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SEMINAR PAPER

**EFFECTS OF AGENCY BANKING ON CUSTOMER SERVICE**

**By**

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## ABSTRACT

*The purpose of this study is to establish the effect of agency banking strategy on customer service in commercial banks. The study had four objectives to achieve: To establish how personalized agency services affect customer service; to find out how reduced waiting time affects customer service, to find out how reduced service costs affects customer service and to establish the strategies that can be used by banks to enhance customer service. The bulk of the research relied on secondary data. It was established that agents perform several functions or activities on behalf of banks. The functions include accepting cash deposits, effecting cash withdrawals, opening accounts for new customers and to some little extent issuing interim bank statements. There are some services that are however not common with the agents such as foreign currency transactions, issuing cheque books to customers and processing of loan applications.*

*The study also established that there is a strong link between the use of agency banking and customer service improvement. It was also confirmed that the agents have greatly improved the level of customer service in commercial banks. The study recommended that banks should look for ways of motivating the agents such as through the use of performance based bonuses. This will motivate them to work better thus improving customer service. It was recommended that this study can be replicated later to establish whether there are any changes in agency banking and customer service in banking.*

**Key words; Agency banking, strategy**

**1.1 Introduction**

In an increasing number of developing countries, branchless banking has been adopted in the last few years because it has the potential to provide financial services to low-income households who are not reached by traditional bank networks, especially those living in remote and rural areas. In June 2009, the Global System for Mobile communications Association (GSMA) claimed that almost 400 million people who currently not have a bank account could benefit from mobile financial transactions. (Lozano and Mandrile, 2010)

Early experiences have shown that branchless banking through agents can significantly reduce set-up and delivery costs by offering cash-in/cash-out operations or a broader range of financial services to customers who usually feel more comfortable banking at their local merchants than at traditional bank branches (Lozano and Mandrile, 2010). Agency banking has been necessitated by the need to provide affordable banking services to the unbanked, although the cost incurred by banks to service low value accounts and extending banking infrastructure to underserved and low-income areas is usually high. And the cost incurred by unbanked customers (in terms of time and expense) in reaching bank branches is usually high.

To achieve financial inclusion therefore, will require innovative business models that dramatically reduce costs for everyone and thus pave the way to profitable extension of financial services to the world‘s poor. Lehman (2010) supported agent banking by stating that financial services can only be delivered to a majority of unbanked households if the service providers (banks and telecommunication companies)use retail distribution channels to get closer to where the unbanked 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.

**1.2 Statement of the problem**

Agency banking is a new banking model that is aimed at enhancing access to financial services by allowing small businesses to operate as satellite branches. This strategy is coming under pressure from increasing operational hurdles. Banks have indicated facing problems converting these outlets into what they would be comfortable to call outsourced banks. It is believed that agency banking is one strategy that banks can use to achieve cost-savings, give more accessibility to customers and enhance customer service. Kenyan financial institutions have in the recent past embarked on an aggressive entry into the segment. But many are finding that agents lack capacity to handle large transactions of cash and under-spend on security measures.
A number of studies have been conducted on agency banking both internationally and locally. For instance Lozano and Mandrile, (2010) carried out a study on the New Agent Banking for Branchless Banking in Colombia. Alliance for Financial Inclusion (2012) also conducted a study on Agency banking in Latin America. In Kenya, Omumia (2010) studied in Post bank. Enhancing Financial Innovation and Access (EFINA), (2011) also evaluated agent banking models in five countries: Colombia, Brazil, Peru, India and Kenya. Some of the key lessons observed by the Kenyan regulators from the study were the importance of involving key stakeholders, both from the public and private sectors, in any further development or roll out of a mobile financial services model; and the importance of prioritizing and coordinating the national financial inclusion agenda. Otieno (2009) in his presentation to the Banking and Payment Technologies East Africa Conference indicate that it is time for financial institutions to share branch and agency networks using common platforms. Otieno further argues that the agency model will allow participating financial institutions to: offer basic transactional and information services to their customers; shared cost basis and potentially achieve significant cost savings. To the best of my knowledge, no similar study has been done. This study therefore sought to find out how agency banking has affected customer service and satisfaction in Kenya.

**2.0 Research objectives**

**2.0.1 General Objective**

Effect of agency banking on customer service

### 2.0.2 Specific Objectives

The study is aimed to achieve the following three objectives

I. To establish how personalized agency banking services impact on customer service

II. To establish how reduced waiting time impacts on customer service

III. To establish how service costs impacts on customer service

IV. To establish the strategies that can be used by agency banks to enhance customer service

## 3.0 Literature Review

### 3.0.1 Theoretical Framework- Agency Banking Theory

A banking agent is defined as 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. Globally, these outlets are increasingly utilized as important distribution channels for financial institutions (Ignacio and Siedek, 2008).

