.9	100.0
Total	71		

From the above table it is observed that 8(11.3%) strongly disagree, 16(22.5%) disagree, 15(21.1%) no opinion, 25(35%) agree and 7(9.9%) strongly agree on the point agents persuade customers to deposit twice to get more commission as the commission is based on each transaction.

4.8 Discussion on legal and regulatory issues

Table 20: Legal and regulatory issues

Description	Strongly agree(1)		Agree (2)		Neutral (3)		Disagree (4)		Strongly disagree (5)		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
Regulatory and legal issues												
According to NBE directive the maximum balance of customer on agents	20	28.2	29	40.8	2	2.8	15	21.1	5	7	71	100

account should be not more than 25,000 birr and the limit amount is small and not motivated to use agent banking.												
The maximum transaction per day is birr 6,000 and it not makes agent banking successful.	14	19.7	28	39.4	9	12.7	17	23.9	3	4.2	71	100
NBE in its next transformation plan needs to order commercial banks to expand their branches by 30% every year. So that, the agent banking highly put under question marked.	8	11.3	28	39.4	11	15.5	17	23.9	7	9.9	71	100
On the agreement to provide agent banking service in its article no. 5 sub article 5.1 and 5.2 it says agents should ascertain transaction related to terrorism and money laundering. Due to this fact, agent not	4	5.6	21	29.6	18	25.4	23	32.4	5	7	71	100

highly motivated for delivering the service.												
the agents are prohibited to collect more than his/her deposit on the bank and it challenge the agent and affect the service to.	9	12.7	29	40.8	12	16.9	16	22.5	5	7	71	100
The agent should not delegate other third party without get permission from the bank is it possible to do so.	6	8.5	24	33.8	23	32.4	10	14.1	8	11.3	71	100
the bank has the right to collect any debt from the agent deposit or payable account it create a fear on agent's side.	5	7	21	29.6	24	33.8	17	23.9	4	5.6	71	100

Note: 'F' stands for frequency and '%' stands for valid percentage value

For the question rose on the maximum deposit in agent banking set by NBE 20(28.2%) strongly agree and 29(40.8%) agree that the limit is very small and not motivate the agents to participate on the service. On the other hand 15(21.1%) disagree and 5(7%) strongly disagree that the maximum deposit limit not affect agents to involve in the business. The rest 2(2.8%) respondent respond no opinion on the maximum limit. Similarly, for the maximum transaction limit of customers per day on agent banking is birr 6,000 and the respond found that 14(19.7%) strongly agree, 28(39.4%) agree, 9(12.7%) no opinion, 1723.9%) disagree and 3(4.2%) strongly disagree that the limit has a problem for the success of agents on the service. Regarding to the expansion of bank branches in the coming years up to 30% per year majority of the respondents respond agree and strongly agree that the expansion affects agent banking expansion which is 8(11.3%) and 29(40.8%) respectively.11 (15.5%) have no opinion on the point and the rest 17(23.9%) and 7(9.9%) respondents disagree and strongly disagree respectively on the effect of bank branch expansion on agent banking.

Ascertain of transaction related to AML and TF by agents the response found that 4(5.6%) strongly agree, 21(29.6%) agree, 18(25.4%) no opinion, 23(32.4%) disagree and 5(7%) strongly disagree that agents have not motivated on the business related to ascertain transaction for AML and TF. Whenever account opening and transaction processing is outsourced to retail agents, AML/CFT regulations generally require agents to conduct some aspects of customer due diligence and suspicious transaction reporting. The bank bears the risk that customers are improperly identified and that they use the retail agent to launder money or channel funding to terrorists (with or without the retail agent's knowledge or complicity). Outsourcing account opening and retail transaction processing to what may be unsophisticated retail agents also may make it difficult for the bank to observe and report suspicious transactions. To protect both the bank-led and non bank led models from abuse as a means of money should confirm the applicability of domestic AML/CFT rules to retail agents under both models. The likely utility of these rules should be weighed against their possible access-constraining effect. Small-value accounts and transactions that pose relatively little risk should have less burdensome AML/CFT treatment (Isern et al. 2005).

