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The Relationship Between Challenge Liquidity Of Agency Banking And Profitability Of Agency Banks In Kisii County, Kenya

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Abstract: *Agency banking is meant to address the profitability of Commercial banks in Kenya. The general objective of this study was to establish the relationship between the challenge of liquidity of agency banking and profitability of agency banks in Kenya. The study covered all the agency banks of Kisii County. The specific objectives of this study were: to determine the challenge of amount of cash transacted by the agency banks on their profitability and to establish the challenge of availability of funds to be converted by the agency banks on their profitability in Kisii County. This study was based on the systems theory and agency theory. The study will also employ a conceptual framework. This study employed a cross sectional survey research design. The study targeted the branch managers, human resource managers, customer care managers and agency banking managers in the Kisii County. The study targeted 3 Commercial Banks that have agency banking institutions. They comprised of 3 branch managers, 3 HR managers, 3 customer care managers and 200 agency banking managers. The sample size for the study comprised 3 branch managers, 3 HR managers, 3 Customer care managers and 127 agency banking managers in Kisii County totaling to one hundred and thirty six (136) respondents. This study employed census, stratified sampling and simple random sampling techniques to select the sample. In census sampling, the researcher selected all the branch managers, HR managers and customer care managers of the 3 commercial banks. Stratified sampling was used to select the agency banking managers from respective agency banking locations. This study collected and analyzed both qualitative and quantitative data. Quantitative data was analyzed by use of descriptive statistics such as frequencies, percentages and presented in tables, charts and graphs. The null hypothesis was tested by correlation coefficient to determine the relationship between challenges of agency banks and profitability of commercial banks. The qualitative data were analyzed using descriptive or narrative method where the researcher presented a detailed literature description of the respondents' views for the reader to make their opinions. It was established that liquidity of agency banks is one of the greatest challenges facing profitability of agency banks. Based on the findings of this study it was recommended that the management of the main banks enhances the liquidity of agency to ensure a steady flow of cash to customers without unnecessary delays.*

Keywords: *Liquidity, Agency banking, profitability*

I. Introduction

Agency banking model hoped to enhance access to financial services by allowing small businesses to operate as satellite branches. Based on early experiences, agency banking has a large contribution to make towards financial inclusiveness in developing countries. Policy makers and regulators are demonstrating keen interest in this topic, although in most countries regulation continues to constrain the emergency of agency banking. Where regulation permits, existing new branchless banking initiatives are being developed by a plethora of market participants (Neil & Leishman, 2010).

Nalwelishe (2003) carried a research on sources of finance available to small scale enterprises in Nairobi. His objectives were to identify which types of credit are easily obtainable by SSEs and to evaluate the credit policies of SSEs from commercial banks. The research found out that most entrepreneurs view borrowing as both important and necessary for business pursuits which are accessible from agency banking outlets. The majority perceives the impact of credit on the business as positive, and would, when possible, borrow to save business from collapsing. On access to credit, majority of entrepreneurs relied on limited own and family savings for start-up and additional capital. They hardly rely on external sources of finance. Therefore, these enterprises have poor access to credit from the main Commercial banks. Concerning supply of credit; urban-located enterprises were noted to have achieved a higher success rate than the rural ones. Similarly, informal enterprises are more successful in the levels of their loan applications than formal ones. The results also noted the existence of quantum of unsatisfied demand for credit within the SSE sector. Where credit has been approved, access to it is costly and risky to have the whole loan dispersed at once. Therefore, agency banking comes in to resolve this scenario. However, agency banking has yet to demonstrate pro-poor, pro-growth impact for households, communities and the National economics (Morawczynski & Mark, 2009). Branchless banking encompasses the provision of a broad range of financial services outside conventional bank branches and often involves agent banking technologies. Agent banking has become particularly widespread over the past decade. Latin America is the region with the strongest development towards agency banking. Brazil is probably the most developed market where agency banking has significantly increased financial system structure (Michael & Bloodgood, 2010).