Invatury et al. (2006) indicates that agency banking is a new distribution channel that allows financial institutions and other commercial actors to offer financial services outside traditional bank premises. They cite models of branchless banking other than agency banking such as Internet banking and automatic teller machines (ATMs) as modest extensions of conventional branch-based banking. They further argue that branchless banking through retail agents appeals to policymakers and regulators because it has the potential to extend financial services to unbanked and marginalized communities. Agency banking has its origins in Brazil and Kenya where the most successful cases of agency banking have been identified. The Brazilian model is driven by the larger banks, such as Caixa Federal, Bradesco, and Banco Popular, and it uses more traditional card/POS terminals. Brazil now has 39,000 agents covering every municipality in the country, with whom customers can deposit, withdraw, and electronically transfer money from their accounts. The Kenyan model is driven by mobile operator Safaricom. It uses a menudriven application on their customer's mobile phones (in their SIM cards, more specifically) to authenticate and facilitate transactions by both customers and agents. Only two years after its launch, Safaricom‘s M-PESA service now has over six million registered customers who can transact at almost eight thousand retail agents nationwide (Mas, 2009). Banks in Kenya have also embraced agency with KCB, Equity and Cooperative bank venturing into agency banking. Banking agents are usually equipped with a combination of point of sale (POS) reader, mobile phone, barcode scanner to scan bills for bill payment transactions, personal identification number (PIN) and sometimes personal computers that connect with the bank‘s server using a personal dial up or other data connection. Clients that transact at the agent use a magstripe bank card or their mobile phone to access their bank account. Identification of customers is normally done through a PIN, but could also involve biometrics. With regard to the transaction verification, authorization, and settlement platform, banking agents are similar to any other remote bank channel (Ivatury, 2006).

Banks in countries across the globe are increasingly using agents to provide financial services to customers. In Brazil, for example, banks use approximately 160,000 agents, many with multiple outlets used to provide financial services to all 5,564 Brazilian municipalities (Kumar and Seltzer 2011). In 2010, bank agents in Brazil handled 3.1 billion transactions (6 percent of all bank transactions), 2.85 billion of which involved the movement of funds (Febraban 2011). In Pakistan, there are approximately 17,500 bank agents (State Bank of Pakistan 2011). In the quarter ended September 2011, these agents handled 15.88 million transactions totaling Rs 58,710 million (US$674 million) with an average transaction amount of Rs 2,700 (US$ 42.53). These arrangements, which involve the use of both agents and technology to transmit transactions details, are often referred to as ―branchless banking (Tarazi and Breloff, 2010). The issue that perhaps needs to be addressed is the reason behind recent adoption of agent banking by a number of banking institutions around the globe. According to Invatury et al (2006) agency banking is one strategy that banks can use to achieve cost-savings, give more accessibility to customers and enhance customer service. Kenyan financial institutions have in the recent past embarked on an aggressive entry into this market segment. But many are finding that agents lack capacity to handle large transactions of cash and under-spend on security measures. The need to reach millions of unbanked poor people around the globe who do not have access to mainstream banking is also among the main reasons why banks have embraced the idea of agent banking.

According to the National Banking and Securities Commission (CNBV) of Mexico and the Alliance for Financial Inclusion (2012), agent banking is quickly becoming recognized as a viable strategy in many countries for extending formal financial services into poor and rural areas. In recent years, agent banking has been adopted and implemented with varying degrees of success by a number of developing countries, particularly in Latin America.

Still on the reason for adoption of agency banking, Tarazi and Bleroff (2011) argue that the major obstacle to financial inclusion is cost. Cost in this context refers to not only the cost incurred by banks in servicing low value accounts and extending banking infrastructure to underserved, low-income areas, but also the cost incurred by poor customers (in terms of time and expense) in reaching bank branches. Achieving financial inclusion therefore requires innovative business models that dramatically reduce costs for everyone and thus pave the way to profitable extension of financial services to the world‘s poor. Even though agent banking has been identified as the most appropriate strategy of extending financial services to the poor and rural areas, the model has yielded different levels of results in different countries. ―The regulation, design, and implementation of agent banking vary across countries. These differences are evident in the variety of services offered by agents, the types of businesses acting as agents, the types of financial institutions that work through agents and the business structures employed to manage them. These differences ultimately contribute to the disparities in the extent to which agent banking is actually bridging the financial inclusion gap According to the National Banking and Securities Commission (CNBV) of Mexico and the Alliance for Financial Inclusion (2012).

