ST.MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

OPPORTUNITIES AND CHALLENGES OF AGENT BANKING THE CASE OF SELECTED COMMERCIAL BANKS IN ETHIOPIA

By

TILAHUN GIRMA (SGS/0136/2008A)

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A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION (MBA)

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APPROVED BY BOARD OF EXAMINERS

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Dean, Graduate studies   Signature and date

STATEMENT OF CERTIFICATION

This is to certify that Tilahun Girma has carried out his research work on the topic entitled "**Opportunities And Challenges of Agent Banking the Case of Selected Commercial Banks in Ethiopia''** The work is original in nature and is suitable for the submission for the reward of MBA Degree in General Management.

__**Abraraw Chanie (Phd)**_____   _____

              Advisor   Signature and Date

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ACKNOWLEDGMENTS

ACRONYMS AND ABBREVIATIONS

ATM: Automated Teller Machine

CDD: Customer Due Diligence

E-banking: Electronic Banking

ICT: Information Communication Technology

KYC: Know Your Customer

NBE: National Bank of Ethiopia

PC: Personal Computer

PEOU: Perceived Ease of Use

PIN: Personal Identification Number

POS: Point-of –Sale

PU: Perceived Usefulness

SPSS: Statistical Package for Social Science

TAM: Technology Acceptance Model

LIST OF TABLES

ABSTRACT

Agent banking is a form of branchless banking which allows people to access bank accounts, making 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 and retail outlets of merchants, by using a mobile phone device. To this end, many more agent banking platform vendors have been emerged due to the opportunities of the service since it is found a new and profitable business worldwide. Ethiopia has recently endeavored to launch mobile and agent banking service through NBE under Directive No. FIS/01/2012. In this regard, banks play a leading role in the adoption and implementation of the service. Therefore, the purpose of this research is to assess the current practice, opportunities and challenges of the agent banking service in Ethiopian banking sector. To this end, four commercial banks were selected through purposive sampling based on the year they commence and exercise agent banking service. Thus, the study adopted descriptive research methods by utilizing survey approach form that the data obtained from primary and secondary source through structured questionnaire and semi- structured interview from the concerned respondents and the data was analyzed using SPSS software. Accordingly, the finding confirms that, despite the significant progress registered, the implementation and delivery of agent banking service in Ethiopian banking sector was unsatisfactory due to lack of attention and support of commercial banks, the level of managerial skills, financial networks among banks, telecom network and internet access and awareness creation among the society. It is recommended that commercial banks should facilitate continuous training and awareness creation, enhancement of telecom service and collaboration of institutions to have a technological linkage among them.

Keywords: *Banking sector, National bank of Ethiopia, E-banking, Mobile and agent banking,*

CHAPTER ONE

INTRODUCTION

1.1   Background of the Study

More than ever before there is a global concern to establish financial deepening access to previously overlooked areas due to some areas considered economically unviable where majority of the customers operate their businesses. There is an increasing need to promote technological and institutional innovation as a means to expand financial system access and usage. That includes addressing infrastructure weaknesses and empower in business enterprises by developing financial literacy and financial capability programs to bring all people on board and all to participate in economic development of a country. Perhaps, agent banking will offer a solution to slow pace of individuals enterprise development especially from the rural areas (Atandi, 2013)

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 and rural 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.

Agent banking has many advantages and interesting diversities including more number of customers, services in higher quality and lower price, preservation and enhancement of share in market, unlimited space for market, concentration in new distribution, making competition between commercial brands, concentration on expenses and improvement of revenue, providing extensive services, improvement in management   system, decreasing the expenses of contractions, close intra banking connection, controlling ecological pollution, etc.(Farshad H. et al., 2013).

The Ethiopian government issued proclamation no. 40/1996 in 1996 that allowed the establishment of micro finance institutions. 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 (Elfagid, 2015).

The above credentials towards financial inclusion reveals the fact that the result achieved so far is quite low despite all the efforts made by the Government. However, cognizant of the actual reality and armed with the understanding that "*The use of technology and innovative financial service delivery channels such as mobile devices and agents have significant contribution in deepening financial service accessibility to the wider section of the population at an affordable price*" (NBE Directive, 2012), the National Bank of Ethiopia (NBE) issued a directive on "Regulation of Mobile and Agent Banking Services", Directive No. FIS/01/2012 which allows financial institutions to conduct the Mobile and Agent Banking Services (Elfagid, 2015).

Accordingly, the purpose of this research is to assess the current practice and extent of agent banking service, benefits realized by banks as well as users of the bank services, opportunities and challenges for the adoption of agent banking service in Ethiopian banking sector.