Lehman, Bill & Melinda (2010) argue that financial services can only be delivered to a majority of poor households if the service providers use retail distribution channels to get closer to where the poor live and at a fraction of the cost of traditional banking. These retail agents who convert cash to electronic money (e-money) or convert e-money to cash are the human face of all agent banking systems. Therefore, when building, incentivizing, and managing a network of retail agents, providers must address the operational challenges in a way that fosters a positive and consistent customer experience that will create and maintain trust in the system. Lehman, Bill & Melinda (2010) further assert that an effective agent is well trained; trusted by customers; strategically and conveniently located; and properly incentivized to follow procedures, keep sufficient float on hand, and serve customers. Banks typically select established retail outlets, while mobile networks are more inclined to use smaller "mom and pop" shops or kiosks. Some providers choose to outsource agent recruiting and training. Either way, the size and growth of the network has to be carefully planned to ensure there are enough agents to serve the customers and that there are enough customers to keep the agents interested in providing the service. Agency banking is essentially an aggregator for the cash requirements of a community. It is a cash-storing and transfer business that absorbs the risk of cash handling. Agency banking providers should develop a variety of mechanisms to ensure agent liquidity and assist the agent in cash handling. The options to be available depend to a great extent on the banking infrastructure in the markets where the agents operate and the willingness of the banks to take charge of secure cash transport.

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya. The banking sector was liberalized in 1995 and exchange controls lifted. The Central Bank of Kenya, which falls under the Minister for Finance, is responsible for formulating and implementing monetary policies and fostering the liquidity, solvency and proper functioning of the financial system (The Banking Survey, 2010). As at December 2008, there were 46 banking and non-bank institutions, 15 micro-finance institutions and 109 foreign exchange bureaus (Think Business, 2012). To address issues that affect the Banking industry in Kenya, banks have come together and formed a forum under the Kenya Bankers Association. Kenyan Banks have realized tremendous growth in the last five years and have expanded to the East African region (The Banking Survey, 2010).

Agency banking has enabled bank customers to access the basic banking service such as; deposits, withdrawals, disbursement and repayment of loans, payment of bills, transfer of funds, balance enquiry, generation and issuance of mini bank statements, collection of documents in relation to account opening, loan application, credit and debit card applications, agency mobile phone banking services among Others(CBK,2010). Therefore, this study established the relationship between challenges of agency banking and profitability of agency banks in Kenya as these are important service providers of finances for customers apart from the mainstream banks.

II. Statement of the Problem

Although most commercial banks with agency banking have tried to reach a wide range of clients, the majority of their clients who are low-end salaried workers and micro and small businesses still flock in the mainstream banks despite the mainstream banks embracing agency banking. In addition, the rural farming communities who can access supervised short term loans for horticulture, dairy, coffee and tea farmers from agency banks more often than not join the long queues in the commercial banks. In today's intensely competitive and global banking market, maintaining competitive advantage puts a heavy premium on having a highly committed or competitive workforce (Jamie, 2011). Today, when commercial banks scramble with the challenge of redundancy, profit reductions, employee turn-over or job-hopping phenomenon, people are the key factor to organizational success, innovation, and profitability. This calls for effective strategic planning to expand the commercial banks by creating banking agencies to enhance maximum performance under the prevailing conditions. However, while the idea of banking agency has been embraced and promoted in the banking sector as a means of improving profitability in this sector, challenges of agency banking on their profitability has not been established, particularly among agency banks in Kisii County. Musau (2013) conducted a study on agency banking but mainly focused on the utilization of agency banking on the performance of banks in Kenya. In addition, the study was conducted in banks in Nairobi. The challenges of agency banking on their profitability in Kisii County has not been fully established, yet most banks have embraced banking agency as a core strategy and continue to develop and opening more agencies. Therefore, this study established the relationship between the challenges of liquidity of agency banking on their profitability in Kenya.

III. Objectives of the study

1. To determine the challenge of amount of cash transacted by the agency banks on their profitability in Kisii County.
2. To establish the challenge of availability of funds to be converted by the agency banks on their profitability in Kisii County.

Hypotheses of the study

Ho: There is no significant relationship between the liquidity of agency banks and their profitability in Kisii County.