Regarding to the question that agents are prohibited to collect not more than his deposit on the bank from customers the respondent answered 9(12.7%) strongly agree, 29(40.85) agree, 12(16.9%) no opinion, 16(22.5%) disagree and 5(7%) strongly disagree that prohibiting agents to collect not more than agents' deposit on the bank challenges the agent and affect the service. For the other question about not delegating other third person on agent function by agents the possibility indicated by the respondents found that 6(8.5%) strongly agree, 24(33.8%) agree, 23(32.4%) no opinion, 10(14.1%) disagree and 8(11.3%) strongly disagree. For the compensation right of the bank on agents any liability from agents deposit or payable account and it create a fear from agent side the response shown is 5(7%) strongly agree, 21(29.6%) agree, 24(33.8%) no opinion, 17(23.9%) disagree and 4(5.6%) strongly disagree.

4.9 Data analysis and discussion on other issues.

Table 21: Convenience of agent banking related to formal banks

Agent banking convenience than other formal banking service.	Frequency	Valid Percent	Cumulative Percent
strongly disagree	9	12.7	12.7
disagree	24	33.8	46.5
no opinions	13	18.3	64.8
agree	21	29.6	94.4
strongly agree	4	5.6	100.0
Total	71		

For the convenience of agent banking compared to the common branches 9(12.7%) of respondents found that they strongly disagree and 24(33.8%) respondents disagree on the point. But, 21(29.6%) of the respondents agree and 4(5.6%) strongly agree regarding that agent banking is convenience than others while 13(18.3) have no opinion on the point. literature says, low income clients often feel more comfortable banking at their local store than walking into a branch (Adiera, 1995).Bank agents deliver convenience by providing more working hours than the conventional bank‘s hours of business and through close proximity to the customers than would the banks (Charles *et al*, 2014).

Table 22: Space cost to deliver agent banking

Space cost for delivering agent service a challenge for agent.	Frequency	Valid Percent	Cumulative Percent
strongly disagree	13	18.3	18.3
disagree	26	36.6	54.9
no opinion	9	12.7	67.6

agree	20	28.2	95.8
strongly agree	3	4.2	100.0
Total	71		

Regarding to space cost to deliver agent banking 13(18.3%) strongly disagree, 26(36.6%) disagree, 9(12.7%) no opinion, 20(28.2%) agree and 3(4.2%) strongly disagree. It is observed that, space cost is not the issue for agent banking operation currently that half of the respondents answer in the way. Higher transaction volumes eventually require more staff and space dedicated to handling the branchless banking business. This creates a rigid cost "floor" that leaves agents with a lot less flexibility on how many transactions are needed for the agent business to be attractive (Flaming *et al*, 2011).

Table 23: Service quality of agents compared to formal bank branches

Agents provide better service quality like formal bank branches.	Frequency	Valid Percent	Cumulative Percent
strongly disagree	7	9.9	9.9
disagree	30	42.3	52.1
no opinion	11	15.5	67.6
agree	20	28.2	95.8
strongly agree	3	4.2	100.0
Total	71		

Compared to normal bank branches the service quality of agents is not very good as the result indicated 7(9.9%) strongly disagree and 30(42.3%) disagree. No opinion on 11(15.5%) respondents for the service quality of agent compared to existing bank branches. To the opposite direction, 20(28.2%) and 3(4.2%) respondents agree and strongly agree respectively that service quality of agent is better than bank branches. Customer Service is huge challenges for the banks as they need to train retrain the agents so as to maintain high levels of customer service (Dorine and Dr. Fred, 2013). Berry *et al*. (1985) and Zeithaml and Bitner (1996) indicated that service quality consisted of five dimensions as Follows; Tangibles: appearance of physical facilities, equipment, personnel and written materials. Reliability: ability to perform the promised service dependably and accurately. Responsiveness: willingness to help customers and provide prompt service. Assurance: knowledge and courtesy of employee and their ability to inspire trust and confidence. Empathy: caring, individualized attention the firm provides its customers.

