

ASSESSMENT OF AGENCY BANKING AND PERFORMANCE OF

COMMERCIAL BANKS IN KENYA.

A CASE STUDY OF EQUITY BANK HEAD OFFICE

BY

ANGELA MARY MAVUTHI

BCOM/2013/49996

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF
THE REQUIREMENT FOR THE AWARD OF BACHELOR OF
COMMERCE FINANCE OPTION
TO MOUNT KENYA UNIVERSITY**

JANUARY 2016

ABSTRACT

Agency banking took effect in Kenya in May 2010 after the publication of prudential guidelines by the Central Bank of Kenya. Agency banking has been practiced in a number of countries such as Brazil, Columbia, Pakistan, South Africa and Indonesia. In April 28th 2011 Equity Bank unveiled an integrated financial system aimed at widening financial access and financial inclusion. The agency banking retail approach is designed to help banks increase their outreach without incurring additional costs of setting up. The objective of the study was to determine the adoption of agency banking by equity bank in its international business operations. This study employed a case study research design. Data was collected using an interview guide. The data collected was qualitative and quantitative in nature since it describes the adoption of agency banking in international business operations by Equity Bank Ltd, Kenya. The data was checked for completeness and consistency. Responses were analyzed using content analysis. This is a qualitative technique for making inferences by systematically and objectively identifying specified characteristics. The study sought to establish the roles of agency banking and from the findings. The study indentified the functions of the agency department majorly play roles of reconciliation of agents accounts, pay agents" commissions, branding agents premises, check the systems robustness, opening agents accounts, linking accounts to easy 247 and dormant account activation among other functions. The findings of the study revealed that the main factors influencing the adoption of agent banking among commercial banks in Kenya are, (i) Cost reduction (ii) Enhancement of customer service (iii) Expanded presence by banks particularly in remote areas. It is therefore recommended that banks should adopt a risk - based approach to the supervision and regulation of agency banking. Enough security measures should be put in place. Agency banking as a branchless banking model has enabled banks to reach the unbanked population, its therefore critical that banks should allow agents to be more financially inclusive than just offering the cash transfer services, agents should be able to convert cheques into cash, deal with foreign currency exchange among other services. The selection criteria of agents should be restructured so as to favor heavy cash operations in order to meet the demand of cash Availability as well as handling large cash transactions.