Justification of the study

The findings of this study may enable the Commercial banks in Kisii County to establish organizational structures responsible for agency banking. The structures may oversee agency banking concerns in the county. The findings of this study may further be useful to policy makers in decision making with regard to provision of quality service delivery to be in line with the service charter. The branch managers and all agency banking personnel are expected to learn and use the findings of this study for effective and efficient service delivery by boosting their profitability in the banking sector. The findings may finally enable the banking sector to have a more efficient managerial skills and infrastructure in the agency banking regions. At the same time, the study findings may inform the personnel in detail about the challenges facing agency banks as well as to organize training to all levels to improve the managerial skills.

Theoretical Framework

The Systems Theory

This study focused on systems theory. Systems theory developed by an Austria biologist, Karl Ludwig in 1968, views an organization as a system. A system is a collection of parts unified to accomplish an overall goal. If one part of the system is removed, the nature of the system is changed as well. A system can be seen as having inputs, processes, outputs and outcomes. Systems share feedback among each of these four aspects of the systems. Commercial banks as financial institutions can be viewed as systems where inputs would include resources such as finances, technology and people (employees, managers and bank management). These inputs go through a process (management), where they are planned, organized motivated and controlled, ultimately to meet the organization's goals (Freeman, 1995). Outputs would be products that are the human resource or services. Outcomes would be improved human resource performance; increased internal efficiency of the bank and enhanced increased profitability. Feedback would be information from agency banking agents. Feedback also comes from the larger environment of the commercial institutions like influences from government, society, economics and technologies.

Agency Theory

Another theory that this study employed was the agency theory. Agency theory suggests that the firm can be viewed as a nexus of contracts between resource holders. An agency relationship arises whenever one or more individuals, called principals, hire one or more other individuals, called agents, to perform some service and then delegate decision-making authority to the agents. The primary agency relationships in business are those between stockholders and managers; and between debt holders and stockholders. These relationships are not necessarily harmonious; indeed, agency theory is concerned with so-called agency conflicts, or conflicts of interest between agents and principals. This has implications for, among other things, corporate governance and business ethics. When agency occurs it also tends to give rise to agency costs, which are expenses incurred in order to sustain an effective agency relationship. Accordingly, agency theory has emerged as a dominant model in the financial economics literature, and is widely discussed in business ethics texts. Agency theory in a formal sense originated in the early 1970s, but the concepts behind it have a long and varied history (Bowie & Edward, 1992). The principal-agent model suggests that managers are less likely to engage in strictly profit maximizing behaviour in the absence of strict monitoring by shareholders (Agrawal & Knoeber, 1996). Therefore, if commercial banks are more profitable than agency banks, it would seem that concentrated ownership provides better monitoring which leads to increased profitability.

Conceptual Framework

This study also employed a conceptual framework. The conceptual framework showed the four independent variables of agency banking: liquidity, managerial skills and physical infrastructure of agency banks. The dependent variable in this study was the profitability of commercial banks that comprises: gross profit margin, net profit margin and return on assets.

Independent Variables

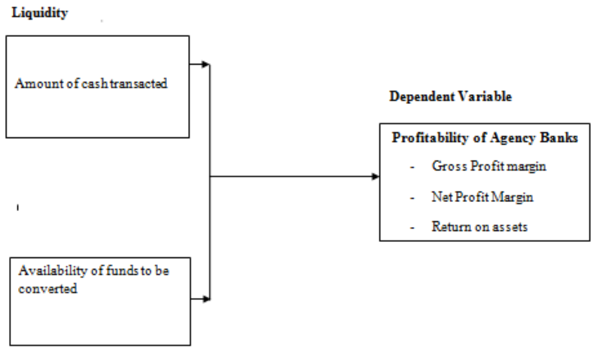


Figure 1: Conceptual Framework

IV. Methodology

This study employed a cross sectional survey research design. A survey is suitable when descriptions of events or opinions rather than manipulation of variables are intended (Oso & Onen, 2009). The study targeted the branch managers, human resource managers, customer care managers and agency banking managers in the Commercial Banks in the Kisii County. The records in the County offices indicated that there were 3 Commercial Banks that have agency banking institutions. They comprised of 3 branch managers, 3 HR managers, 3 customer care managers and 200 agency banking managers. This translated to 209 respondents. The sample frame was based on Krejcie (1970) model and generated by Morgan (1990) (Also see Krejcie and Morgan (2006) table of samples at 95% confidence with 5.0% margin of error appendix VI). The study sample size is as shown in Table 1:

Table 1: Sample Size of the Respondents in the Commercial Banks

Respondents	Population (N)	Sample Size (S)	Sampling Procedure
Branch Managers	3	3	Purposive
HR managers	3	3	Purposive
Customer care managers	3	3	Purposive
Agency banking Managers	200	127	Simple Random sampling
Total	**209**	**136**	

The sample size for the study comprised of 3 branch managers, 3 HR managers, 3 Customer care managers and 127 agency banking managers of the commercial banks in Kisii County totaling to one hundred and thirty six (136) respondents. This study employed census, stratified sampling and simple random sampling techniques to select the sample. In census sampling, the researcher selected all the branch managers, HR managers and customer care managers of the 3 commercial banks that have agency banking institutions. Stratified sampling was used to select the agency banking managers from respective agency banking locations of the commercial banks and the researcher considered this to be representative sample because the sample size was large enough to contain all the variation in the population and equally independent chances were given to each individual in the population to be selected. Stratified sampling was used in this study as it was cost-effective in selecting respondents in clusters and it increased the variability of sample estimates above that of simple random sampling. Simple random sampling was preferred because it ensured that all members of target population had an equal and independent chance of being included in the sample (Uma, 2010). Simple random sampling was used to select the agency banking managers to participate in the study.

In the study, questionnaires and Interview schedules were used to supplement each other and to give a deeper and wider exploration into research perspective which gave the research more quality. The study also used secondary information from the Agency Banks.The study conducted piloting and test for reliability and validity of the research instruments. A reliability coefficient of 0.854 was obtained for the questionnaires implying that there was a higher degree of reliability of the data and this was found to be in line with Mugenda & Mugenda (2003). Validity was established using content validity tests. Validity was measured by calculating the extent to which content in instruments correlated with concepts it had set out to measure. The closer to one the content validity test (CVI) the more valid the instrument. This was done to all questions and then an average of 0.775 was obtained which was in line with what Amin (2005) who argues that for the instrument to be accepted as valid, it should have an average index of 0.70 or above.

Data was organized, presented, analyzed and interpreted using descriptive and inferential statistical techniques. This study collected and analyzed both qualitative and quantitative data. Quantitative data was analyzed by use of descriptive statistics such as means, standard deviation, percentages and presented in tables and figures. The null hypothesis was tested by correlation coefficient to determine the relationship between challenges of agency banks and profitability of commercial banks. The qualitative data was analyzed using descriptive or narrative method where the researcher presented detailed literature description of the respondents' views for the readers to make their opinions (Bell, 1993). The descriptive statistics that was used to summarize data include means, standard deviation and graphical presentation. Data was presented by use of frequency tables, charts and graphs.

V. Results and Discussions

Demographic Characteristics

The purpose of collecting the demographic data was to enable the researcher obtain more reliable, relevant and detailed information on the relationship between challenges of agency banking on profitability of agency banks of the three Commercial banks in Kisii County.

The demographic characteristics collected in the study included gender and length of service of respondents in the agency banks in Kisii County. The responses obtained were recorded in Table 2:

Table 2: Demographic Characteristics

Demographic Characteristics		Frequency	Percent
Gender of Respondents	Male	112	86.2
	Female	18	13.8
	Total	**130**	**100.0**
Length of service of Respondents	6-10 Years	14	10.8
	11-15 Years	70	53.8
	16 and Above	46	35.4
	Total	**130**	**100.0**

Table 2 shows that majority 86.2 % (112) of the respondents were male while only 13.8% (18) were female in both the management and employees in the Agency banks. This implies that there are gender disparities in the agency banks and therefore the banks should strive to implement the gender rule to be in line with the Constitution of Kenya (ROK, 2010). The findings from Table 2 further show that 10.8% (14) of the respondents had a working experience of 6- 10 years while slightly more than half 53.8 % (70) of them had worked for 11-15 years in the respective agency banks. Finally, table 4.1 reveals that 35.4% (46) of the respondents had served in the agency banks for 16 and above years. This implies that most of the respondents had work experience of more than six years and therefore were in position to give relevant and detailed information on the relationship between challenges of agency banking on profitability of agency banks.

