ST.MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF AGENT BANKING SERVICES OF COMMERCIAL BANKS IN PROMOTION OF FINANCIAL INCLUSION IN ETHIOPIA

Prepared by **TSEGAYE BELETE HAILEMARIAM**

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June 2016

ADDIS ABEBA

ETHIOPIA

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Approved by Board of Examiners

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Declaration

I, the undersigned declare that this thesis is my original work, prepared under the guidance of Zenegnaw Abiy (PhD). All source of material used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for purpose of earning degree.

____________________________ ____________________________

Name signature

St. Mary’s University, School Of Graduate Studies

Addis Ababa, Ethiopia

Endorsement

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

Zenegnaw Abiy (PhD) Signature______________________

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Thank You All!

Dedication

I dedicate my work to my son little shining star Bereket (Beki) and my Father and Mother; Belete Hailemariam and Workenesh Alemu who are a ground to my success and my reason of living. Had it not been for your understanding and support, this achievement would have never and ever happened.

Thank You!

ACRONYMS and ABBREVIATIONS

ADBG	African Development Bank Group
AFI	Alliance for Financial Inclusion
ATM	Automatic Teller Machine
CAS	Casualty Actuarial Society
CBB	Central Bank of Brazil
CBE	Commercial Bank of Ethiopia
CBN	Central Bank of Nigeria
CCTV	Closed-Circuit Television
CRM	Customer Relation Management
DB	Dashen Bank S.co
FSD	Financial Sector Deepening
GTP	Growth and Transformation Plan
GTZ	Gesellschaft für Technische Zusammenarbeit
IMF	International Monetary Fund
MFI	Micro-Finance Institutions
MoFED	Minister of Finance and Economic Development
NBE	National Bank of Ethiopia
NBK	National Bank of Kenya
NGO	Non-Governmental Organization
POS	Point of Sale
SMS	Single Message System
UB	United Bank S.co
UN	United Nation
UNDP	United Nation Development Program
USD	United States Dollar

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Abstract

This research work aims to assess agent banking services of commercial banks in promotion of financial inclusion in Ethiopia hoping that the finding of the research will add value to various stakeholders (NBE, Banks, Agents, Customers and others) for policy formulation, decision making and serves as an input for further research work in the field. It is a descriptive research design employing the quantitative data type and collected to explore the research question. The research work was delimited to relevant institutions having direct role and supporting role to the subject matter. Question with close and open ended were distributed. Branch Mangers conducted interview with researcher. Questioner designed for both bank branch managers and agents which had twenty two and twenty five questions each in six sections respectively. Additionally, the research tried to review various empirical and theoretical literatures in light of having an in-depth understanding on the subject matter to supplement the research construct. The research found out that agent banking service is a successful catalyst of financial inclusion demanding an immense opportunities towards enhancing accessibility to financial service to the unbaked or under banked of the vast community of Ethiopia and serving as additional revenue generation mechanism, cost reduction, risk diversification for financial institution and customers get banking service nearest to them at low cost and minimal time and queuing. The finding of the research revealed that geographical coverage, liquidity, cost and security are the major aspects in promotion of financial inclusion in Ethiopia. In order to enhance financial inclusion in Ethiopia focusing on those elements of financial inclusion has not a choice for the stakeholder of agent banking. Therefore based on the finding of the research, it was recommended that, those stakeholders in respect of their role played in promoting agent banking model; so-as-to enhance financial inclusion to vast people of Ethiopia; working and providing due attention for elements of financial inclusion in order to reduce observed setback of geographical coverage, liquidity, cost and security has play fundamental role in promotion of financial inclusion in Ethiopia.

Key Words: ***Agent, Agent Banking Business, Cost, Financial Inclusion, Geographic coverage, Liquidity, Security.***

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CHAPTER 1

INTRODUCTION

1.1 Background of the study

Commercial Banking over the years had lived up to definition of safe keeping of customers funds and ensuring that the customers get the money upon demand. And this has been the basic function of banking just as a raw material for a business. Cash mobilization therefore the world over has continually been part of the primary and important component of banking. In both retail and corporate banking, this important aspect of banking has been practiced in different forms with the commonly known aspect being direct deposit by the customer in the banking hall. Withdrawal of cash is also made in the banking halls or any permitted premises as approved by the bank or financial institution. (Banson, 2014)

Financial inclusion is defined as the ability of an individual, household, or group to access a full range of responsibly delivered, affordably priced and reasonably convenient formal financial services. Without this ability, people are often referred to as financially exclude. People that are financially excluded might not be able to access affordable credit, and are financially at risk of not having home insurance, struggle to budget and manage money or plan for the unexpected and not know how to make the most of their money (FSD, 2010). Evidence shows that financial inclusion is a key to reduce economic vulnerability of households, promoting economic growth, alleviating poverty and improving the quality of peoples' lives (Rosenberg, 2011).

It's a recent history that the banking service was carried out manually which involves traditional trend banking data system, and withstanding its tediousness, the customers' satisfaction were met to some extent. However, there is limitation to this success especially on the area of money transaction or transaction processing. This era suffered huge set back, as customers find it difficult to travel with large sums of money or remit cash to another branch of the bank they operate. And hence, Agent banking has become a crucial practice of financial institution in bringing their services more closely to the people.

Technology has become an intrinsic part of banking, making it easier and cheaper to develop and deliver financial services. As a consequence of the highly technological environment developed around the world in the banking industry, the expansion of distribution channels for financial services relies on a very complex network of partnerships (Robert, 2002). At the same time, in developing countries, only part of the population has access to basic financial services, such as a deposit account. (UNDP ,2007) studies have claimed that technology will play a significant role in improving poor people's bank access, taking financial services in a sustainable way too far and underserved locations. There is a tremendous opportunity for banking technology to connect lower-income citizens at reduced costs and bring millions of consumers to the formal financial marketplace through electronic channels (Robert, 2002). With the incorporation of innovation and technology, many aspects of banking has been automated and improved. Through innovation, customers have seen easy and accessible means of banking and have to a greater extent helped banks reach out to many of the unbanked population. With the support of technology, tedious processes of banking have been reduced and services have improved. Some innovations could be mentioned of the bulk cash collection by team of bank staff to key clients of the banks; the use of mobile bankers to market and collect cash from petty traders and others clients of the banks; and the selling of nonbanking products such utility bills, bank assurance, sale of passport forms and registration of booking dates for visa to the embassies. Technology in the banking industry saw the introduction of internet banking; SMS banking, automated teller machines (ATM), and the introduction of mobile money (Banson, 2014).

Therefore, with the underlying theme of witnessing now day banking fund mobilization system is changing from time to time and approaches more and more to customers so as to provide different service at the household level using different strategy which may bring financial inclusion.

1.2 Background of Agent banking

The banking industry has witnessed a series of revolutions and growth over time. The dynamism and competitiveness in the market has made many banks to come up with various strategies in a bid to achieve the desired competitive advantage, to position and strengthen their business within the business environment. World over, non-financial institutions and banks have discovered the advantages of agency banking as a strategy of penetrating the market (Mc Kay, 2011). Brazil is a global pioneer in the area of agency banking; and over the years it has developed a mature network of agent banks covering 99% of its market (AFI, 2012).

Latin America has a highly developed agency banking channel which has contributed significantly not only to the rural financial ecosystem but also to mainstream banking. Other parts of the world, agency banking has also played a big role in building financial inclusion; that is, banks giving financial services at a lower cost, wider coverage and greater accessibility to customers. Banks are able to tap more opportunities from other untapped markets through agency banking in that the agents can open accounts with the principal bank and also agents can also borrow from the principal bank. Agency banking also creates a sense of loyalty by the customer to its bank (Mc Kay, 2011). In Nigeria, increase in demand for customer`s deposits within the banking industry was the driving force for the introduction of agent banking. Agency banking was to offer banking services to the unbanked in the vast country of Nigeria (CBN, 2011).

A banking agent is a retail or postal outlet contracted by a financial institution or a mobile network operator to process client's transactions. Rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds, pay their bills, inquire about an account balance, or receive government benefits or a direct deposit from their employer. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices and many more. In a growing number of countries, banks and other commercial financial service providers are finding new ways to make money delivering financial services to unbanked people. Rather than using bank branches and their own field officers, they offer banking and payment services through postal and retail outlets, including grocery stores, pharmacies, and gas stations among others. For poor people retail agents may be far more convenient and efficient than going through a bank. Banking through retail agents uses information and communication technology through cell phones to transmit transaction details from the retail agent or customer to the bank.

For countries like Ethiopia, where financial accessibility is very low, which is the banked population was less than 8.0 % (IMF, 2013) agent banking is suitable in many ways so as to enhance the accessibility of banks. It enables financial institutions to become accessible in terms of time and place. The mobile revolution in urban and rural areas also means a golden opportunity for the growth of agent banking. This form of service provision can be used to clear the road for branch operations. With agent banking, it is possible to collect a small number of customers around each agent and introduce the name and the service of the bank to potential clients. This will ease the operation of a new branch in the area. For the clients, agent banking reduces the time and money needed to visit a branch each day to deposit and withdraw their money. They can complete such transactions from the shop next door. This opportunity motivates fast but small cash movers, like retailers, to put their extra money into the banking system every day. For the agent, the system is a source of income as it works on commission basis. It enables the agent to earn a good reputation from the bank with which it is affiliated and perhaps, get some preferential rights, like credit.

1.3 Status of Agency Banking in the World

A study of trends in Brazil, Peru and Colombia indicates a slow implementation of agent banking during the first two years followed by an increase in the third or fourth year. However, data after Mexico’s first year of allowing agent banking leads to the prediction that there will be a rapid increase in banking agents in the initiative’s second year, one that is comparable to increases in Colombia’s fourth year and Peru’s sixth. Mexico’s new regulations to allow more types of financial institutions to operate through bank agents and to allow the opening of savings accounts will have a significant impact on financial inclusion and place Mexico among the leaders in agent banking in Latin America (Celina, 2012).

1.4 Status of Agency Banking in Ethiopia

The Ethiopian government issued proclamation no. 40/1996 in 1996 that allowed the establishment of MFIs. Since then financial services to the unbanked have become a major area of interest for policy actors. The government takes financial inclusion as a policy objective and has been trying to build inclusive financial systems not only to address the previously excluded ones but also to mainstream financial institutions to reach out to the unbanked. Thus, in order to get a comprehensive picture of financial inclusion in Ethiopia, it is important to get the complete picture of the supply side such as the availability of information on non-bank financial services, such like agent banking. Hence, Agent banking in Ethiopia officially commenced and starts working through NBE Directive of FIS/01/2012 as "Regulation of Mobile and Agent Banking Services". According to National Bank of Ethiopia (NBE) Directive, agent banking is the conduct of banking business on behalf of a financial institution through an agent using various service delivery channels. Mobile banking is performing banking activities which primarily consists of opening and maintaining mobile/regular accounts and accepting deposits; furthermore, it includes performing fund transfer or cash in and cash out services using mobile devices.

In Ethiopian financial market, Dashen Bank is the pioneer in agent banking operations. But United Bank is the one with deep engagement. Agent banking in Ethiopia started in 2014. Yet, now, it looks like it is at a standstill. Most banks are not involved in the agent service but now that it has become obligatory as of NBE five year strategic plans (Fortune, 2015).

Therefore, even-though this business venture is new in Ethiopia and commenced by NBE recently, it plays a great role in promoting financial inclusion which reduce the burden and facilitate the service to clients so as to access the banking service easily.

1.5 Indicators for Financial Access

As per Financial Sector Operations and Policy department of the World Bank new indicators are introduced to distinguish between access and the use of financial services. Access to financial service includes geographic access (2006).

With vast size of Ethiopian territory and population access to formal finance service has negligible and it's an evidence of African Development Bank Group (ADBG, 2011) report, the Current financial services coverage in Ethiopia is low. The Bank's recent Financial Sector Study estimated that less than 10% of households have access to formal credit. Services are concentrated in a few towns; Addis Ababa alone accounts for nearly 40% of total branches of commercial banks. Financial deepening is necessary to foster more inclusive growth and accelerate poverty reduction.

As of Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) report on access to financial service in Ethiopia, Bank branches are concentrated in urban areas. More than 52% of all branches are in the eight major towns where only 6.6% of the population lives (2008)

1.6 Statement of the problem

Financial Institutions serves a long and often-recited list of goals. It mobilizes savings, allocates funds to their most productive uses, and facilitates exchange. It is central to risk management: allowing firms to manage risk, protect against the loss of productive assets, and insure against productivity shocks such as drought or flood. It allows households to smooth consumption, invest in their children's education, and facilitates investment. With these goals in mind, access to finance is widely considered to be a critical component in the development process based on the accepted belief that it directly improves welfare and encourages growth (Afande, 2015). Individuals are often defined as having access based entirely on whether or not they currently maintain a formal deposit account. And it's obvious that every governments dream is to have an efficient and inclusive financial system for purposes of resource mobilization.