Table 24: Agent quality and age as a challenge for agent banking service

Agent quality and age of agent has been a challenge on agent banking service.	Frequency	Valid Percent	Cumulative Percent
strongly disagree	4	5.6	5.6
disagree	13	18.3	23.9
no opinion	17	23.9	47.9
agree	32	45.1	93.0
strongly agree	5	7.0	100.0
Total	71		

From the above table 4(5.6%) strongly disagree, 13(18.3%) disagree, 17(23.9%) no opinion, 32(45.1%) agree and 5(7%) strongly disagree on the point that age and quality of agent affect agent banking operation. Age of agency: Agents are expected to take time to establish themselves and the normal growth curve is expected to apply. This means lower foot print in the beginning of a new outlet that keeps on growing to maturity if the correct factors for growth are cultivated or closure or dormancy of agency if the right factors are not exhibited. Agent quality was assessed using three parameters namely float adequacy, age of an agent in agency business and the core business of the agent. Agent float: This is the cash at hand and bank balances set aside by the agent for agent banking operations (Charles and Dr. Agnes, 2014).

Table 25: Priority of agents for their formal business than agent banking operation

Agents give priority for their formal business than agent function.		Frequency	Valid Percent	Cumulative Percent
	strongly disagree	4	5.6	5.6
	disagree	13	18.3	23.9
	no opinion	14	19.7	43.7
	agree	27	38.0	81.7
	strongly agree	13	18.3	100.0
Total		72		

From the total respondents the highest percent which is 27(38%) respondents answer agree on the issue that agents give priority for their formal business than agent functions and also 13(18.3%) strongly agree on the issue. But, 4(5.6%) strongly disagree, 13(18.3%) disagree and 14(19.7%) no opinion for that agents prioritize their business than agent function. In most branchless banking operations, most agents have an existing business that continues to be important to the agent's total income. How the branchless banking business affects it is important. Most new agents can begin their agent business part-time using their existing premises and dedicating most of their time to their existing businesses (Flaming *et al*, 2011).

Table 26: Identity theft in agent banking

Identity theft is a problem in agent banking.	Frequency	Valid Percent	Cumulative Percent
strongly disagree	6	8.5	8.5
disagree	24	33.8	42.3
no opinion	15	21.1	63.4
agree	22	31.0	94.4
strongly agree	4	5.6	100.0
Total	71		

Regarding to the point with confidentiality of customers data 6(8.5%) strongly disagree, 24(33.8%) disagree, 15(21.1%) no opinion, 22(31%), agree and 4(5.6%) strongly agree that there is identity theft by agents. Every year Banks ensure that their staff members sign secrecy forms and maintain confidentiality for all customer information. This does not happen in many cases at the Agent level since the employees of the agents are not bank staff (Dorine and Dr. Fred, 2013).

Table 27: Degree of training to perform agent banking

The current training scheme is enough to do agent banking operation in every dimension.	Frequency	Valid Percent	Cumulative Percent
strongly disagree	11	15.5	15.5
disagree	34	47.9	63.4
no opinion	5	7.0	70.4
agree	18	25.4	95.8
strongly agree	3	4.2	100.0
Total	72		

For the question rose related to the existing training scheme 11(15.5%) strongly disagree and 34(47.9%) disagree .But 18(25.4%) and 3(4.2%) agree and strongly agree respectively of the training scheme.5 (7%) have no opinion on the point. Customer 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. The agency staff will be a target by fraudsters as they are aware that they will not be able to easily identify fraudulent transactions for example identification of documents for originality or if they are fake (Ignacio, 2009).Skills required to be an agent can be similar to those required to be a bank teller. Agents are the face of the transaction provider that they represent. Some of the topics to include in training curriculum are as follows.

- Agent responsibilities and contractual obligations
- KYC regulations and customer registration requirements
- Information on how to conduct transactions
- Trouble shooting technology/equipment
- Customer relationship management
- Fraud identification and management
- Book keeping and maintenance of records
- Cash and e-float management
- Consumer protection laws: (Flaming *et al*, 2011).