1.2   Statement of the Problem

Electronic banking services, which operates by integrating transactions with ATMs, Debit cards, Credit cards, Mobile banking, Point-of -Sale (POS) devices and others through third party operators are new to the Ethiopian banking sectors. Agent banking system mainly uses modern technology and it allow customers to access banking services electronically through mobile devices and bank agents to deposit and withdraw cash, transfer fund, make bill payments, obtain content trading. However, these are not well known in Ethiopia (Afework, 2015)

As per a preliminary discussions made with staff of E-banking Service Department at different banks that already commence the service, in general, the challenges faced in providing the

agent banking is poor infrastructural facility including poor internet connection and mobile network connectivity to provide and enhance the service.

Although banking through agents appeal the stakeholders of financial institutions because it has the potential to extend financial services to unbanked and marginalized communities. But it also challenges them to ask: what are the risks of these new approaches, is there sufficient infrastructures that support advanced technologies necessary to provide the service and how is the technology acceptance of the rural communities? Likewise, there are challenges by the policy makers and regulatory bodies to ask: are they different from those of conventional branch based banking and how should we respond to these risks, so as to permit branchless banking with retail agents to operate safely and expand access to finance income and rural areas that they could not profitably serve with conventional branch based banking.

1.3   Basic Research Questions

Knowing of the problems stated, the study tries to assess the adoption and implementation of agent banking service in Ethiopian commercial banks and seek to answer the following research questions:

- ➢ What do the practices of agent banking in Ethiopia look like?
- ➢ What are the existing and future opportunities of implementing agent banking service in Ethiopia?
- ➢ What are the benefits obtained from agent banking?
- ➢ What are the major implementation challenges of agent banking service in Ethiopian banking sector?

1.4   Objective of the Study

1.4.1   General Objective

The general objective of the study is to assess the adoption and implementation of agent banking service in Ethiopian banking sector.

1.4.2 Specific Objectives

The specific objectives of the research are:

➢ To assess the practices of agent banking service in Ethiopia over time.

➢ Identify perceived opportunities that can enhance the adoption of Agent Banking services in Ethiopia.

➢ To identify benefits that could be obtained from the adoption of the service.

➢ Describe challenges that inhibit banking industries in Ethiopia to adopt Agent Banking service.

1.5   Definition of Terms

Agent: - Means a person engaged in a commercial or business activity and has been contracted by a financial institution to provide the services of the financial institution on its behalf in a manner specified in the directive (NBE Directive, FIS-01-2012)

Agency: - Is a contract where by a person, the agent, agrees with another person (the principal) to represent him and perform on his behalf one or several legally binding acts (Ethiopian Civil Code article 2199).

Mobile Banking: - It means of performing banking activities which primarily consist 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 (NBE Directive, FIS -01-2012).

Agent banking: - Is the conduct of banking business on behalf of a financial institution through an agent using various service delivery channels as permitted under the directive (NBE Directive, FIS -01-2012).

Real time: - means the electronic processing of transactional data instantaneously upon data entry or instantaneous receipt of transaction command to a financial institutions central system (NBE Directive, FIS -01-2012).

1.6 Significance of the Study

This study is important to the stakeholders of commercial banks and also to the government in that it will point out areas to be improved in an effort to provide banking services to the unbanked, low income and rural population. Also, the study will have the following significances:

* By looking into challenges and opportunities facing the banking sector, the study can provide valuable suggestions about adoption of agent banking to the stakeholders.
* As limited research has been conducted in the area, the study can initiate further research by other researchers.
* This study can be used as an input for conducting further and extensive research on the area.
* The findings of the study can be used by policy makers as inputs for making possible policy adjustments.

1.7 Scope of the Study

The study is conducted in four selected commercial banks in Addis Ababa. The Banks are Commercial Bank of Ethiopia, Lion International Bank, Awash International Bank and Cooperative Bank of Oromia. The banks are selected under the assumption that they are pioneer to commence and exercise agent banking service than other commercial banks in Ethiopia. The study involves staffs from the selected banks especially from E-banking department who are direct participant of the subject.

1.8 Organization of the Paper

The research has five chapters: The First chapter contains background of the study, statement of the problem, research questions, objectives of the study, definition of terms, significance of the study, and delimitation/scope of the study. The second chapter deals with the review of literatures relevant to the research.

Under the third chapter, the research design, Sample & sampling techniques, source & instrument of data collection, the procedures of data collection and the methods of data analysis are discussed. In the fourth chapter, the results and discussion of the research are summarized. The final chapter includes three sections: conclusions, limitations of the study and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1   Agent Banking: Theoretical Review

Agent banking 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. (Chiteli, 2013).

According to CGAP (2010) Branchless banking is defined as the delivery of financial services outside conventional bank branches, often using agents and relying on information and communications technologies to transmit transaction details typically card-reading point-of-sale (POS) terminals or mobile phones.