In Ethiopia, in connection with the second Growth and Transformation Plan (GTP), the country has planned to increase branch number and an agent by 30 % is premised on a safe, efficient and inclusive financial system (MoFED, 2015). As of March 2016 NBE data shows, the number of banks operating in the country reached 18 of which 2 of them are owned by the state and the remaining 16 are private commercial banks. And as a mechanism of expanding the banking outlet in the country, it's not a choice to focus on agent banking service to promote financial inclusion. Hence, the government of the country through the National Bank of Ethiopia has therefore been exploring and implementing innovative models that will deepen Ethiopian financial sector to support savings and investment growth. One of the initiatives has been the agent banking model.

Since Mobile and agent banking commencement by NBE in 2012, the agent banking service has started only by two private banks: United bank and Dashen Bank. Evidences on the role agent banking model has played in promoting financial inclusion in Ethiopia is negligible when compared to Sub-Saharan Countries that the number of total banks branch in the country reached 2,323 for an estimated population of 87,000,000 with the branch to population ratio of 1:37,861.80 and Commercial Bank branch (per 100,000 adults) ratio was 2.94. ATM penetrations to society were 2.95 in 2012.And Addis Ababa city shares' higher number of branches, ATM machines and Agents in relation to the country side (NBE Annual Report 2013/14). According to ADBG report, 2011 the coverage of financial services in Ethiopia is low and estimated that less than 10% of households have access to formal credit. Services are concentrated in a few towns; Addis Ababa alone accounts for nearly 40% of total branches of commercial bank. This indicates still Ethiopia has a relatively sparse financial infrastructure and greater number of the Ethiopia bankable population is still out of the financial services orbit. And in view of the fact that agent banking establishment is new and young in the country, therein lays a knowledge gap. Therefore, the purpose of this study has to assess the role played by agent banking in promoting financial inclusion in Ethiopia, with emphasis on the aspect contributing to financial inclusion, such as geographical coverage of agents, security, and liquidity of agents and cost of financial services via agents.

1.7 General Objective of the Study

The purpose of this study was to assess the agent banking services in promoting financial inclusion in Ethiopia.

1.8 Specific Objectives of the Study

The study was guided by the following objectives:

I. To assess the extent to which geographical coverage of agency banking has promoted financial inclusion.
II. To assess the extent to which security concerns associated with agency banking affect financial inclusion.

III. To analyze the extent to which agency banking has reduced the cost of financial services by commercial banks.

IV. To assess the extent to which agency liquidity concern financial inclusion.

1.9 Significance of the Study

The research findings will be of paramount benefit to various individuals and institutions.

Since agency banking is still a new concept in Ethiopia, this research will help highlight issues that might emerge in the implementation and even after implementation. This will help commercial institutions to come up with policies and procedures to handle such issues before they become big problems so as to gain full potential of this innovation.

This information will be important for decision making to individuals investors who intend to engage in agent banking through creating awareness of agent banking, identifying the gap of unbanked place and identify cost of agent banking and easily reach customer and in return agents benefited from income generated (transaction commission).

The research findings will contribute to the body of knowledge since it looks at a relatively new area which is constantly growing and empirical literature is limited.

On the other hand, the regulatory authority (NBE) will be able to adopt suitable policy and procedure regarding agent banking business operation and expansion so-as-to reach banked and unbanked households in a convenient form. Thereby it benefits the society and the country as a whole in one-way or another.

1.10 Scope of The Study

The scope of the study has a country-wide however due to the limitation of time and costly to cover the territory of the country, it targets on Addis Ababa. Not only this, but also due to the expectation of the researcher that data may not be available and even difficult to collect from the country side the researcher focuses' on the city.

1.11 Operational Definition

Agent: an entity that has been contracted by an institution and approved by the National Bank to provide the services of the institution on behalf of the institution in the manner specified by the NBE Guideline.

Agent banking business: business carried out by an agent on behalf of an institution as permitted under NBE guideline.

Costs: refers to the cost of financial services like cash withdrawal and deposit and balance inquiry through agents.

Financial inclusion: refers to the policy goal of reaching both banked and unbanked households with a full range of responsibly delivered, affordably priced and reasonably convenient formal financial services.

Geographical coverage: The ability of agency bankers to bring financial services closer to customers.

Liquidity: Availability and access to or convertibility of cash.

Security: The ability of agents to assure safety of customers' liquid cash at their disposal through use of physical security and confidentiality (Francis & Salome, 2013).

1.12 Organization of the Research Report

The research report will have five chapters, which includes;

- Chapter one- Introduction

Under this part of the study will present the background of the study, the basis upon which the study was made (problem statement), definition of terms, and scope of the study, significance and purpose of the study as well as study objectives and research questions.

- Chapter two- Review of related literature

This chapter forms a basis of the study by reviewing the existing knowledge and literature about Structure of banking sector in Ethiopia, agent banking, financial inclusion, Status of Agency banking in the World, theoretical, and empirical theory of agent banking, and about different factors that contribute to financial exclusion as mentioned by various several scholars, authors and academicians.

- Chapter three- Methods of the study

This chapter will presents the methods and procedures that will be used in sample selection, data collection, analysis and presentation. It includes; sampling techniques, data collection methods, study population, sources of data, sampling and sample size, and data presentation and analysis methods.

- Chapter four- Results and discussion

This part of the study will present the findings of the study that formed the data content analyzed to make interpretations, conclusions and recommendations. Assessment of Agent Banking Services of Commercial Banks in Promotion of Financial Inclusion in Ethiopia

- Chapter five- Summary, conclusions and recommendations

This chapter will comprise four sections, which include summary of findings, conclusions, limitations of the study and recommendations.

CHAPTER 2
LITERATURE REVIEW

2.1 Theoretical Framework

2.1.1 Agency Theory

Agency theory explains the relationship that exists between principal and agent in business. Agency theory addresses role conflict between the principal and the agent, the problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions (Stephen, 1970).

An agent is more likely to adopt the goals of the principal, and therefore behave in the interest of the principal, when the contract is outcome-based. Also, when the agent is aware of a mechanism in place that allows the principal to verify the behavior of the agent, he is more likely to comply with the goals of the principal.

Agency theory analyzes the relationships between a business firm's owners and its managers who, under law, are agents for the owners. Under the terms of agency theory, a principal passes on authority to an agent to conduct transactions and make decisions on behalf of the principal in an effort to maximize principal`s utility preferences. Managers, as agents of a firm's shareholders, may not devote their best efforts toward managing the firm unless those efforts are concerned with maximizing their own welfare. Agent banks are contracted by the banks and authorized by the central banks to render services for banks. They use point of sale (POS) terminals with supermarkets, grocery stores, drugstores, gas stations, the postal company, and the lottery outlet chain (AFI, 2012).

The agent acts on behalf of the bank. All transactions carried out at the agent to the customer, are done on behalf of the bank. The bank is the principal in this case. The bank set out the way the agents are supposed to operate. It's the bank to approve the agent's operation. The bank can revoke the operations of a particular agent if it deems that the agent is not operating within the timelines approved. The agent ought to make sure that it charges the commission set up by the principal which in this case is the bank. The bank has to make sure that the business of the agent is licensed. The bank has a role to make sure that the agents offer satisfactorily customer service and the agent comply with prevention of terrorism Act and Anti money laundering, as any violation is an offence and the bank might be forced to pay liabilities incase the agent fails to comply (NBE report on Agency banking ,2013).

The bank agent must have an account with the nearest branch of the bank offering. National Bank issues the agent with a register so that the agent records all the transactions. It's the bank to train its agent on the operations of the agency. Agents do report to the nearest branch of the bank. Agents do receive direct communication from the nearest branch of the bank. In case the Bank needs to credit their account, they can either visit the nearest branch or even use the mobile banking service to credit their account. It's the branch to recruit more agents to assist in its operations and to decongest the banking hall.

2.1.2 Enterprise Risk Management Theory

According to the Casualty Actuarial Society (CAS) 2014, enterprise risk management is a process by which organizations in all industries assess, control, exploit, finance and monitor risks from all sources for the purpose of increasing the organization`s short and long term value to its shareholders." Enterprise Risk Management is a new approach for companies to identify and manage their risk. The goal of Enterprise Risk Management is to create, protect and enhance shareholder value (Barton, 2002).

Enterprise Risk Management is a tool that gives companies a competitive advantage by and adds value for shareholders. Companies that succeed in creating an effective Enterprise Risk Management have a long-run competitive advantage over those that manage and monitor risks individually. By a company measuring and managing its risks consistently and systematically; by giving its business managers the information and incentives to optimize the tradeoff between risk and return, a company strengthens its ability to carry out its strategic plan (Brian, 2006). Enterprise Risk Management uses the firm`s risks to determine which risks can be allowed and which risks cannot be allowed and which should be mitigated or avoided (Nicholson, 2005). A risk is an unplanned event with financial consequences resulting in loss or reduced earnings (Vasavada, 2005). Risk is a condition where there is a possibility of undesirable occurrence of a particular result which is known or best quantifiable and therefore insurable' (Periasamy, 2008). Risk is an uncertainty resulting in adverse outcome, in relation to planned objective or expectations (Kumar, 2005). Financial institutions must take risk, but they must do so consciously (Carey, 2001).

Risks arise from all the bank`s activities. The bank is exposed risks each time new transactions are originated, acquisition, of new clients, introduction of new products, opening up of new markets, hiring of new staff: and new risks can also arise from a variety of changes made to processes, systems, vendors, organization structures, and corporate structures. Risk exposures can arise from changes in the external environment (Wadongo, 2013). The banks must control risks to ensure risks have no material impact on the bank`s profitability and or cause no material damage to its entity. The bank should consider minimizing exposures to risk subject to cost and risk/ reward tradeoffs. Risk events occur when there are inadequacies or failures due to; people (human factors), processes and systems.

Risk management is core to businesses of the bank`s management and is an ongoing valued activity. The greater the risk a business exposes itself the higher the returns (Eugene, 2012). For example, ATM machines have made it easy for the banks to offer services to their clients at odd hours. The returns for using the ATM machines are higher, but at the same time banks have lost millions of money through ATM machines whereby, fraudsters use skimming to access customer`s data and later withdraw money from their accounts(Deloitte Report,2013). The bank`s main goal is to make profit and to stay in business Banks must ensure that their risk taking is informed and prudent. The bank must manage their asset and liability well to avoid liquidity risks that might be created when the bank take in short term deposits from customers and give out long term loans. If withdrawal is unusually high, there is a risk that the bank would not have enough cash to meet the demand (Marrison, 2005).

When a company or an institution opens an account with NBK, legal search has to be conducted. (NBK Operational Risk Management Framework, 2013) This is a way to mitigate the risk that might be caused by opening a fraudulent account. Fraudsters open fraudulent accounts and issue bouncing cheques to innocent customers and in the long run it might be a risk to the bank because the bank might be ordered through a court order to identify and produce the owner of the account issuing bouncing cheques and this might cause the bank a lot. The bank has a role to train its agents on risk mitigation. The bank should train its agents on how to verify a customer`s document to avoid such risks as impersonification and withdrawal from a customer`s account.

The major risks in banking business include; liquidity risk, interest rate risk, market risk, credit or default risk and operational risk. The liquidity risk of banks arises from funding of long-term assets by short-term liabilities, thereby making the liabilities subject to rollover or refinancing risk. Liquidity risk is the possibility that an institution may be unable to meet its maturing commitments or may do so only by borrowing funds at prohibitive costs or by disposing assets at rock bottom prices (Kumar, 2005). Interest Rate Risk is the risk of an adverse impact on Net Interest Income (NII) due to variations of interest rate (Sharma, 2003).Market risk is the risk of adverse deviations of the mark-to-market value of the trading portfolio, due to market movements, during the period required to liquidate the transaction (Kumar, 2005). Market risk results from adverse movements in the level or volatility of the market prices of interest rate instruments, equities, commodities, and currencies. Credit risk is a risk that the interest or principal or both will not be paid as promised. Credit risk is borne by all lenders and will lead to serious problems, if excessive. Loans are the largest and most source of credit risk in banks. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Thus, operational loss has mainly three exposure classes namely people, processes and systems (Basel Capital Accord, 2004). Agents should have ways to mobilize cash deposits from customers to avoid such scenarios whereby a customer will come to withdraw money and the bank agent will lack cash to pay the customer.

2.1.3 Customer Relationship Management (CRM) Theory

CRM with its current meaning was emerged from 1990s as a business strategy and developed to select and manage the most valuable customer relationships. CRM requires a customer-oriented philosophy and culture to support effective marketing process, sales and after-sales service organization. Customer relationship management is comprised of 3 parts: customer, relationship, management (Al-Badawi, 2006). Concept of customer is the ultimate consumer who has a supporting role in valuable relationships. Concept of relationship is to build loyal and profitable customer relationships through the learning relationships. Management is creativity and guiding of a customer-oriented business processes and placing the customer at the center of procedures and experiences of the organization.

Experts and theorists have different definitions for customer relationship management that can be classified in four general groups containing strategies, technologies, processes and information systems (Thompson, 2004).

Some of the definitions for customer relationship management from the view of different theorists are as follows:

1- CRM is a part of the organization strategy for identifying and keeping customers satisfied and converting them to a repeat customer. In addition, in line with the customer relationship management, it helps the company in order to maximize the value of every customer (Turban, 2003).