VI. Profitability in Agency Banks

The study sought to establish the number of agency banks outlets in Kisii County. It established that there are a total of two hundred (200) agency banks outlets that serve the mainstream commercial banks. It was also established that the agency banks are easily accessible by most customers and due this their contribution to the profit of the agency banks was high. The respondents rated the profitability of the Agency banks and the responses were as in Table 4.2:

Table 3: Rating of Profitability of Agency Banks

Rating of Profitability of Agency Banks	Mean	Standard Deviation	Skewness	Kurtosis
Below Expectation				
Satisfactory				
High	3.17	0.664	-0.464	0.298
Very high				

The information from Table 3 shows that the profitability of agency banks was high (mean =3.17, standard deviation of 0.664, skewness= -0.464 and kurtosis of 0.298. This could be due to the accessibility and convenience of the agency banks to the customers. This is in line with the findings of Melinda (2010) who found out that an effective agent is well trained; trusted by customers; strategically and conveniently located; and properly incentivized to follow procedures, keep sufficient float on hand, and serve customers.

The challenge of liquidity of the agency banks on profitability of agency banks

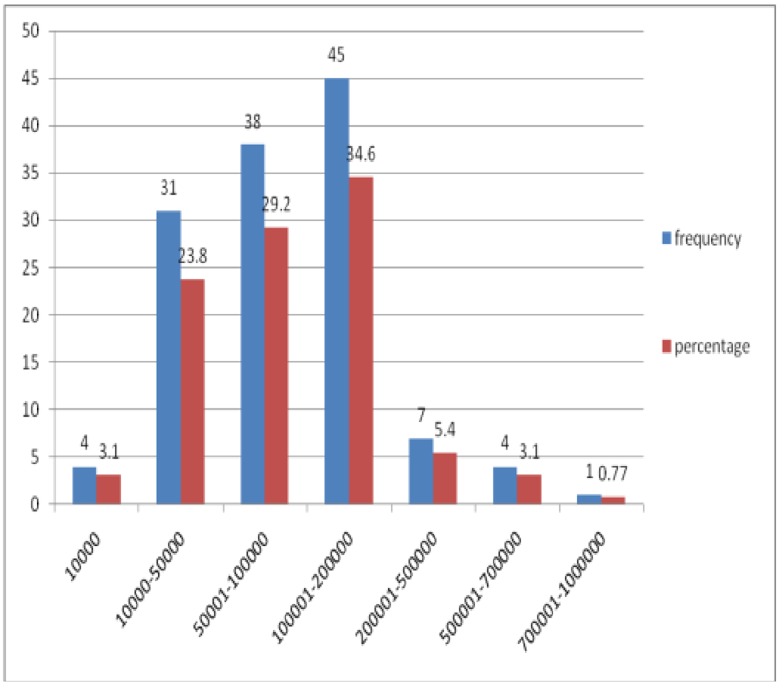
The first objective of this study was to determine the challenge of amount of cash disposal to agents at any one time by agency banks on their profitability in Kisii County. The findings are represented in table 4:

Table 4: Amount of Cash Disposal to Agents

Amount in Kshs.	Frequency	Percent
10000	4	3.1
10000-50000	31	23.8

50001-100000	38	29.2
100001-200000	45	34.6
200001-500000	7	5.4
500001-700000	4	3.1
700001-1000000	1	0.77
Total	**130**	**100.0**

Table 4 shows that 23.8 % (31) of the respondents indicated that the amount of cash disposed to the agents was between Kshs. 10,000- 50,000 while another 29.2% (38) indicated that cash disposed was between Kshs. 50,001-100,000. Further, the table shows that 34.6% (45) respondents indicated that Kshs. 100,001-200,000 was being disposed at any given time. This implies that on average, the amount of cash disposed at any given time to agents is relatively high (mean of 3.65, standard deviation of 1.529, skewness of 0.775 and kurtosis of 0.175). The findings were presented as in figure 1.



Amount Of Cash Disposal To Agent
Figure 1: Amount of Cash Disposal to Agent

The study further sought the amount of cash transacted by agents at any one time as the second objective and the findings were presented as in Table 5.