In recent years there are many more agent banking platform vendors have been emerged due to the opportunities of the service since it is found a new and profitable business worldwide. According to Celloscope (2017) their Platform is designed to cater to different financial institutions with common as well as unique need. The platform is flexible enough to be used by for-profit and not-for-profit organizations alike. The Platform helps banks increase service penetration, enhance customer loyalty and stickiness, reduce cost of operations and increase revenue.

As stated by the other well-known technology vendor in Ethiopia: Belcash (2017), with mobile banking, banks can empower its customers (directly or through agents) to securely access their bank accounts using mobile phones to get information of their accounts like available balance, transactions. The Platform will give banks a competitive advantage over other banks offering same kind of services to their clientele. It will allow banks to come to market with new and enhanced banking services in a shorter time frame with a significant cost reduction.

2.2 Evolution of E-banking

Since the late 1990s E-Banking has developed from virtual insignificance to tens of millions of users worldwide (Christiansen, 2001). However, E-Banking is the product of different generations of electronic transactions. The current web-based internet or E-Banking is the latest of several generations of systems: Automated Teller machine (ATMs), Phone Banking, PC or House Banking. Automated teller machines (ATMs) were the first well-known machines to provide electronic access to customers where as in phone banking, users call their bank's computer system on their ordinary phone and use the phone keypad to perform banking transactions. PC banking superseded phone banking and allowed users to interact with their bank by means of a computer with a dial-up modem connection to the phone network. Phone and PC banking entailed maintenance costs associated with keeping up to date with diverse modems and with avoiding prohibitively complex installation procedures.

After those generations Deutsche Bank launched the very first Internet banking project in Latin America in 1996 and Citibank has developed a special "e-toolkit" across all its branches worldwide (UNCTAD, 2002). E-Banking uses the web browser for the user interface and the Internet for data transfer and download of software, and so has a potential for reducing maintenance costs. For users, E-Banking provides current information, 24-hours-a-day access to banking services. The primary services provided by e-banks are transferring money among one's own accounts, paying bills, and checking account balances. Loans, brokering, share trading, service bundling, and a host of other financial services are being added to these primary services (Dewan & Seidmann, 2001).

E-Banking is widely used in, among other places, the Nordic countries. In 2001, E-Banking was used by more than 25% of the population in Norway, Sweden, and Finland, and by 15% of the population in Denmark (Christiansen, 2001). In 2004, E-Banking usage in Denmark had grown to 45% (Statistics Denmark, 2004). Jeevan (2017) noted that with rigid controls giving way to deregulation, banks are gearing up their communications infrastructure to obtain a competitive edge from E-Banking, which is fast becoming a reality in India. Nair (1999) points out that E-Banking is fast becoming a strategic necessity for most commercial banks, as competition increases from private banks and NBFIs.

2.3 Forms of E-banking

The tools/channels used in executing E-banking include plastic cards (debit cards, credit cards, and prepaid cards), personal computers, telephone, mobile phones, internet, ATM's, POS or point of interaction machines (Morufu and Taibat, 2012). The description of the above mentioned tools/channels are as follows:-

Debit cards: - Debit card is a banking card enhanced with ATM and POS features so that it can be used at merchant locations. Debit cards allow you to spend only what is in your bank account. It is a quick transaction between the merchant and your personal bank account. A debit card is linked to an individual's account, allowing funds to be withdrawn at the ATM and point of sale without writing a cheque. When using a debit card to pay for goods and services, the purchase amount is deducted from the cardholder's checking account. The types of debit card include online debit card and offline debit card. With offline debit card, debit is not made immediately. Benefits of using a debit card include making the payment process at the checkout counter quicker and more convenient, eliminating the need to carry a cheque book and a lot of cash, using it at locations where personal cheques are not accepted, and reducing the possibility of loss or theft of cash (Okoye, 2013).

Prepaid debit cards: - These are debit cards not usually linked to a customers' account. They must be funded before being used by cardholders. Prepaid debit cards are identified with such names like cash cards, value cards, and Naira cards etc. prepaid cards can be used as gift cards students ID cards, Government payment card, payroll card, Bursary card, insurance cards, travel cards etc. (Morufu and Taibat, 2012).

Credit Cards: - A credit card is different from a debit card in that it does not remove money from the user's account after every transaction. In the case of credit cards, the issuer lends money to the consumer (or the user) to be paid to the merchant. A credit card allows the consumer to revolve their balance at the cost of having interest charged. The parties involve in a credit card transaction include cardholder, card issuing bank, merchant, acquiring bank, independent sales organization, merchant account, credit card association, transaction network, and affinity partner (Morufu and Taibat, 2012).