2- CRM is a set of methodologies, processes, software and systems that helps institutions and companies in creation effective and organized management of customer relationship (Burnett, 2001). 3- Customer relationship management as a process, consists of monitoring clients (such as appropriate data collection of them), management, and evaluation data and finally, creating real advantage from information extracted in dealing with them (Hampe, 2002).

4- Customer relationship management is a comprehensive business and marketing strategy that integrates process technology and all business activities around the customer (Feinberg, 2003).

Technological definition of CRM was given as “The market place of the future is undergoing a technology driven metamorphosis” (Peppers 1995). Consequently, IT and marketing departments must work closely to implement CRM efficiently. Meanwhile, implementation of CRM in banking sector was considered by (Mihelis, 2001). CRM takes a very customer-centric view of the entire customer life cycle, which means that a CRM business strategy places the customer at the center of the organization’s universe

From marketing aspect, CRM is defined by (Couldwell, 1998) as “a combination of business process and technology that seeks to understand a company’s customers from the perspective of who they are, what they do, and what they are like”.

Customer relationship management systems are becoming popular across several sectors and have emerged as chief business strategy in today’s competitive environment in companies. It has been viewed as a process aimed at collecting customer data, find profiles of customers and use the customer knowledge in specific marketing activities. It is a discipline which enables the companies to identify and target their most profitable customers. Thus CRM is becoming an important factor in banking sector also. Now each and every bank is realizing the significance of relationship with customer to survive in the competitive world.

From the above definitions, it can be concluded that CRM strategy is a business to optimize profitability, revenue and customer satisfaction by the organizing services based on customer needs, and also improving customer satisfaction is designed accordance with the principles and implementation process customer oriented.

2.2 Empirical Review

There are several research studies which have been done in the past which have tried to explain agency banking in promotion of financial inclusion, this section describes these studies in line with the study objectives namely liquidity, geographical coverage, security and costs which are discussed below in detail.

2.2.1 Geographic Coverage

One of the reasons which can be attributed to the low financial inclusion in rural areas is the long distance they need to travel to access financial services. Sometimes, the amount of money someone wants to withdraw from the bank is equivalent, or even less than the transportation cost, while others find the new ultra modern banking halls intimidating. Thus they avoid formal financial services and opt for informal financial services which are readily accessible in rural areas (Wainaina, 2011).

With just over 2.54 branches per 100,000 people, Ethiopia remains with a relatively sparse financial infrastructure. Expansion of ATM networks has continued to grow with a very high interval in the pace of deployment. And at only 1.02 ATMs per 100,000 that also highly saturated in Addis Ababa (NBE, 2014). Portfolios of the poor by Collins, 2009, documents how poor people struggle to manage their financial lives given the lack of services suitable to their tiny, highly viable and uncertain income. According to (Ivatury, 2006), agency banking could be of benefit to the clients in the following ways; lower transaction cost (Closer to clients home), customers can therefore withdrawal or deposit little amounts without incurring extra costs like transport to a bank branch, longer opening hours since this businesses operate for longer hours than banks, shorter lines than in branches, more accessible for illiterates and the very poor who might feel intimidated in branches. Therefore customers save on time they have to travel to a bank branch, and the time they have to wait in line to be served.

Banking agencies help financial institutions to divert existing customers from crowded branches providing a "complementary" often more convenient channel. Other financial institutions especially in developing markets use agents to reach an "additional" client (geographical). Reaching poor clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of a branch In such environments, banking agents at are small on existing retail infrastructure – and lower set up and running cost-can play a vital role in offering many low incomes people their first-time access to range of financial services. Also, low – income clients often feel more comfortable banking at their local store than walking into a branch (Adiera, 1995).

2.2.2 Security

Physical security is another common concern of regulators. In Brazil, for example, agents must deposit the cash received from clients in a bank branch no more than every other business day. This intended to limit cash accumulation that can lead to robbery by third parties or even by the agent itself. The Mexican regulator, by requiring every agent transaction to be made against the agent's account at the contracting bank, does not reduce the risk of third- party robbery but eliminates the risk of agents misappropriating the accumulated cash, since the cash is in fact the agent's own. The simplest measure to reduce cash accumulation and its related risks may be requiring providers to set daily and monthly transaction limits for each agent and client (Stephens and Kevin, 1998).

Evidence from the four country studies suggests that technical failures (e.g., equipment malfunctioning and other errors occurring during a transaction) are not a major issue in branchless banking. Similarly, research on consumer experience in Brazil shows that less than 5 percent of users have made a mistake and paid the wrong bill at an agent, sent money to the wrong account, or noticed that a payment or a deposit was never processed or received (Collins, 2010).

Kenyan financial institutions have embarked on an aggressive entry into the segment keen to take advantage of the cost-saving and accessibility brought about by the agency banking model, but many are finding that agents lack capacity to handle large transactions of cash and under-spend on security measures. Identifying agents who are capable of handling cash transactions efficiently has been a challenge for the institutions, with consumers reporting that cash is often scarce even as rising fears of security mount at the outlets (Kinyanjui, 2011). As a branchless banking service grows; agents attract increasing interest from criminals (Mc Kay, 2011). 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 losing on average more than USD500 of their own money.

(Tarazi, 2010) observes that where damages are not easily quantified and agent behavior not easily monitored – resulting in an unknown risk that principal service providers are not well equipped to mitigate, for example, violations of data privacy. In this case, damages could be indirect and punitive – and therefore quite high. And yet, a principal service provider is ill equipped to stop such agent behavior. Some would argue that this problem is easily solved – keep the principal institution liable and it will take recourse against its own agent for any damages it is forced to pay as a result of such agent's misconduct. That could work where agents are large well capitalized retail chains. But to reach the very poor, agents are often the simple, modest corner shops – the ones whose independent behavior is most difficult to control and whose ability to "pay back" a principal for paid damages is most limited. A principal is unlikely to take comfort that in the idea that it can sue the sole proprietor of a modest fruit stand to recover unknown liabilities.

Continuity in the long run is highly valued by financial services users. Threats to continuity can arise from problems with the business models that reduce customer confidence (e.g., inadequate technological platforms) and from forces outside the scope of financial regulators. Institutions should therefore, at all times monitor the safety, security and efficiency of the equipment being used to prevent any tampering or manipulation by any person. As trust is the single most necessary ingredient for growth of agent banking, appropriate consumer protection systems against risks of fraud, loss of privacy and loss of service shall be put in place by institutions for purposes of establishing trust among consumers of agent banking services.

2.2.3 Cost

(Gardeva, 2011) in a survey report on opportunities and obstacles to financial inclusion observes that, product cost-structures and branching costs were ranked 7th and 12th respectively viewed as significant obstacles to financial inclusion, especially by providers, high branching costs in rural areas are associated with poor physical infrastructure – roads, electricity, etc. – that branchless banking is able to leapfrog. Such infrastructure barriers ranked surprisingly high, at 9th on the obstacles list. Agent banking drastically reduces the cost of setting up points of contact with customers, allowing MFIs, banks and other providers to reach out into areas where building branches would be too expensive.

Banks expansion is usually limited due to the high initial cost of opening a branch and in many areas due to the low economic status of the people living in these areas. The initial costs of setting up a branch and running cost takes longer time to translate into profit and hence limiting branch expansion. Through partnerships with businesses across the country, banks will take their services closer to the people in areas with potentially less number and volume of transactions. This in turn will lead to increased customer base and thus the market share, increased coverage with low cost solution, increased revenue. Customer's visiting the local business center will benefit from lower transaction costs as it is closer home and hence no need to travel moe distance to reach a bank, longer banking hours as the Agents will operate for longer hours and shorter queues than in branches.

Barriers for poor people to access appropriate financial services include socio-economic factors (e.g., education, gender and age, low and irregular income and geography), regulatory factors (e.g. provision of identity documentation) and product design factors (e.g., minimum account balances). Some major barriers financial service providers experience when expanding appropriate services to poor people are the cost of providing those services and finding the regulatory space to innovate. As a general rule, transaction costs do not vary in direct proportion to a transaction's size. Thus serving the poor with small value services is simply not viable using conventional retail banking or insurance approaches (G20 Financial Inclusion Experts Group, 2010).

It is well documented that access to savings accounts, insurance and other financial services is crucial to allow poor people to invest in their homes and small businesses, weather the impact of economic shocks, build up savings as financial cushions against unexpected events, and manage uneven cash flows and seasonal incomes. Yet, an estimated 2.5 billion people – over half the world's adult population – do not have access to formal financial services, representing a huge untapped potential for economic and social development. 2.2 billion Of these un-served adults live in Africa, Asia Latin America, and the Middle East. There are multiple barriers to expanding financial inclusion that vary from country to country. Key barriers include the high transaction costs of delivering small-scale financial services across large geographic distances, infrastructure constraints such as lack of roads, fixed telephone lines, and ID systems, and insufficient information amongst both providers and consumers. The lack of data on the state of financial inclusion is another main constraint, both to advance financial inclusion and to evaluate the impact of policies aimed at improving access (AFI, 2012).

2.2.4 Liquidity

One of the biggest challenges in rolling out banking agencies is the establishment and the effectiveness of the agent network. Agents are the touch- points where the subscribers of the service can get money into and out of the system. Agents are often also referred to as cash-in and cash-out points. In instances where a subscriber arrives at an agent with the need to withdraw a large amount it does happen that the agent do not have enough cash to satisfy the cash-out request. This leads to frustration and is one of the reasons why take-up of these systems is slower than what is expected. This problem is referred to as the agent liquidity problem- how to ensure that the agent has sufficient cash available to satisfy the need of the system (CBB, 2007).This problem is often approached in a way where the system keeps track of the actual cash available in the drawer of each agent in order to guide subscribers where they can withdraw big amounts. This approach is clearly complex and often fails because of the informal nature of agents business.

The National Bank of Ethiopia under its directive of FIS/01/2012 limits the maximum amount of agent transaction balance that should be available in mobile account of a person with a financial institution at any time shall not exceed Birr 25,000. And daily mobile banking transaction that involves debiting of an account by a person with a financial institution shall not exceed Birr 6,000.This policy challenge is referred to as the agent liquidity problem and agents are not allowed to handle and transact above the limit set by the governing body.

2.3 Summary of Literature Review

Therefore, geographical coverage in lowering transaction costs like transportation to bank branch, lowering opening hours, shorter wait in line than in branch, more accessible for illiterate and very poor people who might feel intimidate in branch , closer to vast community than branch and customer save time for banking service makes agent banking outlet more convenient for customers. And with all this advantage Ethiopia has still relatively a sparse financial infrastructure in reaching the vast community in this regard (geographically).

Liquidity challenge at agent banking outlet has effect on customer satisfaction and business acceleration which in-turns affects' promotion of formal financial service. Thus, liquidity at agent banking outlet has to be properly monitored and handled by principal bank as per the policy and procedure of the country since agent banking is a touch point where cash-in and cash-out has been carry out

Security threat has raised from agents are poor access to modern technology plat form, poor monitoring system of principal bank, lack of know-how and continuous training, robbery and violation of data privacy which makes agent banking challenging and agents not to handle large transaction of cash that results in diminishing customers confidence to relay on agent banking outlet. And building trust among customers through strengthening physical and technical security system so as to reduce risk and fraud shall be put in place by institutions for purposes of establishing trust among consumers of agent banking services so-as to accelerate the expansion of agent banking service.

One of the threats of access to formal financial service is cost; cost of opening bank branch, high transaction cost of delivering small scale financial service which is flat base cost of service for small amount of transaction, lack of infrastructure, over all administrative and operational cost of banking makes formal financial service expensive and challenging for expansion in an attempt to reach the vast people. Nonetheless, Agent banking reduces costs of expanding formal financial service drastically through approaching the immense unbanked or under banked and low economic status of people who lives in areas with potentially less number and volume of transaction

In Ethiopian context the business is at its infant stage and bank is under implementation stage since the issuance of the NBE directive on Mobile and Agent banking service in 2012 (Elfagid, 2015). The agent banking service has started only by two private banks: United bank and Dashen Bank (Fortune 2015). Accordingly, this is quite literature gap and little local research work has been conducted in the field like Elfagid (2015) The challenge and prospect of mobile and Agent Banking in Ethiopia, Henok (2015) Mobile banking in Ethiopia: challenge and prospects and Abdulkadir (2014) prospect and challenge on the implementation of mobile and agent banking in Ethiopia. Therefore, this research work is expected to contribute its part in bridging the gap towards the literature on assessment of Agent banking in promoting financial inclusion in Ethiopia through reviewing the aspect of financial inclusion (geographic coverage, cost, liquidity and security) in order to advice the stakeholder of agent banking model that makes it suitable for Ethiopian Regulatory body of the financial sector (NBE), banking industry, Agents and community as a whole. In all the literature that the researcher dealt with do not actually address how to decide on the best model for each country based on the different ground which stakeholder might come across the board upon implementation of Agent banking model.

CHAPTER 3

METHODOLOGY

3.1 Introduction

This chapter highlights the type of research design to be used, the study population, the sample size, sampling procedures, data collection instruments and procedure for data analysis.