4.10 Discussion on open ended question

Regarding to the open ended question the respondents stated the existing challenges and solutions for the challenges in agent banking operation**.**

Challenges:

- ✓ Poor network and power facility
- ✓ Lack of know how to use the service and lack trust worth on the product
- ✓ Lack awareness and knowledge on the service
- ✓ Lack less attention for the service by both the bank and the agents
- ✓ Less attractive commission
- ✓ Lack devoted agents for the service
- ✓ Zero interest of the customers for their agent account
- ✓ Nearness of branches to agent’s location
- ✓ Maximum transaction limit set by NBE

- ✓ Difficulty to convince customers to use the service
- ✓ Lack of coordination between branch to branch and agent to agent
- ✓ Low habit to use new technologies

Solutions states by the respondents:

- ✓ Improving the existing network and power infrastructure
- ✓ Provide extensive awareness creation using different advertising mechanism.
- ✓ Hire staff that is only responsible for agent functions
- ✓ The bank Discuss on the maximum limit with NBE
- ✓ Make amendment on the existing commission rate to agents.
- ✓ Provide training for both the agents and the bank staffs**.**
- ✓ Take lesson from other countries experience.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

Summary

It is observed that agents face risk related to security and liquidity in delivering agent banking service. On the other hand the risk level related to robbery on agents business, stolen of mobile device, and sharing of mobile device is very low from the response of respondents.

For the infrastructure issue, electricity and network interruption is highly challenging to perform agent banking function and similarly to undertake real time transaction and authorization. But, road infrastructure is not a major challenge on agent banking function.

Related to technology, the expansion of new technology like mobile banking, ATM machines, POS machines and internet banking challenges agent banking not to be preferable by the users and this new technologies provide fast service compared to agent banking. And on the other hand, it is found to be the system and application of agent banking is very easy to use.

The other point shown on the research is about the social related aspects in agent banking. The society does not prefer agent banking for their use currently. The society awareness on the services of agent banking, the advantage and disadvantage, attitude and behavior toward agent banking, the degree of knowledge and trust is at in a low level. Similarly, it is observed that the working habit of the society is the factor to deliver agent banking service. But, on the other hand agent banking has a benefit for the society.

The current commission rate is not attractive for agents and the bank and also it is obtained that collecting commission from agents has an effect to retain customers and also not motivated them to serve on agent banking. Other formal bank branches making deposit and withdrawal freely also affect agent banking operation because in agent banking there is a charge paid for deposit and withdrawal.

Regarding the legal and regulatory issues the maximum deposit limit of the customer on agent account birr 25,000 and the maximum transaction level per day birr 6,000 are the challenges to deliver agent banking which not attract customers to use agent banking and also affect agents to become successful. Similarly, prohibiting the agent not to collect a deposit more than his reserve deposit on the bank is a challenge in delivering the service.

The convenience of agent banking found that it is better compared to other common branch banks. Additionally, the space cost to deliver agent banking service is not a challenge in the current circumstance.

Regarding the service quality of agents compared to existing bank branches, there is low service quality on agent banking and similarly agents give priority for their formal business than agent function on their operation.

The age and quality of an agent is found to be as a challenge in delivering the service but it is found that half response supported identity theft is a problem in agent banking but the rest half agree that identity theft is not a problem in agent banking.

The training provided for the agent in the current phenomenon is not enough to deliver best and quality service regarding agent banking.

The bank doesn’t pay interest for the account opened in agent banking system and no interest bearing at all.

Conclusion

Regarding to risk insecurity and liquidity problem are the challenges in delivering agent banking service compared to other variables.

electricity and network interruption is highly challenging to perform agent banking function and similarly to undertake real time transaction and authorization in United bank S.C.

the expansion of new technology like mobile banking, ATM machines, POS machines and internet banking challenges agent banking operation in the current circumstance.

The other point shown on the research is about the social related aspects in agent banking. The society does not prefer agent banking for their use currently because of less, awareness knowledge, trust and not having good attitude.

The current commission rate is not attractive for agents and also it is obtained that collecting commission from customers has an effect to retain them and also not motivated them to use on agent banking.

Regarding the legal and regulatory issues the maximum deposit limit of the customer on agent account birr 25,000 and the maximum transaction level per day birr 6,000 are the challenges to deliver agent banking.

The convenience of agent banking found that it is better compared to other common branch banks. Additionally, the space cost to deliver agent banking service is not a challenge in the current circumstance.

Regarding the service quality of agents compared to existing bank branches, there is low service quality on agent banking and similarly agents give priority for their formal business than agent function on their operation.