Table 5: Amount of Cash Transacted by Agents

Amount in Kshs.	**Frequency**	**Percent**
10000	12	9.2
10000-50000	30	23.1
50001-100000	60	46.2
100001-200000	19	14.6
200001-500000	4	3.1
500001-700000	3	2.3
700001-1000000	2	1.5
Total	**130**	**100.0**

Table 5 shows that 23.1 % (30) of the respondents indicated that the amount of cash transacted by agents was between Kshs. 10,000- 50,000 while another 46.2% (60) indicated that cash transacted was between Kshs. 50,001-100,000. Further, the table shows that 14.6% (19) respondents indicated that Kshs. 100,001-200,000 was being transacted by agents at any given time. This corresponds to the amount of cash at the disposal of the agents. This implies that on average, the amount of cash transacted at any given time by agents is relatively high (mean of 3.42, standard deviation of 1.514, skewness of 0.666 and kurtosis of -0.209) which may lead to high profits to agency banks. The findings were as presented in figure 2:

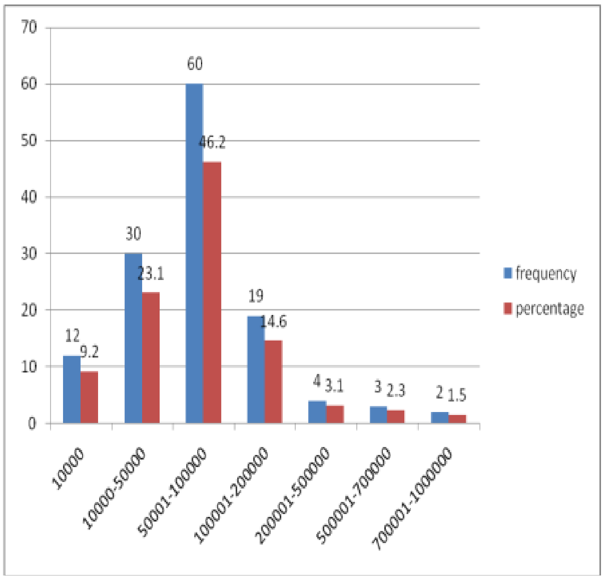


Figure 2: Cash Transacted by Agent

The researcher sought to establish whether there could be a time when agents ran short of cash in transacting. This was important as cash flow in agency banking is crucial. The responses are as in Table 6:

Response	Frequency	Percent
YES	123	94.6
NO	07	5.4
Total	**130**	**100.0**

Information from Table 6 shows that majority 94.6% (123) of the respondents indicated that they do run short of cash in transacting while only 5.4% (07) of them have sufficient cash for transaction. This implies that liquidity of the agency banks possess a challenge which has a bearing on profitability. This is in line with the findings of the Central Bank of Brazil (2007) that indicated that the problem of liquidity is a challenge to most banks. However, the respondents the following as the steps they usually take to salvage the situation when they run short of cash: they borrow the cash from mainstream banks as well as financial institutions such as SACCOs. Some respondents indicated that they do borrow from individuals in the premises they are located like the supermarkets and petrol stations.

Pearson's Correlations in showed that liquidity of agency banks was positively and significantly correlated with profitability of agency banks ($r= 0.775$, $\alpha< 0.01$). Therefore, liquidity agency banks had 77.5% positive relationship with profitability of the agency banks. Hypothesis postulated that there is no significant relationship between the liquidity of agency banks and their profitability in Kisii County. Findings showed that liquidity had coefficients of estimate which was significant basing on $\beta_1=0.0131$ (p-value= 0.01 which is less than $\alpha=0.05$) implying that the null hypothesis should be rejected and conclude that there is significant relationship between the liquidity of agency banks and their profitability in Kisii County. This indicates that a change in liquidity leads to a corresponding change in profitability of the agency banks.

VII. Conclusion and Recommendations

Based on the findings of this study, it can be concluded that liquidity of agency banks is one of the greatest challenges facing profitability of agency banks. Therefore, the management of the agency banks should address these challenges to enhance profitability. This will also improve the profitability of the main banks. It can be concluded that the findings provide enough evidence to suggest that there was linear and positive relationship between liquidity of agency banks and profitability of the agency banks. Based on the findings of this study, it is recommended that the management of the main banks enhances the liquidity of agency to ensure a steady flow of cash to customers without unnecessary delays.

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