3.2 Research Design

The purpose of this study being to assess the agent banking services in commercial banks, means it seeks to describe the phenomena as it exists. Therefore, descriptive research design has to be used as it is deemed to be the most appropriate. Various authors recommend the use of descriptive design (Orodho, 2004) contends that, to produce information that is of interest to policy makers even in business descriptive design is helpful. According to (Sulvan, 2001) a descriptive technique of research is used to discover facts or descriptive reality to grasp of the phenomena under investigation. The research design for the study are grouped and categorized by the researcher to assess the agent banking in promoting financial inclusion and factors that contribute for financial inclusion. This involved collection of information by administering questionnaires and interviewing a sample of individuals.

3.3 Target Population and Sample.

The study population involved two commercial banks within Addis Ababa municipality which implementing agent banking currently. The study targeted the bank branch managers and the appointed agents of these banks. These banks branch are United Bank S.Co, and Dashen Bank S.Co are selected. These banks: after NBE officially commenced and starts working Mobile and Agency Banking in 2012, they are the pioneer and better engaged in this scheme of business as a result they better practiced and have experience in relation to other commercial banks (Fortune 2015). Hence, the researcher selected those banks. Accordingly, ten branch managers are selected and five from each and forty Agents from the two banks. There was a separate questionnaire for agents and managers. The branch managers of the two bank branches were by virtue of their administration, they are considered to have a grip of the operations of agent banking. The study involved census of some randomly selected bank agents in Addis Ababa municipality of those banks. Analysis of the whole population is desirable in this case since the target population is relatively small and concentrated in one region. (Waksberg, 1999), recommend the use population studies as it gives data in great detail for small domains and especially for local areas, which samples fail to provide. (Orodho, 2004) also contends that population studies or a census is more representative as it gives everyone an equal chance.

3.4 Data Collection Procedure

The researcher used both primary and secondary data; questionnaires were used to gather primary information from the field. Forty seven questions were designed and twenty two for branch manager and twenty five for bank agents. The questioner comprises of close ended and choice type of questions which were vital and helpful for the research findings. Close ended questions were used to obtain specific information or objective response. Secondary data was obtained through research from internal and external sources about the diffusion of agent banking in the country, what affects agent banking expansion, risk associated to agent banking service and related thoughts from various sources like website, annual reports of banks, case studies, journal articles, magazines and different books that are reviewed in the area of Agent banking.

3.5 Data Analysis

In this study, the researcher collected both quantitative and qualitative data. Descriptive statistics was employed to analyze quantitative data using percentages, tables and graphs. Frequencies were converted to percentages so as to ease interpretation, analysis of the data and presentation of the findings of the research. Content analysis was employed to analyze qualitative data.

3.6 Ethical consideration

(Hammersley and Traianou , 2012) emphasizes that some of the most important ethical principles in educational research are; minimizing harm, harm include among others financial and reputational consequences for the people being studied; protecting privacy; this means to keep data confidential; and respecting autonomy; that is showing respect for people in the sense of allowing them to make decisions for themselves, notably about whether or not to participate. In this study the researcher treated all the gathered information with utmost confidentiality to safeguard the public reputation of organizations and people concerned. Informed consent was obtained by informing the respondents the purpose of the study and benefits of participation, so as to provide sufficient information so that a participant can make an informed decision about whether or not to continue participation.

CHAPTER 4

RESULT AND DISSCUSSION

4.1 Introduction

This chapter presents the findings of the study and their discussion in relevance to the objectives and past studies carried out in the same area. Quantitative data was analyzed using SPSS tool and was presented in form of frequencies, and percentages. Qualitative data was presented by content analysis. Presentation was done using tables, charts and graphs for easy yet effective communication. Data analysis aimed to answer the following questions:

I. To what extent does geographical coverage by agency banking affect financial inclusion?;
II. To what extent does agency liquidity affect financial inclusion?;
III. To what extent do costs of services at bank agents affect financial inclusion?; and
IV. To what extent do security concerns associated with agency banking affect financial inclusion?

Response rate: The researcher administered questionnaires to 40 operators of bank agents and 10 branch Managers; of the 40 questionnaires issued only one questionnaire was not answered. This accounts for a response rate of 97.5%.

4.2 Respondents profile

The researcher collected background data of the operators of agency banking outlets. This was in order to establish the Characteristics of the people offering these services. This was achieved by evaluating the respondents' gender, age and level of education.

Age of operators of agency banking outlets: The researcher sought to find out the age of the various operators of agency banking outlets who were the respondents in the study.

Table 4.1Age characteristics of agency banking operator

Age level	**Frequency**	**Percentage (%)**
18-25	6	15.4
26-35	23	59
36-45	13	25.6
46-55	0	0
56 and above	0	0
Total	39	100

Source: SPSS Data out-Put

Findings in Figure 4.1 indicate that most (59%) of the operators of agency banking outlets were aged between 26 and 35 years. This shows that the major part of agent banking is operated by young people and it have advantage of expanding agent banking as a result of the operator age are too young they easily accept and familiarize with new technology. The young generation adapts and experience technology too easily. (Bruce 2004).

Gender of operators of agency banking outlets: The researcher sought to find out the gender of the various operators of agency banking outlets who were the respondents in the study.

Table 4.2 Gender structure of agency banking outlet

Age level	**Frequency**	**Percentage (%)**
Male	37	94.87
Female	2	5.13
Total	39	100

Source: SPSS Data out-Put

Findings in Figure 4.2 indicate that majority (94.87%) of the operators of agency banking outlets were of the male gender. The findings point-out, the participation of Females in promoting agent banking has insignificant at the current scenario of Ethiopia. It only focus on one gender in selection of agents by principal bank and makes the participation of Females too low, in spite of more than half of the population of Ethiopia has Female. This adversely affects promotion of formal financial service that in the community.

Level of education of operators of agency banking outlets: The researcher sought to find out the highest academic qualifications achieved by the various operators of agency banking outlets who were the respondents in the study.

Table 4.3: Level of education of operators of agency banking outlets

Level of education	Frequency	Percentage
Primary	2	5.13
Secondary	26	66.67
Diploma	7	17.95
Bachelor's degree	4	10.25
Post graduate degree	0	0
Total	**39**	**100%**

Source: SPSS Data out-Put

Findings in Table 4.3 indicate that majority (66.67%) of the operators of agency banking outlets had secondary school as their highest level of education. This show that majority of the people who handled agent banking services were not a well qualified academically. However, this does not mean that they are illiterate and difficult to understand agent banking and its operation. Those educated peoples who were able to read and write are easily familiarized with agent banking operation.

4.3 Profile of agent banking outlets

The researcher sought to establish the characteristics of the establishments that had agent banking services as part of their operations. This was achieved by evaluating the type of business, age of business and period in which the business has operated as an agent banking outlet.

Type of business: The researcher sought to find out the type of business carried out by the establishment offering agent banking services.

Table 4.4: Type of business an agent engaged in

Type of business	Frequency	Percentage%
Supper-market	7	17.95
Grocery store	6	15.38
pharmacy	4	10.25
Electronics shops	8	20.51
Gas station	5	12.82
Others (Retailing Shop, Bus Station ticket office, Mobile Shop)	9	23.09
Total	39	100

Source: SPSS Data out-Put

From table 4.4 depicted above researcher shows; in the community most of agency banking has delivered in either by businesses that engaged in services delivery or Trade. This shows agency banking service has delivered in businesses that engaged in either service delivery or Trade where cash flow has moderately good. And also indicate how the principal bank select sector of business which more convenient for the user to access agency banking equal to their business. Those businesses engaged in trade and services were frequently visited by so many customers at a time when compared to other sector of business.

Age of business offering the agent banking services: The researcher sought to identify the period in which the business has been offering agent banking services.

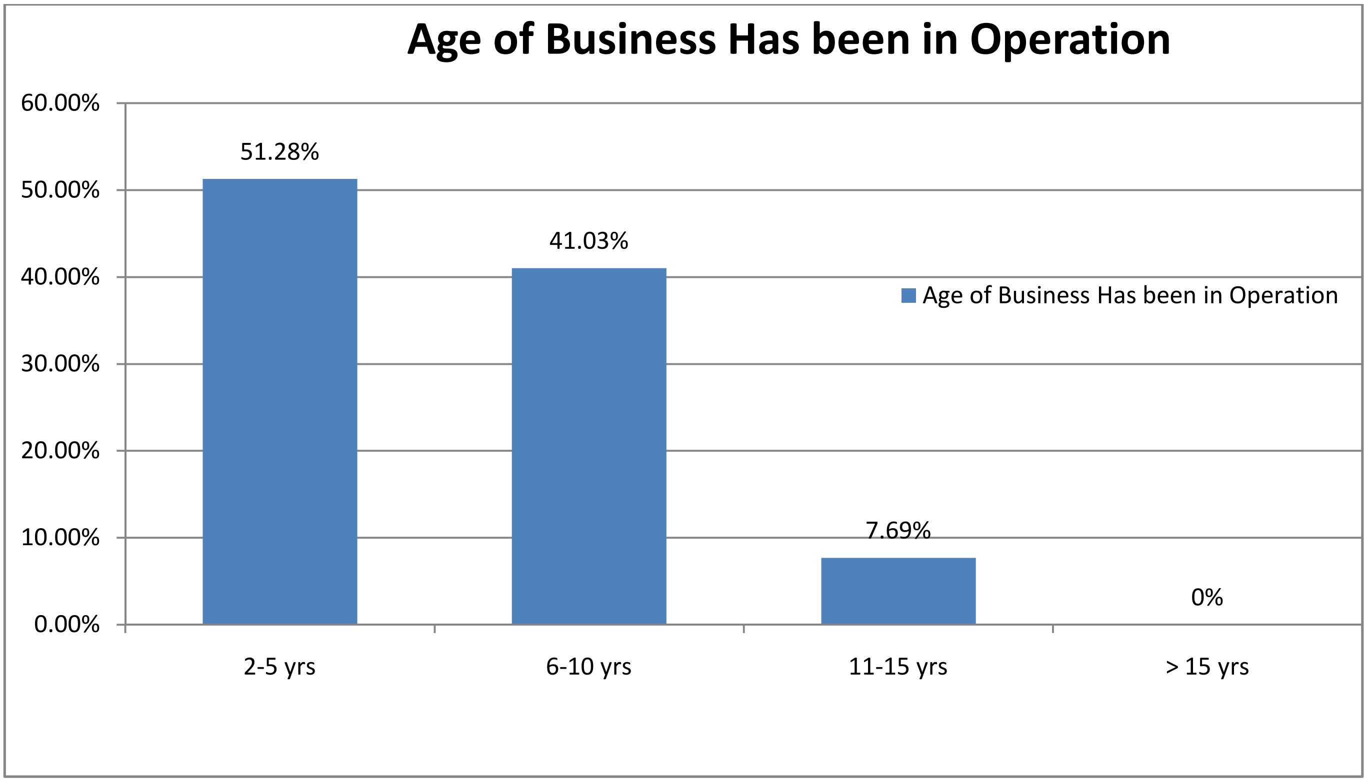

Figure 1 Age of business offering the agent banking services

Source: SPSS Data out-Put

Findings in Graph 1 indicate that most (51.28%) of the businesses have short time experience involving in business which is between 2-5 years and they do not have a well profound experience of business operation. This shows that most of the business had been at the stage of growing and they lack experience about the business and agent banking. As a result lack of experience and know how about agent banking and its operation adversely affect the expansion and growth of agency banking in the community and this makes it challenging and time consuming to propagate about the business and reach the vast community so-as-to enhance financial inclusion.

Period in which business has operated as a banking agent: The researcher sought to find out the length of period in which the business establishment had operated as a banking agent.