### 3.0.2 Customer service in the banking Industry

A customer may be defined as someone who has a direct relationship with, or is directly affected by, your agency and who receives, or relies on, one or more of your agency‘s services or products. There are three principles that must be observed to achieve good customer service. The first principle is integrity. It is related to the intent or meaning behind one‘s actions. It requires service delivery that is impartial and professional, and advice that is frank, apolitical and based on comprehensive research that allows for objective decision making. The second principle is respect for customers that is demonstrated by treating them with dignity, fairness and sensitivity, according to their circumstances and specific needs. Accountability is the last principle and it is about fair and consistent decision making, where innovative solutions are sought and issues of confidentiality are respected (Government of South Australia, 2010). According to European Financial Marketing Association and Peppers & Rogers Group (2010) the subject of customer service in retail banking has never been more important, never been more timely, and never been more essential to achieving and maintaining business success.

Banks win by getting, keeping, and growing customers. How to get more customers, how to keep them longer, and how to increase the value of each individual customer—that is the critical challenge that must be met in order to grow organically. (Kevin Cacioppo, 1995)

The level of customer service will determine the level of customer satisfaction. Customer satisfaction is buzzword today, everyone using these customers satisfaction is affected by the importance placed by the customers on each of the attitudes of the product/ service. Customer satisfaction measurement allows an organization to understand the key drivers that create satisfaction or dissatisfaction; and what is really driving their satisfaction during a service experience. Customer satisfaction is the state of mind that customers have about a company when their expectations have been met or exceeded over the lifetime of the product or service (Kevin Cacioppo, 1995 and Kumbhar, 2010). It is also feeling or attitude of a customer towards a product or service after it has been used.

According to Oliver (1980) satisfaction appears to mediate changes between pre-exposure and post-exposure attitudinal components. It is a major outcome of marketing activity whereby it serves as a link between the various stages of consumer buying behavior (Jamal & Nasser, 2002). When customers pay money to buy a service they have some minimum expectations from the transaction. These expectations from the purchase have to be met substantially, if not entirely for the customer to become a loyal customer of the service (Akbar and Parvez, 2009).

### 5.1 Review of variables

#### 5.1.1 Services offered by Agency banks

According to Maeri, (2012), agency banks offer the following services; accepting deposits, cash withdrawal services, account opening, issuing cheque books, marketing bank products, processing loan applications, issuing interim statements, foreign exchange transactions and handling customer complaints.

#### 5.1.2 Strategy and customer service

cost incurred by banks in servicing low value accounts and extending banking infrastructure to underserved, low-income areas, but also the cost incurred by poor customers (in terms of time and expense) in reaching bank branches. Achieving financial inclusion therefore requires innovative business models that dramatically reduce costs for everyone and thus pave the way to profitable extension of financial services to the world's poor. Even though agent banking has been identified as the most appropriate strategy of extending financial services to the poor and rural areas, the model has yielded different levels of results in different countries. ―The regulation, design, and implementation of agent banking vary across countries. These differences are evident in the variety of services offered by agents, the types of businesses acting as agents, the types of financial institutions that work through agents and the business structures employed to manage them. These differences ultimately contribute to the disparities in the extent to which agent banking is actually bridging the financial inclusion gap According to the National Banking and Securities Commission (CNBV) of Mexico and the Alliance for Financial Inclusion (2012).

The second step is to develop an action plan with a series of objectives that will assist in achieving the vision. The SMART approach is a straightforward way of developing objectives. Objectives should be: For each objective, a series of actions will be identified that gradually build the action plan so that it delivers on the objectives in the customer service strategy. In the action plan, you might also like to identify required resources (human, financial and material) and consider key performance indicators (KPIs). The action plan is the guiding document for the implementation phase of the customer service strategy (Government of South Australia, 2010). The third step in this process is to implement the action plan. A commitment to quality service and improving service delivery requires accountability, responsibility, allocation of appropriate resources, clear time frames, measurement, effective communication, and reward and recognition for achievements. These elements of the implementation plan are essential to the overall success of the strategy (Nickols, 2011). The last step is to measure for improvement. In order to improve service delivery it is important to understand how people rate your product/levels of service and to be aware of what they believe needs improvement. Appendix A provides guidance on how to measure customer satisfaction (Government of South Australia, 2010).