The age and quality of an agent is found to be as a challenge in delivering the service. Similarly, The training provided for the agent in the current phenomenon is not enough to deliver best and quality service regarding agent banking. The bank doesn’t pay interest for the account opened in agent banking system and agent banking doesn’t interest bearing at all.

Recommendation

Regarding to liquidity and insecurity the bank should have to develop a mechanism to minimize the risk level. For liquidity case the bank can support agents by delivering outdoor cash service for agents in the case of liquidity problem. Related to insecurity the bank shall to provide training and other awareness creation on the severity of the risk including advising them to insure their property.

For the infrastructure problem mainly network and electricity power system it is also the problem for every organization in the country. Solving the problem of network is unable in the current time because it is monopolized and administered by the government but, for the case of electric power interruption it is better to use generators like that of financial institutions.

The other recommendation is about the social aspect to use agent banking. From the collected date the awareness, trust, attitude, and knowledge of the society is very low. As a result agent banking is not preferable in the current scenario. To solve this problem, the bank should have to do extensive marketing on agent banking and provide awareness in every aspect about the service using different marketing mechanisms. Because it tries to provide the service without creating the service and from my personal experience still now different staffs in different financial institutions are new for agent banking.

The advancement of technology in the global world makes the society to use the theologies like internet banking, mobile banking, POS machines and ATM machines for their financial transaction as a result unless other new features not added in agent banking the customer prefers these new technologies. And it is recommended to make agent banking to have more and special features.

The current commission rate paid for the agents is not satisfactory. Due to this reason, agents are not motivated to do the service and it directly affects the goal of the bank needs to achieve on agent banking. So, it is suggested the bank to revise in the way that the commission to become attractive or provide other incentives or use other alternative rather than collecting the commission from the customers.

On the legal issue the main point which needs a great emphasize is the maximum deposit limit birr 25,000 and maximum transaction limit per day birr 6,000 set by NBE. The current arena these birr limits highly affect to prefer agent banking due to the fact that the birr value is not considering the purchasing value and financial asset of the citizens. The transaction limit in the market is in hundred thousand. So that, it needs an improvement and the bank also deal with the concerned parties.

The other main point is the training scheme developed and used in the bank. It is found that, the current training program is not sufficient for the agents to provide quality service for the customers and creating awareness about agent banking service. So, the bank should have to revise the current training mechanism to become pioneer and successful on the area.

It is better for the bank to make customers account in the agent's location to bearing interest similar to branches to attract customers.

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APPENDIX

ST. MARY'S UNIVERSITY
MASTERS OF BUSINESS ADMINISTRATION
MBA PROGRAM

To be filled by Employees

The purpose of this questionnaire is to collect data from employees for conducting Masters of business administration (MBA) thesis on the title "The assessment of challenges and prospects of agent banking in United Bank S,C of Ethiopia" as academic requirement for General MBA degree. I want to assure that this research is only for academic purpose authorized by St Mary University. It will be handled in a confidential manner and will not be used to identify you in any way.

General Instructions

- There is no need of writing your name
- In all cases where answer options are available please tick (√) in the appropriate box.
- For open ended questions, please enter your response on the space provided

Contact Address

If you have any query, please do not hesitate to contact me and I am available as per your convenience at (Mobile: 09-18-50-10-20 or e-mail: *mgojjamsew@yahoo.com*)

Thank you in Advance!!!

PART I: Demographic Information

1. Number of years you have worked in bank industry (in years) ____________

2. Number of years working in your current bank (in years):

0-4 5-9 10-19 20-30 30 years or more

3. Age (in years):

Under 25 25-34 35-44 45-54 55 and above

4. Sex: Male Female

5. Educational Qualification:

College Diploma BA/BSc Degree

Masters Degree and above Other (please state________________________)

PART II: Questions related to the challenges and prospects of agent banking

Listed below are statements related to agent banking challenges and prospects in your bank. Please indicate your level of agreement with the statements so that your answers to these questions will enable the researcher to assess what you think about agent banking challenges and prospects in your bank, where:

1= strongly disagree 2= Disagree 3=No opinion 4= Agree 5= strongly agree

No.	item	evaluation				
		Strongly disagree	disagree	No opinion	agree	Strongly agree
1	**Risk related issues**					
1.1	Security is the major challenges of money related activities; as a result agent banking also has insecurity on its operation.					
1.2	Liquidity risk is the one which is affecting agent operations and a challenge for agents.					
1.3	There is robbery on agents in remote area of the country.					
1.4	Agent banking face risk related to stolen of mobile device.					
1.5	There is risk related to sharing of mobile device with friends or low income society or rural areas.					
2	**Infrastructure related issues**					
2.1	There is very high interruption of network on providing agent banking service.					
2.2	On article no. 4 sub article 4.4.2 of NBE directive agents should have to perform real time transaction and authorization. From this point the current network and power					

	system is available enough.					
2.3	Current road infrastructure is the problem to perform agent banking in rural area of Ethiopia.					
3	**Technology related issues**					
3.1	In the expansion of new technologies like mobile banking, Internet banking agent banking not more preferable.					
3.2	Agent banking preferable better than ATM and POS machines.					
3.3	Agent banking provides fast service than internet, mobile, ATM, POS, SMS and the like new technologies.					
3.4	The system and mobile application to use agent banking is very easy.					
3.5	Agent personal computer damage affects the operation of agent banking.					
4	**Social related issues**					
4.1	The society prefer agent banking for their use.					
4.2	The current awareness of the society enough for using agent banking.					
4.3	The life style of the society like working hour habit preferable for delivering agent banking.					
4.4	Agent banking benefits the society in the current circumstance.					
4.5	The current attitude and behavior of using agent banking developed.					

4.6	The society has knowledge on the services of agent banking.					
4.7	The societies aware of the advantage and disadvantage of using agent banking.					
4.8	Agent banking trusted by the society.					
4.9	Agent banking is new for the country and the society as a result there is resistance to accept it.					
5	**Commission related issues**					
5.1	The current commission for agent service attracting agents and the bank.					
5.2	The commission for agent banking transaction is collected from the customers. As a result, it is difficult to retain customers and motivate them to use agent banking.					
5.3	In the case of formal banks providing services like withdrawal and deposit they make it freely but not the case for agent banking which affects agent banking negatively.					
5.4	Are agents continuing on the business when unprofitable for more than three months.					
5.5	Agent banking commission is vital and essential for the bank.					
5.6	In the case of deposit agents get 0.50 birr per transaction it pushes the agent to persuade customer to deposit twice rather than once.					

6	**Legal and regulatory issues**					
6.1	According to NBE directive the maximum balance of customer on agents account should be not more than 25,000 birr and the limit amount is small and not motivated to use agent banking.					
6.2	The maximum transaction per day is birr 6,000 and it not makes agent banking successful.					
6.3	NBE in its next transformation plan needs to order commercial banks to expand their branches by 30% every year. So that, the agent banking highly put under question marked.					
6.4	On the agreement to provide agent banking service in its article no. 5 sub article 5.1 and 5.2 it says agents should ascertain transaction related to terrorism and money laundering. Due to this fact, agent not highly motivated for delivering the service.					
6.5	On the agreement to provide agent banking service in its article no. 8 among the restriction activities for the agent the one is, the agents are prohibited to collect more than his/her deposit on the bank and it challenge the agent and affect the service to.					
6.6	The agent should not delegate other third party without get permission from the bank is it possible to do so.					
6.7	On the agreement to provide agent banking service in its article no. 16					

	on compensation right it says, the bank has the right to collect any debt from the agent deposit or payable account it create a fear on agent's side.					
7	**Other issues**					
7.1	Agent banking convenience than other formal banking service.					
7.2	Space cost for delivering agent service a challenge for agent.					
7.3	Agents provide better service quality like formal bank branches.					
7.4	Agent quality and age of agent has been a challenge on agent banking service.					
7.5	Agents give priority for their formal business than agent function.					
7.6	Identity theft is the problem in agent banking.					
7.7	The current training scheme is enough to do agent banking operations in every dimension.					

8. What are the general challenges and appropriate solutions for agent banking success?

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Alem Hagos (Phd.). All sources of the materials used for the thesis has been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any higher learning institution for the purpose of earning any degree.

Name	Signature
St. Mary's University, Addis Ababa	**December, 2015**

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a University advisor.

Advisor ______________________________ **Signature &** ______________________