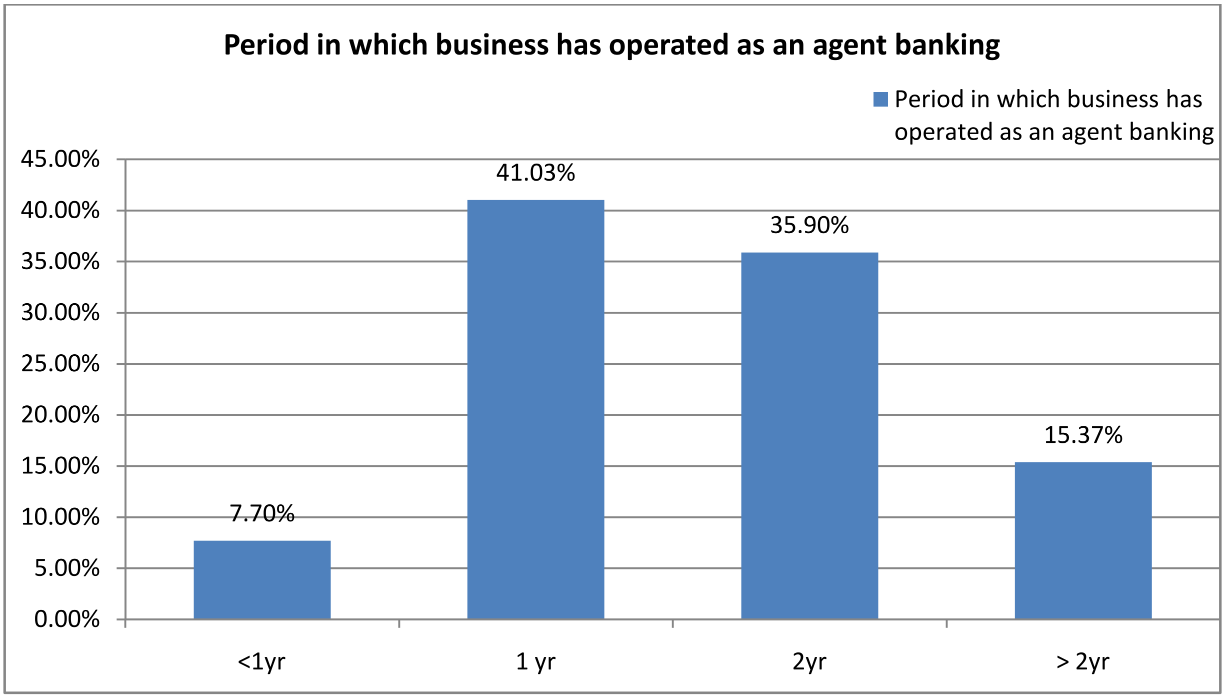

Figure 2: Period in which business has operated as a banking agent

Source: SPSS Data out-Put

Most (41.03%) of the banking agents had been in operation for 1 year. This shows that since its commencement by NBE in 2012; agent banking is still a new business venture for most of agents and they do not have deep rooted experience. This finding has in agreement and supportive with analysis under graph 1, that most of the business had been at the stage of growing and they lack experience about the business and agent banking. As a result lack of experience and know how about agent banking and its operation adversely affect the expansion and growth of agency banking in the community. And this makes it challenging and time consuming to propagate about the business and reach the vast community so-as-to enhance financial inclusion.

4.4 Financial inclusion

The purpose of this study was assessing the agent banking services in promoting financial inclusion in Ethiopia. Financial inclusion was measured by the number and frequency of transactions as well number of accounts opened via banking agents. As such the researcher sought to find out these details from both the agents and bank mangers.

Commonly used banking service: The researcher sought to find out what banking service was most sought by customers at the agents.

Table 4.5: commonly used bank service at bank agent

services	Frequency	Percentage%
Cash withdrawal	16	41.03
Cash deposit	2	5.13
Processing account application	3	7.7
Loan repayment	0	0
Payment of utilities	0	0
Money transfer	18	46.15
Total	39	100

Source: SPSS Data out-Put

According to Table 4.5 depict above, majority (46.15%) of the banking agents process Money Transfer from one customer to the other is the most popular banking service sought by customers at the agent banking outlets and followed by cash withdrawal (41.03). The research found that other service like Loan related service like loan Repayment, loan application, and Utility Payment is not familiar at agency banking outlet. This shows agent banking outlet has only crowded by small portion of financial service of the bank branch which only dominated by fund transfer, cash withdrawal, new account opening and deposit. However from interview conducted with branch manager the researcher identify that while customers arrived at agent banking outlet they may not only admitted to one service on arrival to agent banking outlet instead he/she gets other type of service like consulting, short statement, money change etc at the same time.

Number of accounts opened in a month: The researcher sought to establish the number of accounts opened at the agent banking outlets.

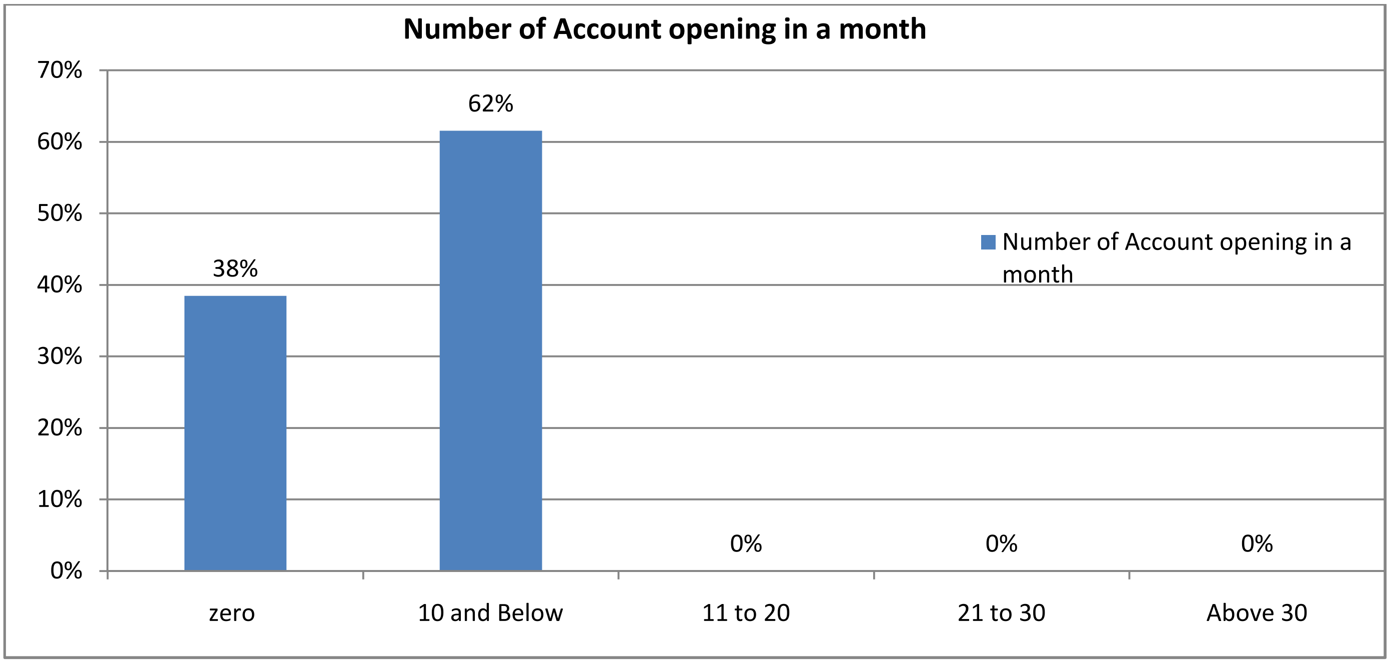

Figure 3 shows Number of Accounts Opened in a month at bank agent

Source: SPSS Data out-Put

Findings in Graph 3depicated above indicate that most (47%) of agents opened between 1 and 10 bank accounts for customers. This shows that account opening was not a highly sought service by customers.

This finding is in agreement with findings in Figure 4.5 which showed that money transfer and cash withdrawal are the most sought service by customers at the agent banking outlets.

Percentage of accounts opened in agent banking outlets: The researcher sought to find out what percentage of accounts opened at the agent banking outlets accounted for in relation to the total number of accounts opened in the parent bank.

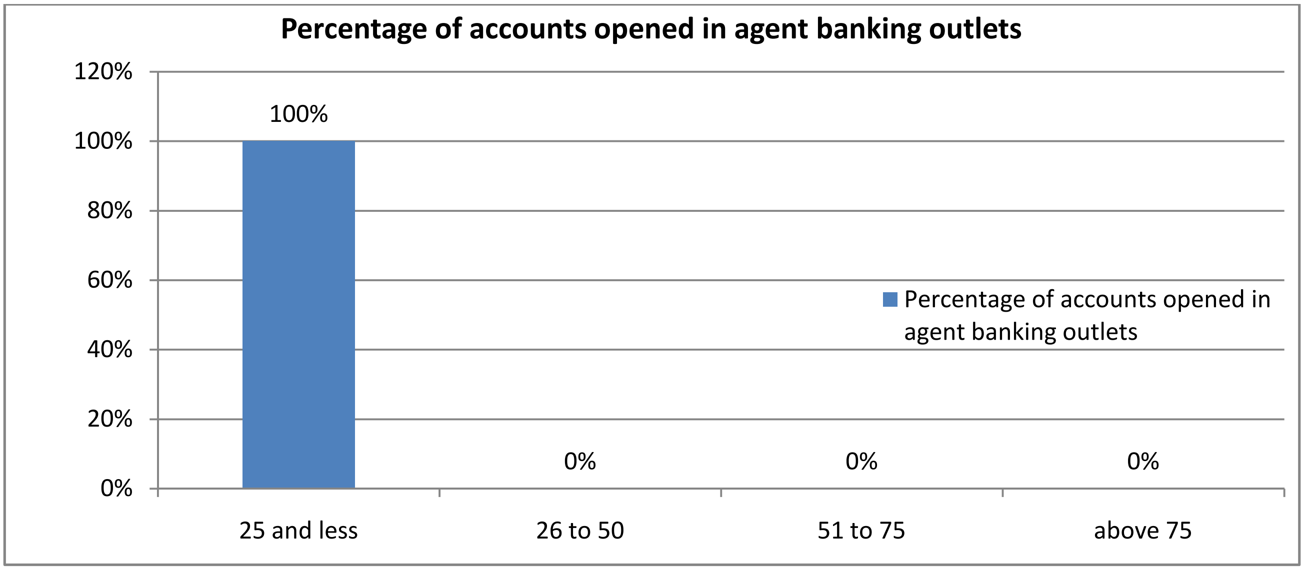

Figure 4 shows Percentage of accounts opened in agent banking outlets

Source: SPSS Data out-Put

The graph (graph 4) depict below is about information that was sought from the bank branch managers. All (n=10) bank branch managers in the study indicated that the number of accounts opened through agent banking outlets accounted for below 25% of all the accounts opened in the parent bank. As per NBE directive of FIS/01/2012 “Regulation of Mobile and Agent Banking Services” Art 9 subs. Art 9.1.1 “An agent, on behalf of principal financial institution, shall open regular saving account of natural persons” This shows that Agents are not allowed to open other type of account other than saving account for natural person. Thus, the contribution of agent banking to financial inclusion in terms of accounts opened has very low.

Influence of agent banking on financial inclusion: The researcher sought to find out from the bank branch mangers the extent to which agent banking contributed to financial inclusion.

Table 4.6: Effect of agent banking on financial inclusion

Effect	Frequency	Percentage
Very Great extent	2	20%
Great extent	4	40%
Low extent	4	40%
No extent	0	0
Total	10	100%

Source: SPSS Data out-Put

Most of bank branch managers indicated that agent banking had an effect on financial inclusion. This shows that agent banking service has a positive effect on promoting financial inclusion so-as-to reach both unbanked and under banked community of Ethiopia.

4.4.1 Effect of geographical coverage on financial inclusion

This section presents findings related to the first objective of the study sought to find out the extent to which geographical coverage of agency banking has promoted financial inclusion.

Closeness of banking agents to customers: The researcher sought to find out from the agents whether closeness to customers had an impact on the number of services sought.

Table 4.7: Closeness of banking agents to customers

Response	Frequency	Percentage
Strongly Agree	26	66.67
Agree	10	25.63
Neutral	0	0
Disagree	3	7.7
Strongly Disagree	0	0
Total	39	100

Source: SPSS Data out-Put

Majority (66.67%) of the agents agreed that some customers prefer agents because they are closer to them as compared to the main bank. Closeness to customers helps to save time for banking service which makes agent banking outlet more convenient for them. Geographical coverage is one of the strongest aspects of financial inclusion that facilitate to promote agent banking services that make easy to offered banking service at the level of the household door.

These findings are in agreement with Musau (2013) who found that agency banking has enabled bank customer to access the banking services within the comfort of their neighborhood.

Reduction of overcrowding in banking halls: The researcher sought to find out from the bank branch managers whether greater geographical coverage of the bank through agent banking had reduced overcrowding in banking halls in the main bank branches.

Table 4.8: Reduction of overcrowding in banking halls

Response	**Frequency**	**Percentage (%)**
Strongly Agree	4	40
Agree	6	60
Neutral	0	0
Disagree	0	0
Strongly Disagree	0	0
Total	10	100

Source: SPSS Data out-Put

From the above table 4.8 the researcher show that All (n = 10) the bank branch managers in the study confirmed that agent banking had reduced overcrowding in banking halls. This shows that more and more people were utilizing agent banking. It also means that people going to the banking halls served more faster due to queuing reduced significantly at the parent branch because-of others customers served at agent banking outlet. Thus, promotes financial inclusion.

Service speed in serving customer at agent banking out let: The researcher sought to find out service speed in serving a given customer at agent banking outlet.

Table 4.9: Service speed in serving customer at agent banking out let

Service speed	Frequency	Percentage (%)
15 minutes and below	32	82.05
16-30 minutes	7	17.95
30 minutes and above	0	0
Total	39	100

Source: SPSS Data out-Put

Majority (82.05%) of the agents agreed that service delivery speed has 15 minutes and less. Hence customer prefer agent banking hall for its speed and not hang around until other customers are served. Despite the agent response: for service speed waiting in line at the bank for a teller, has an average of 0.2 hours or 12 minutes (www.csus.edu).This shows there is no overcrowding and queuing at agent banking hall and customers gets speedy service at Agent banking outlet and same for parent bank branch hall. As-a-result-of customer preferences to be served quickly, banks are come across at expand agency banking outlet in the community which results in promoting financial inclusion.