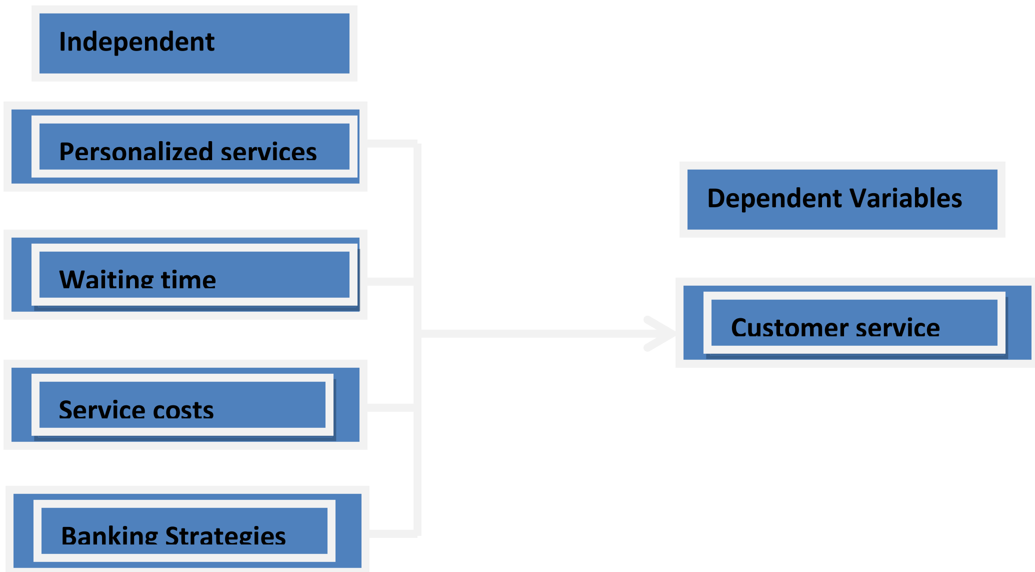
**5.1.3 How to improve customer service through agency banking**

According to Maeri, (2012), one of the most important outcomes of agency banking strategy is the ability of the same to reduce waiting time for customers. This is because in the conventional banking, customers had to travel long distances and queue for long hours as they wait for services. The agents have made it possible for the customers to access the same service within a limited span of time and spare some more time for other meaningful activities.

He also stated that the agents are part of the immediate community hence are able to provide better services to the people around them. They are also able to treat each person differently since they understand the people around them both in character and background. The greatest effect of agency banking strategy is perhaps the ability to reduce banking costs for customers. This is possible since the use of agency banking has drastically cut down the costs related to travelling and the time spent away from productive labour as one seeks banking services away from home.

According to Maeri, (2012), agency banking could be improved through application of the following strategies; frequent training for agents, awarding of performance related bonuses, revoking licenses for poor performers, giving agents more roles and use of technology to link bank and agents.

**6.0 Conceptual Framework**




**7.0 Conclusion**

The agents perform several functions or activities on behalf of the bank. The functions include accepting cash deposits, effecting cash withdrawals, opening accounts for new customers and to some little extent issuing interim bank statements. Ignacio and Siedek (2008) also found this to be true when they indicated that banking is a retail or postal outlet contracted by a financial institution or a mobile network operator to process clients‘ transactions. They further argue that 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. The findings of this study also found out that agents are independent businesses that operate other businesses but partner with the bank to provide financial services. Ignacio and Siedek (2008) had also confirmed that banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices, and many more. Globally, these outlets are increasingly utilized as important distribution channels for financial institutions. There are some services that are however not common with the agents such as foreign currency transactions, issuing cheque books to customers and processing of loan application.It is also clear that the agents have assisted the bank to improve on various aspects of customer service such as, reduction in waiting time, provision of personalized service to customers, provision of fast services and reduction in costs associated with banking on the side of customers.

The study revealed that banking agents have assisted customers to incur less banking costs, provide more personalized banking services as well as reduce the waiting time for the bank customers. This is an indication that banking agents have assisted in improving customer service in the bank. Improved customer service is key in banking as confirmed by the European Financial Marketing Association and Peppers & Rogers Group (2010) who indicate that the subject of customer service in retail banking has never been more important, never been timelier, and never been more essential to achieving and maintaining business success. They further argue that managing and monitoring the quality of customers‘ experiences with a bank continues to grow in importance. With every passing day, the financial savviness of customer’s increases, their choices for banking products and services proliferate, and their tolerance for inferior experiences diminishes.

**8.0 Recommendations**

Banks should consider other ways of motivating the agents so that they can be able to provide better services to their customers. If they are properly motivated then they will commit themselves to provision of better customer services. The bank should also invest more resources into the training programs so that to ensure good and up to date trainings for the agents. The trainings will equip the agents with necessary knowledge that will be able to improve customer service. Technology should be the main link between the bank and its agents. The bank needs to update its technology that links Point of Sale and the main banking system. This will enable the agents to provide real time services to the customers.

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