Business operation duration in a day: The researcher sought to find out the duration of hours the business serves in a day consequently agent banking operation has go-through.

Table 4.10: Business operation duration in a day

Business operation duration	Frequency	Percentage (%)
8 hrs and below	0	0
9-12 hrs	7	17.95
More than 12 hrs	32	82.05
Total	39	100

Source: SPSS Data out-Put

From table 4.10 shows that: Most (82.05%) of agent banking operator has confirmed that they opened their business for more than 12 hours. As-a-result agent banking customers are also served until the business day operation has closed. Consequently, the customers are preferring agent banking outlet for its longer hours serving out of normal working hour.

Again from the agent banking respondent the researcher find out that majority (76.9%) of agent banking outlet are also serving customer on weekend and public holidays due to their business had been in operation. This implies Customers are willing to be served at agent banking outlet due to service in these business premises has given for customer out of normal working day and for longer working hour.

Effect of geographical coverage of agent banking on financial inclusion: The study sought to establish the extent to which geographical coverage of agent banking had promoted financial inclusion. This information was sought from bank branch managers.

Table 4.11: Effect of geographical coverage of agent banking on financial inclusion:

Response	**Frequency**	**Percentage (%)**
Strongly Agree	5	50
Agree	4	40
Neutral	0	0
Disagree	1	10
Strongly Disagree	0	0
Total	10	100

Source: SPSS Data out-Put

From table 4.11 shows that: Most of the bank branch managers agreed geographical coverage of agent banking had promoted financial inclusion. This can be attributed to the fact that through agent banking, bank services are brought closer to the customers both banked and unbanked. Geographical coverage helps in lowering transaction costs like transportation to bank branch, lowering opening hours, shorter wait in line than in branch, more accessible for illiterate and very poor people who might feel intimidate in branch , closer to vast community than branch and customer save time for banking service makes agent banking outlet more convenient for customers.

This finding is in agreement with Ivantury and Timothy (2006) who found that agency banking benefited clients in the following ways; lower transaction cost (Closer to clients home), longer opening hours, shorter lines than in branches, more accessible for illiterates and the very poor who might feel intimidated in branches.

4.4.2 Liquidity and financial inclusion

This section presents findings related to the second objective of the study which sought to find out the extent to which agency liquidity affects financial inclusion.

Minimum and maximum limits: To establish agency liquidity, the researcher sought to find out from the agents whether their parent banks dictated minimum and maximum cash limits that the agents could hold.

All (n=37) of the banking agents confirmed that their parent banks had dictated cash limits that the agents could hold. As per NBE directive of FIS/01/2012, Art.5 Sub. Art 5.1" The maximum balance that should be available in a mobile account of a person with a financial institution at any time shall not exceed Birr 25,000" And Sub. Art 5.2 "Daily mobile banking transaction that involves debiting of an account by a person with a financial institution shall not exceed Birr 6,000". This is because liquidity is important to satisfy the needs of the customers and parent bank has obliged to control the liquidity of agents. If customers cannot withdraw because the agent doesn't have enough cash, the agent banking model will fail.

Frequency of cash shortages: The researcher sought to find out the frequency of cash shortages at the agent banking outlets.

Table 4.12: Frequency of cash shortages

Response	Frequency	Percentage
Very often	0	0
Often	8	20.51
Rarely	11	28.21
Never	20	51.28
Total	39	100

Source: SPSS Data out-Put

From table 4.12 shows that: Majority of the respondent (51.28%) indicated that cash shortages never occurred and it happens in rare case (28.21%). This shows that lack of liquidity was not a major problem at agent banking outlets being the customer also need small amount of cash transaction like cash withdrawal, deposit and money transfer.

This finding is in agreement with Musau (2013) who in a similar study found that lack of cash at cash points did not appear to be a widespread problem at the time.

Impact of cash shortages on customers: The researcher sought to find out whether some customers avoided banking agents due to shortage of cash.

Table 4.13: Impact of cash shortages on customers:

Response	Frequency	Percentage (%)
Strongly Agree	26	66.67
Agree	10	25.63
Neutral	0	0
Disagree	3	7.70
Strongly Disagree	0	0
Total	39	100

Source: SPSS Data out-Put

From table 4.13 shows that Majority (66.67%) of the bank agents' operators disagreed that some customers avoid agents because of perennial cash shortages. It also shows that the selection procedures of agents by the principal bank were successful and as per the NBE Directive FIS/01/2012 Art. 9.3.2. I "the entity has an existing well established business/commercial activity and that the sources of funds of the agent have been ascertained" This shows that liquidity was not a problem for the agency banking agents.

Monitoring of liquidity by banks: The researcher sought to find out whether the parent banks monitor the liquidity of agents in order to avoid cash shortages.

All (n=10) the bank branch managers confirmed that their respective banks had put in place a monitoring system for agents to ensure that cash shortages did not occur, they have also appointed agent network officer to foresee operations of agents by providing banking materials, monitoring their activities, ensuring that agents are liquid.

This finding is in agreement with Collins (2010) who found that liquidity in agent banking is often approached in a way where the system keeps track of the actual cash available in the drawer of each agent in order to guide subscribers where they can withdraw big amounts.

Effect of liquidity on financial inclusion: The bank branch managers were asked to rate the extent to which availability of liquidity affects financial inclusion.

Table 4.14: Effect of liquidity on financial inclusion

Effect	Frequency	Percentage (%)
Very Great extent	7	70
Great extent	2	20
Low extent	1	10
No extent	0	0
Total	10	100

Source: SPSS Data out-Put

From table 4.14 shows that Majority (70%) indicated that availability of liquidity affects financial inclusion significantly. In instances where a subscriber arrives at an agent with the need to withdraw a large amount it does happen that the agent do not have enough cash to satisfy the cash-out request. And as per NBE directive Art 5.1 & 5.2, the maximum and minimum cash holding limit has also restricted. This leads to frustration and is one of the reasons why growth of agent banking model has stagnant and limited to only few financial institutions (banks) since mobile and gent banking commencement by NBE in 2012.

4.4.3 Costs of services and financial inclusion

This section presents findings related to the third objective of the study which sought to find out the extent to which cost of services at agent banking outlets affected financial inclusion.

Costs of services at agent banking outlets: The researcher sought to establish the costs of using banks services through agent banking outlets. This was achieved by assessing how much it costs to transfer money, deposit sum of birr 25,000.00 or withdraw a sum of Birr 6,000.00

Table 4.15: Costs of services at agent banking outlets

		Cost (service charge or commission)																	
		Cash withdrawal						Cash deposit						Money Transfer					
		ATM		Agent		Branch		ATM		Agent		Branch		ATM		Agent		Branch	
Bank Name		UB	DB	UB	DB	UB	DB	UB	DB	UB	DB	UB	DB	UB	DB	UB	DB	UB	DB
Range of transaction in Birr	1,000 & below	0.20 % per Amount (birr)	0.25 % per Amount (birr)	4 br	4 br	Free	Free	NA	NA	Free	Free	Free	Free	Flat base 1o birr	2 br	6 br	50% of branch Transaction	15 br	11 br
	1,001-3,000			6 br	6 br										4 br	8 br		15 br +1/1000	8 br +13/1000
	3,0001-5,000			8 br	8 br										6 br	8 br			
	5,001-6,000			8 br	8 br										6 br	10 br			
	6,001-25,000	NA	NA	NA	NA									NA	NA	NA	NA		
	> 25,001									NA	NA								

***Sources*:** compiled by researcher from Term and Tariff Book of United Bank (UB) and Dashen Bank (DB)

Findings in Table 4.15 show that costs of accessing services through agent banking outlets are relatively lower as compared to accessing the same services in ATM. The discounting costs may be loss for the principal bank in short run and this may be done in order to attract the customer and familiarizing agent banking with the community so-as-to creates awareness of agency banking and expansion of the service.

Impact of costs at agent banking outlets on customers seeking bank services

The researcher put forward several statements related to costs of services at the agent banking outlets.

Table 4.16 Impact of costs at agent banking outlets on customers seeking bank services

	Customers perceive the cost of banking with agents to be low	Percentage (%)	Some customers prefer agents regardless of costs	Percentage (%)
Strongly Agree	10	25.64	9	23.1
Agree	11	28.21	10	25.64
Neutral	8	20.52	9	23.1
Disagree	8	20.52	7	17.95
Strongly Disagree	2	5.11	4	10.21
Total	39	100	39	100

Source: SPSS Data out-Put

Findings in table 4.16 indicate that most of operators of agent banking outlets agreed that customers perceive the cost of banking with agents has to be low. And customers prefer to use agents regardless of the costs charged as indicated by majority of the operators of agent banking outlets.

This shows that, charges at agents were perceived premium and customers are preferred to use the outlets for their banking needs. This can also be attributed to other benefits of agent banking such as nearness to customers, speedy service and absence of queuing at agent bank outlet.

Effect of costs of services on financial inclusion

The researcher sought to find out from the bank branch managers on the impact of the costs of services at agent banking outlets on financial inclusion.

Table 4.17 Effect of costs of services on financial inclusion

Effect	Frequency	Percentage (%)
Very Great extent	0	0
Great extent	2	20
Low extent	8	80
No effect	0	0
Total	10	100

Source: SPSS Data out-Put

Table 4.17 shows that Majority (80%) of the bank branch managers indicated that the costs of services at agent banking services had little effect of financial inclusion. This can be attributed to the fact that some customers were still willing to incur the extra cost to access services at agent banking outlets.

This finding is in agreement with consent given by operator of agent bank outlet under table 4.16; customers prefer to use agents regardless of the costs charged and preference as a result of nearness to customers, speedy service and absence of queuing at agent bank outlet.

And in disagreement with (Musau,2013) who found that the cost of agent banking was a deterrent to more customers using agents.

4.4.4 Security of agent banking services and financial inclusion

This section presents the findings related to the fourth objective of the study which sought assess the extent to which security concerns associated with agency banking affect financial inclusion.

Physical security features adopted: The researcher sought to find out from the agents which security features they had adopted in their business.

Table 4.18 Physical security features adopted

Feature	Frequency	Percentage %
CCTV	0	0
Security alarms	0	0
Steel metal bars	30	76.9
Hiring security guards	9	23.1
Total	39	100

Source: SPSS Data out-Put

Findings in Table 4.18 indicate that Most (76.9) of the agent banking outlets had installed steel metal bars. The finding also shows that hiring of security guards to keep watch of the outlets was the least popular measure as only 23.1% of the agent banking outlets had adopted the method. And installing other security system like CCTV and Security alarm has still unpopular and not used by agent bank outlets. This shows that, the agent banking premises are safe at the current scenario of Ethiopia. Thus, there is low fear of physical security for those prospective agents and also lowering the cost of having those securities items'. This helps in enhancing expansion of formal financial service like agent banking for community with low cost.

Frequency of security scares: The researcher sought to find out from the agents the frequency of security scare at their outlets.

Table 4.19: Frequency of security scares

Security scarce	Frequency	Percentage %
Very often	5	12.82
Often	5	12.82
Rarely	29	74.36
None	0	0
Total	39	100

Source: SPSS Data out-Put

Findings in Table 4.19 indicate that Majority (74.36%) of the agents indicated that they had little experienced a security scare at their outlet. This shows that security was not a big trouble for agents. This implies' if there is no big security scare; agent and customers build confidence of security fright and this moreover enhance financial inclusion.

These findings is in agreement with Elfagid (2015) who found that Physical and logical risk are not a potential threats of Mobile and agent banking business at the current scenario of Ethiopia.

Type of security breach: For the agents who had ever experienced a security scare, the researcher sought to find out the type of infringement committed.

Table 4.20: Type of security breach

Feature	Frequency	Percentage %
Robbery	4	10.25
Fake currency	5	12.82
System(Network) failure	2	5.13
Wrong ID of Customer	28	71.80
Total	39	100

Source: SPSS Data out-Put

Findings in Table 4.20 indicate that Majority (71.80%) of the agents who had ever experienced a security scare revealed that they were victims of Wrong and Expired Customer ID card while 12.82% indicated that customers had tried to launder money by submitting fake currency. Armed robber and system failure or burglary hacking is not a big issue of agent banking outlet. Despite the respondent consent, it does not mean that different security challenge had not been occurred at a time. Cash shortage may happen at time of payment made or receiving cash from customer, fake claim may requested by customer and as a result customer complain may raise.

Loss of cash: For the agents who had ever experienced a security scare, the researcher sought to find out whether they lost cash.

Table 4.21: Loss of cash

Loss of cash	Frequency	Percentage %
Yes	4	10.25
No	35	89.75
Total	39	100

Source: SPSS Data out-Put

Findings in Table 4.21 indicate that Majority (89.75%) of the agents who had ever experienced a security scare indicated that they did not lose cash during the incident. This shows that security measures adopted were effective and those incident that may happen are immaterial and has easily controllable by agents at current scenario of Ethiopia.

Effect of security concerns on customers: The study sought to find out whether security concerns hindered customers from accessing services from agents.

Table 4.22: Effect of security concerns on customers

Response	**Frequency**	**Percentage %**
Strongly Agree	3	7.70
Agree	6	15.40
Neutral	6	15.40
Disagree	13	33.33
Strongly Disagree	11	28.17
Total	39	100

Source: SPSS Data out-Put

Findings in Table 4.22 indicate; Majority of the banking agents are not agreed with customers fails to bank with agents because of fear of security problems. This shows that security concerns were not many among customers due to measures taken by both the bank as well as agents. Customers are using agent banking outlet in-spite-of security fright. This finding is in disagreement with (Musau, 2010) who found that a security concern was a deterring factor to uptake of agent banking by customers.

Monitoring by the bank the operation, safety, security and efficiency of equipments being used by agents: The study sought to find out from the bank branch managers whether the banks monitored the agents on security matters.

Table 4.23 Monitoring of security of agents by banks

Frequency of monitoring	Frequency	Percentage %
Monthly	0	0
Quarterly	0	0
Biannual	0	0
Yearly	2	20
others	8	80
Total	10	100

Source: SPSS Data out-Put

Findings in Table 4.23 shows that the majority (80%) of branch managers replied agent bank outlet has monitored during its establishment and it is in a rare case that agent banking outlet has supervised annually while in operation. This shows that lack of sufficient supervision by the bank which may come-up with unexpected security setback and results losses for both the bank and agents.

Training for bank agents on security issue: The study sought to find out whether the bank provide training for agent banks on security issue

Table 4.24 Training for bank agents on security issue

Frequency of monitoring	Frequency	Percentage %
Quarterly	0	0
Biannual	0	0
Yearly	4	10.26
others	35	89.74
Total	39	100

Source: SPSS Data out-Put

Findings in Table 4.24 show that the majority (89.74%) of agent bankers cannot get training on security issue. They get less frequently in a year base, and training has given up on establishment. This shows very little efforts has done by parent banks' to train its agents in-order-to enhance the knowledge and skill of bank agents about security measure they need to have. The current environment has volatile and has been changing substantially. With this dynamic changing business environment absence of continues training for Agents has exposed agent banking business for unexpected security risk. As-a-result it has adversely influences promotion of financial inclusion in the Ethiopia.

Effect of security of agent banking on financial inclusion: The researcher sought to find out from the bank branch managers on the impact of the security agent banking outlets on financial inclusion.

Table 4.25 Effect of security of agent banking on financial inclusion

Effect	Frequency	Percentage %
Very Great extent	0	0
Great extent	2	20
Low extent	5	50
Very Low extent	3	30
No effect	0	0
Total	10	100

Source: SPSS Data out-Put

Majority of the bank branch managers indicated that security concerns of agent banking had a low effect on the financial inclusion. This shows that security concerns if any were few and had little impact of customers seeking banking services. This does not mean that; there were no security problems in Ethiopia. However the occurrence and severity has low at the current circumstances but need attention in the future as the agent banking business develop.

Attribute that have greater influence on financial inclusion: The researcher sought to find out from the bank branch managers which aspect more contributing to financial exclusion, among geographical coverage of agents, security, and liquidity of agents and cost of financial services via agents.

Table 4.26 Aspect that have greater influence on financial inclusion

Attributes	Frequency	Percentage %
Geographical coverage	6	60
Liquidity	2	20
Security	1	10
Cost	1	10
Total	10	100

Source: SPSS Data out-Put

Findings in Table 4.26 show that the majority (60%) of branch managers replied geographical coverage of agent bank outlet has a high impact in promotion of financial inclusion and followed by liquidity (20%). This show, above all other aspect of financial inclusion; to be closer to the customer is a core competency strategy of expanding agent banking in-order-to deliver service to both banked and unbanked community of Ethiopia having advantage and great potential in population and country size as fertile ground to expand agent banking business. Consequently, parent bank, agents and most of the community has benefited. This does not mean that, other attribute of financial inclusion like cost and security are not having effect in promotion of financial inclusion. Even if the substance level has different they have their own role in promoting formal financial service in the country which in-contrary promotes financial inclusion through agent banking outlet.

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of findings from data collected during the study. It further present's discussion on the findings and the researcher's conclusions and recommendations.

5.2 Summary of the findings

The following is a summary of the findings presented in the order of objectives.
Majority of the agents agreed that some customers prefer agents because they are closer to them as compared to the main bank. Closeness to customers helps to save time for banking service which makes agent banking outlet more convenient for them. Geographical coverage is one of the strongest aspects of financial inclusion that facilitate to promote agent banking services that make easy to offered banking service at the level of the household door.

All the bank branch managers in the study confirmed that agent banking had reduced overcrowding in banking halls. This shows that more and more people were utilizing agent banking. It also means that people going to the banking halls get served faster due to queuing reduced significantly at the parent branch because-of others customers served at agent banking outlet.

Majority of the agents agreed that service delivery speed has 15 minutes and less. Hence customer prefer agent banking hall for its speed and not hang around until other customers are served. Despite the agent response: for service speed waiting in line at the bank for a teller, has an average of 0.2 hours or 12 minutes (www.csus.edu).This shows there is no overcrowding and queuing at agent banking hall and customers gets speedy service at Agent banking outlet and same for parent bank branch hall. As-a-result-of customer preferences to be served quickly, banks are come across at expand agency banking outlet in the community which results in promoting financial inclusion

Most of agent banking operator has confirmed that they opened their business for more than 12 hours. As-a-result agent banking customers are also served until the business day operation has closed. Consequently, the customers are preferring agent banking outlet for its longer hours serving out of normal working hours.

Majority of agent banking outlet are also serving customer on weekend and public holidays due to their business had been in operation. This implies Customers are willing to be served at agent banking outlet due to service in these business premises has given for customer out of normal working day and for longer working time.

Most of the bank branch managers agreed geographical coverage of agent banking had promoted financial inclusion. This can be attributed to the fact that through agent banking, bank services are brought closer to the customers both banked and unbanked. Geographical coverage helps in lowering transaction costs like transportation to bank branch, lowering opening hours, shorter wait in line than in branch, more accessible for illiterate and very poor people who might feel intimidate in branch , closer to vast community than branch and customer save time for banking service makes agent banking outlet more convenient for customers.

All of the banking agents confirmed that their parent banks had dictated cash limits that the agents could hold. As per NBE directive of FIS/01/2012, Art.5 Sub. Art 5.1" The maximum balance that should be available in a mobile account of a person with a financial institution at any time shall not exceed Birr 25,000" And Sub. Art 5.2 states "Daily mobile banking transaction that involves debiting of an account by a person with a financial institution shall not exceed Birr 6,000". This is because liquidity is important to satisfy the needs of the customers and parent bank has obliged to control the liquidity of agents. If customers cannot withdraw because the agent doesn't have enough cash, the agent banking model will fail.

Majority of the respondent indicated that cash shortages never occurred and it happens in rare case. This shows that lack of liquidity was not a major problem at agent banking outlets being the customer also need small amount of cash transaction like cash withdrawal, deposit and money transfer.

Majority of the bank agents' operators disagreed that some customers avoid agents because of perennial cash shortages. It also shows that the selection procedures of agents by the principal bank were successful and as per the NBE Directive FIS/01/2012 Art. 9.3.2. i "the entity has an existing well established business/commercial activity and that the sources of funds of the agent have been ascertained" This shows that liquidity was not a problem for the agency banking.

All the bank branch managers confirmed that their respective banks had put in place a monitoring system for agents to ensure that cash shortages did not occur, they have also appointed agent network officer to foresee operations of agents by providing banking materials, monitoring their activities, ensuring that agents are liquid.

Majority indicated that availability of liquidity affects financial inclusion significantly. In instances where a subscriber arrives at an agent with the need to withdraw a large amount it does happen that the agent do not have enough cash to satisfy the cash-out request. And as per NBE directive Art 5.1 & 5.2, the maximum and minimum cash holding limit has also restricted. This leads to frustration and is one of the reasons why growth of agent banking model has stagnant and limited to only few financial institutions (banks) since mobile and gent banking commencement by NBE in 2012.

On the effect of costs of services in agent banking outlets on financial inclusion, the study found that costs of accessing services through agent banking outlets are relatively lower as compared to accessing the same services in ATM. The discounting costs may be loss for the principal bank in short run and this may be done in order to attract the customer and familiarizing agent banking with the community so-as-to creates awareness of agency banking and expansion of the service.

Most of operators of agent banking outlets agreed that customers perceive the cost of banking with agents has to be low. And customers prefer to use agents regardless of the costs charged as indicated by majority of the operators of agent banking outlets.

This shows that, charges at agents were perceived premium and customers are preferred to use the outlets for their banking needs. This can also be attributed to other benefits of agent banking such as nearness to customers, speedy service and absence of queuing at agent bank outlet. that

Majority of the bank branch managers indicated that the costs of services at agent banking services had little effect of financial inclusion. This can be attributed to the fact that some customers were still willing to incur the extra cost to access services at agent banking outlets.

On the effect of security concerns among customers in agent banking on financial inclusion, the study found Most of the agent banking outlets had installed steel metal bars. The finding also shows that hiring of security guards to keep watch of the outlets was the least popular measure as only 23.1% of the agent banking outlets had adopted the method. And installing other security system like CCTV and Security alarm has still unpopular and not used by agent bank outlets. This shows that, the agent banking premises has safe at the current scenario of Ethiopia. Thus, there is low fear of physical security for those prospective agents and also lowering the cost of having those securities items'. This helps in enhancing expansion of formal financial service like agent banking for community with low cost.

Majority of the agents indicated that they had little experienced a security scare at their outlet. This shows that security was not a big trouble for agents. This implies' if there is no big security scare: the agent and customers build confidence of security fright.

Majority of the agents who had ever experienced a security scare revealed that they were victims of Wrong and Expired Customer ID card while 12.82% indicated that customers had tried to launder money by submitting fake currency. Armed robber and system failure or burglary hacking is not a big issue of agent banking outlet. Despite the respondent consent, it does not mean that different security challenge had not been occurred at a time. Cash shortage may happen at time of payment made or receiving cash from customer, fake claim may requested by customer and as a result customer complain may raise.

Majority of the agents who had ever experienced a security scare indicated that they did not lose cash during the incident. This shows that security measures adopted were effective and those incident that may happen are immaterial and has easily controllable by agents at current scenario of Ethiopia.

Majority of the banking agents are not agreed with customers fail to bank with agents because of fear of security. This shows that security concerns were not many among customers due to measures taken by both the bank as well as agents. Customers are using agent banking outlet in-spite-of security fright.

Majority of branch managers replied agent bank outlet has monitored during its establishment and it is in a rare case that agent banking outlet has supervised annually while in operation. This shows that lack of sufficient supervision by the bank which may come-up with unexpected security setback and results losses for both the bank and agents.

Majority of agent bankers cannot get training on security issue. They get less frequently in a year base, and training has given up on establishment. This shows very little efforts has done by parent banks' to train its agents in-order-to enhance the knowledge and skill of bank agents about security measure they need to have. The current environment has volatile and has been changing substantially. With this dynamic changing business environment absence of continues training for Agents has exposed agent banking business for unexpected security risk. As-a-result it has adversely influences promotion of financial inclusion in the Ethiopia Majority of the bank branch managers indicated that security concerns of agent banking had a low effect on the financial inclusion. This shows that security concerns if any were few and had little impact of customers seeking banking services. This does not mean that; there were no security problems in Ethiopia. However the occurrence and severity has low at the current circumstances but need attention in the future as the agent banking business develop.

In general aspects of promoting financial inclusion: majority of branch managers replied geographical coverage of agent bank outlet has a high impact in promotion of financial inclusion and followed by liquidity (20%). This show, above all other aspect of financial inclusion; to be closer to the customer is a core competency strategy of expanding agent banking in-order-to deliver service to both banked and unbanked community of Ethiopia having advantage and great potential in population and country size as fertile ground to expand agent banking business. Consequently, parent bank, agents and most of the community has benefited. This does not mean that, other attribute of financial inclusion like cost and security are not having effect in promotion of financial inclusion. Even if the substance level has different they have their own role in promoting formal financial service in the country which in-contrary promotes financial inclusion through agent banking outlet.

5.3 Conclusion

The study has concluded that customers prefer agent banking due to its closeness to the customer as compared to the main bank branch. The time required to get the service at agent has also low and the business has also opened out of working hour, on weekend and during holiday. Consequently agent banking reduces queuing and overcrowding of the branch.

The study has also established that lack of liquidity was not a deterring factor as the agents were examined and monitored to ensure there were rare cash shortages.

Security concerns were minimal; the study found that all the agents had adopted physical security features such as metal grills and in some cases hiring security guards. The costs of services at agent banking were also low. The strongest evidence to this effect is the fact that customers were willing to forego the extra cost charged at agent banking outlets to have their banking needs taken care of.

Therefore; the researcher concludes that greater geographical coverage brought about by agent banking is the strongest predictor of financial inclusion. This is because services are brought closer to the people and thus saves a lot of time which would have been used to queue in banking halls. And customers incur economical cost to get service with less fear of security related problems and lack of liquidity has not discouraging factor. It is the conclusion of the researcher that the agent banking model is a success as regards financial inclusion. The few number of accounts opened or number of transactions should not be taken as failure of the model. This is because agent banking services is a new phenomenon in Ethiopia having started in 2012.

5.4 Recommendations

The following are the recommendations of the researcher:

- The researcher recommended NBE, since Agent banking commencement in 2012, Agent banking model has very young financial service, NBE has to create more conducive and concrete policy such like maximizing the cash holding and transaction limit of agents, allow to open other type of customer account in addition to regular saving account of natural persons at agent banking outlet, enforce banks to use strong and modern physical security system at agent outlet, enforce banks to provide continues training for agents, so that agent banking outlet will become more safe, and convenient place of banking service for the community which in-return enhance financial inclusion;
- The researcher recommended banks to use agent banking model more in-instead of opening bank branches using geographical location and minimal cost of agent bank operation as core advantage of multiplying agent banking to reach the vast population in big territory of the country with less liquidity challenge and security problem which in-turn increase the deposit and profit of banks and enhance financial inclusion of Ethiopia;
- The researcher recommended Banks to facilitate and make conducive environment for agents that helps customers to use agent banking outlet for service like Utility payment, new loan application, processing and repayment, in addition to the common banking service which attract more customer to agent outlet and reduce queuing and overcrowding at bank branch which in-turn increase customer satisfaction and reduce compliant consequently enhance financial inclusion;
- The researcher recommended Banks : As the agent banking model becomes popular, banks have to be extra careful about the agents they hire and ensure they uphold the required standards' of delivery and conduct they should also ensure that only business with high cash flows are considered to operate agent banking services;
- The researcher recommended Banks that should also be concerned on the employees employed by agents by ensuring that only specific employees who have undergone training should handle customers; banks should also maintain a record of proper identification of such

employees, this will help them hold such employees accountable incase of fraud or misconduct of employees;

- It the researcher recommendation for Banks: that more agent banking outlets should be opened to offer more services to increase the geographical Coverage; hence Commercial banks who have adopted the agent banking model should limit operational costs on agent banking to avoid the cost of services to the customer going up;
- The researcher also recommended Banks about Security issue that should be emphasized to all agent banking outlets and more frequent monitoring and training carried out. Where an agency contract is terminated, banks should adopt strict procedures to ensure that any person does not take advantage of the situation and fraud the clients;
- Both parent banks and Agents should also conduct consumer education, as this will help customers understanding increase awareness of how the operations of agents, and assure them that their money is secure.
- The researcher recommended agents to develop the habit of using strong physical security like CCTV and Security alarms which minimize the risk of theft and increase confidence of customer that ensure them their money has not exposed of risk.
- The researcher also recommended Prospective Individuals or customers who need to engage in agency banking have fertile ground to start agency banking using advantage of large population and country size which less than 10% of households have access to formal credit (ADBG report, 2011) and the left population are unbanked and untapped business opportunity for investors.

5.5 Suggestions for further study

The current study assesses the agent banking services in promoting financial inclusion in Ethiopia. However the study was limited to Addis Ababa City which is a small area as compared to the rest of the country. The researcher recommends duplication of the current study in a large area perhaps an entire county.

The current study concentrated on bank branch managers and operators of agent banking outlets, future studies should include bank customers to get the views of the customers.

Future research should also analyze the cost benefit analysis of implementing agency banking as this will help identify areas where financial institutions can reduce cost, and improve the agency banking process.

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Appendix 1

Cover Letter to Respondent

Tsegaye Belete
St.Mary University
Addis Ababa
June 2016

To whom it may concern

Dear respondent

Request for research data on **Assessment of Agent Banking Services of Commercial Banks in Promotion of Financial Inclusion in Ethiopia**

I am a post graduate student of St.Mary's University; Addis Ababa. I am undertaking a research on the **Assessment of Agent Banking Services of Commercial Banks in Promotion of Financial Inclusion in Ethiopia,** in partial fulfillment to the requirement for the award of Masters of Business Administration (MBA) degree.

I therefore request for you your kind assistance in completing the attached questioner to the best of your knowledge. The information you give will be treated with strict confidentiality and is solely for academic purpose. Even where a name is given, it will not be under any circumstance appear on a final report. A copy of the final report will be available to you up on your request.

Your assistance and co-operation will be highly appreciated

Thank you in advance for your time and consideration!

For any incontinence and further clarification please do not hesitate to contact the researcher at (+251)923 90 61 05 or email: ereqyehun@gmail.com

Appendix 2

QUESTIONNAIRE FOR BANK MANAGER

Please tick [√] where appropriate or fill in the required information on the space provided.

SECTION A: BACKGROUND INFORMATION

1. How long has this bank being offering agency banking services?

Less than 1 year [ ]   2 years [ ]   More than 3 years [ ]

2. How many agents do you intend to have in Addis Ababa?

0- 20 [ ]   21- 40 [ ]   41- 60 [ ]   61- 100   Above 100 [ ]

3. How do you rate customers' response to agency banking services?

Very good [ ]   Good [ ]   Satisfactory [ ]   Poor [ ]   Very poor [ ]

4. Has the bank appointed a manager (agent network managers) to foresee operations of agents?

Yes [ ]   No [ ]

If yes, which are their roles?...

SECTION B: FINANCIAL INCLUSION

6. What percentage of accounts opened can you attribute to agent banking?

25% and below [ ]   26% - 50% [ ]   51% - 75% [ ]   75% and above [ ]

7. **A**. Is there a limit of how much a client can withdraw or deposit or money transfer with the agents?

Yes [ ]   No [ ]

B. If Yes, which is the minimum, and maximum a client can withdraw or deposit?

Deposit [ ]   Withdraw [ ]   Money Transfer [ ]

8. To what extent would you rate the influence of agent banking on financial inclusion?

To a very great extent [ ]   To a great extent [ ]   To low extent [ ]   No influence at all[ ]

SECTION C: SECURITY

9. How often do you monitor the operations of agents?

Daily [ ]   Weekly [ ]   Monthly [ ]   Other: specify…………….

10. How often do you monitor the safety, security and efficiency of the equipment being used by agents to prevent any tampering or manipulation by any person?

Monthly [ ]   Quarterly [ ]   Biannually [ ]   Yearly [ ]   Other: specify………

11. How often do you train agents to ensure that they comply with security standards?

Quarterly [ ] Once in a Year [ ] Twice in a year [ ] None [ ]

12. How often security matters on agent banking financial inclusion

Very great extent [ ] Great Extent[ ] Low Extent[ ] Very low Extent[ ] No Influence[ ]

SECTION: D LIQUIDITY

13. Does the bank monitor agents to ensure sufficient liquidity?

Yes [ ] No [ ]

14. In your opinion how often do agents experience liquidity challenges as they offer agency banking service?

Very often [ ] Often [ ] Rarely [ ] Never [ ]

15. To what extent does liquidity availability in agency outlets affect financial inclusion?

To a very great extent [ ] To a great extent [ ] To a low extent [ ] No effect at all [ ]

16. To what extent do you agree with the following statements?

KEY: SD = Strongly Disagree D= Disagree N= Neutral A= Agree SA= Strongly Agree

	SD	D	N	A	SA
Lack of liquid cash at agent outlets leads to frustration and is one of the reasons why take-up of this model is low					
Lack of liquidity by agency bankers leads to loss of customers					

SECTION: E GEOGRAPHICAL COVERAGE

17. To what extent do you agree with the statement that agent banking has not reduced overcrowding in banking halls?

Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] Strongly disagree [ ]

18. Which factors would you attribute to scenario raised in question 17 above? Kindly tick the most appropriate.

Security concerns agent [ ] Confidentiality concerns [ ] Lack of trust [ ] Misinformation [ ] Agency charges [ ]

Other: specify…………………………………………………………………….

19. To what extent do you agree with the statement that geographical coverage of agents influence financial inclusion?

Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] Strongly disagree [ ]

SECTION: F COST

20. To what extent does operational cost of agency banking affect the transaction cost of financial services through agents at your bank?

To a very great extent [ ] To a great extent [ ] To a low extent [ ] No effect at all [ ]

21. How much does it cost to offer the following services through the following platforms?

	Cash withdrawal			Cash deposit			Money Transfer		
	ATM	Agent	Branch	ATM	Agent	Branch	ATM	Agent	Branch
1,000 & below									
1,001-3,000									
3,0001-5,000									
5,001-6,000									
6,001-25,000									
Above 25,001									

22. Which of the following factors has the greatest influence on financial inclusion?

Geographical coverage [ ] Liquidity [ ] Security [ ] Costs [ ]

Appendix 3

QUESTIONNAIRE FOR BANK AGENTS

Please tick [√] where appropriate or fill in the required information on the space provided.

SECTION A: BACKGROUND INFORMATION

1. Kindly indicate your age

18- 25 [ ] 26 – 35 [ ] 36 – 45 [ ] 46 – 55 [ ] 56 and above [ ]

2. Gender. Male [ ] Female [ ]

3. Level of education Primary

Secondary [ ] Diploma [ ] First degree [ ] Masters degree [ ] Other: specify….

4. Type of Business you engaged in

Supper-market [ ] Grocery store [ ] pharmacy [ ] Electronics shops [ ] Gas station [ ] others [ ]

5. How long has your business been in operation?

2 – 5 years [ ] 6 – 10 years [ ] 11 – 15 years [ ] Above 15 years [ ]

6. How long have you been an agent?

Below 1 year [ ] 1 Year [ ] 2years [ ] above 2 years [ ]

SECTION B: FINANCIAL INCLUSION

7. Which is the most commonly used service among the ones listed below?

Cash Withdrawal [ ] Cash deposits [ ] Processing account applications [ ]

Loan repayment [ ] Payment of utilities. [ ] Money Transfer [ ]

8. How many accounts are opened at this agency within a month?

None [ ] 10 and below [ ] 11- 20 [ ] 21-30 [ ] 31and above [ ]

9. In respect to the following services how many transactions do you conducted in a day?

Cash withdrawal

10 and below [ ] 11- 20 [ ] 21-30 [ ] 31-40 [ ] 41 and above [ ]

Cash deposit

10 and below [ ] 11- 20 [ ] 21-30 [ ] 31-40 [ ] 41 and above [ ]

Payment of utilities

10 and below [ ] 11- 20 [ ] 21-30 [ ] 31-40 [ ] 41 and above [ ]

Money Transfer

10 and below [ ]   11- 20 [ ]   21-30 [ ]   31-40 [ ]   41 and above [ ]

SECTION C: SECURITY

10. What physical security features have you installed in your business premises?

CCTV [ ]   Security alarms [ ]   Hard steel metal bars [ ]   Hiring a watchman [ ]

Others specify…………………………………………………………..

11. How often do security scares occur?

Very often [ ]   Often [ ]   Rarely [ ]   None [ ]

12. What kind of security concern have you witnessed in the past one year?

System failure [ ]   Fake currencies [ ]   Wrong identification by customers [ ]   Robbery [ ]

13. Did you lose cash in any of the incidences raised above?

Yes [ ]   No [ ]

14. To what extent do you agree with the statement that some customers fail to bank with agents because of fear lack of security?

Strongly Disagree [ ]   Disagree [ ]   Neutral [ ]   Agree [ ]   Strongly Agree [ ]

15. How often do you receive training on security from the bank?

Quarterly [ ]   Twice in a year [ ]   Once in a year [ ]   Up on establishment [ ]   None [ ]

16. To what extent has training (if any) provided by the bank improved your performance in each of the following security related areas? PLEASE TICK WHERE APPROPRIATE.

Performance Area	Not at All	Some how	Fairly	To a Great Extent
Physical security at the business premises				
Ensured better understanding on how to handle cash in transit				
Improved understanding on how to maintain data confidentiality				

SECTION D: COST

17. Kindly indicate with (√) the extent to which you agree with the statements below.

KEY: SD = Strongly Disagree D= Disagree N= Neutral A= Agree SA= Strongly Agree

	SD	D	N	A	SA
Customers perceive the cost of banking with agents to be low					
Some customers prefer agents regardless of costs.					

SECTION E: LIQUIDITY

18. Does the bank dictate the minimum and maximum cash you should hold?

Yes [ ] No [ ]

19. If the answer to above question is **Yes**, which one the maximum and\or the minimum amount?

Maximum [ ] Minimum [ ]

20. To what extent do you agree with the statement that some customers avoid agents because of perennial cash shortages?

Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree [ ]

21. How often does the business suffer from lack of cash for withdrawals and deposits?

Very often [ ] Often [ ] Rarely [ ] None [ ]

SECTION F: GEOGRAPHICAL COVERAGE

22. To what extent do you agree with the statement that some customers prefer agents because they are closer to them as compared to the main bank?

Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree [ ]

23. How long does it take to serve one customer?

15 Minutes and below [ ] 16- 30 minutes [ ] 30 minutes and above [ ]

24. How many hours does your business operate in a day?

8 hours and below [ ] 9- 12 hours [ ] More than 12 hours [ ]

25. Does your business operate on weekends and public holidays?

Yes [ ] No [ ]