Automated Teller Machines (ATM):- This is a computerized telecommunications device that provides the customer of a financial institution with space to financial transaction in a public space without the need for a human clerk or bank teller. Using an ATM, customers can access their bank accounts in order to make cash withdrawals and check their account balance. ATM's rely on authorization of a financial transaction by the card issuer or other authorizing institution via the communications network. Many banks charge ATM usage fees for transactions (Morufu and Taibat, 2012).

Point-of-Sale Transfer Terminals (POS):- The system allows consumers to pay for retail purchase with a check card, a new name for debit card. This card looks like a credit card but with a significant difference. The money for the purchase is transferred immediately from account of debit card holder to the store's account (Malak, 2007)

Internet / extranet banking:- According to Booz, Allen & Hamilton (1999), "Internet banking" refers to systems that enable bank customers to access accounts and general information on bank products and services through a personal computer (PC) or other intelligent device.

Mobile banking and Agent banking:- can be defined as an occurrence when customers access a bank's networks using cellular phones, pagers, personal digital assistants, or similar devices through telecommunication wireless networks (Segun, 2011). It means 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 (NBE Directive, FIS-01-2012).

2.4 Benefits of E-banking

Banks just like other businesses are tuning to information technology to improve business efficiency, service quality and attract new customers. Farshad et al., (2013) aver that the most important factors encouraging consumers to use online banking are lower fees followed by reducing paper work and human error. Subsequently electronic channels can lead to lower transaction costs which are very competitive (Claessens and Kliengbiel, 2000).

Farshad et al., (2013) is of the view that disputes can be minimized between the employees as there is a clear flow of processes. Conducting business outside the normal branch working hours has also been a factor that has been considered convenient for bankers, inexpensive access to the bank seven days and twenty four hours a week. Increased availability and accessibility of more self-service distribution channels help bank administration in reducing the expensive branch network and associated staff overheads. A reduction in the percentage of customers visiting the banks with an increase in alternative channels of distribution will also minimize the queues in branches (Thornton and White, 2001). According to Thornton and White (2001) this ultimately leads to improved customer satisfaction. Jayawardhena and Foley (2000) observe that electronic banking increases competition within the banking system and also from non-bank financial institutions.

Electronic banking also increases the power of the customer to make price comparisons across suppliers quickly and easily and as a consequence this pushes prices and margins downward. Kerem (2003) observed that banks are responding to electronic banking differently and that those which see electronic banking as a complement and substitute to the traditional channels achieved better communication and interactivity with the customers. Other benefits that have accrued because of the adoption of electronic banking in developed countries include the ability to attract new customers and widening the customer database, improving bank marketing and communication, and having the ability to retain high profit customers (Farshad et al., 2013).

According to Harrison (2012), companies can gain two fundamental types of benefits from E-banking. These are generally described as: value creation or value enhancement for one or more of a company's stakeholder's groups, and lower cost of providing goods and services to the market place. Value creation includes; improvement in internal and external communication through effective e-marketing, increment of sales through an E-commerce website integrated with a back office systems and improvement in supplier relations and productivity through collaborative work spaces. Lower costs are: reduction in communication and travel cost using online meeting tools; shared workspaces and; benefit from license free open source alternatives to proprietary software.

Businesses also see tremendous opportunities for cost saving, revenue generation, increased market share, marketing and market access, and improving customer service through direct links that facilitate speedy enquiry and feedback. Similarly, consumers can inter alia, access the world market through the virtual economy on the internet choose from a wider variety of products, and shop in the comfort of their homes. Globalization and specifically liberalization of communication networks have all facilitated this breakthrough that further presents a massive boost for international trade (Morufu and Taibat, 2012).

Harrison (2012) suggested that the commercial benefits of E-banking lie in five areas; firstly, firms are able to expand their geographical reach. Secondly, important cost benefits lie in improved efficiency in procurement, production and logistics processes. Thirdly, there is enormous scope for gaining through improved customer communications and management. Fourthly, the internet reduces barriers to entry for new market entrants and provides an opportunity for small firms to reorient their supply chain relationships to forge new strategic partnership. Finally, E-commerce technology facilitates the development of new types of products and new business models for generating revenues in different ways as well as different revenue streams.

Humphrey et al., (2001) stated that the introduction and use of E-payment instruments holds the promise of broad benefit to both business and consumers in the form of reduced costs, greater convenience and more secure, reliable means of payment and settlement for a potentially vast range of goods and services offered worldwide over the internet or other electronic networks. Electronic Payments as argued by Cobb (2005) have a significant number of economic benefits apart from their convenience and safety. These benefits when maximized can go a long way in contributing immensely to economic development of a nation.

In general, E-banking service is important for several stakeholders, since it helps them to derive benefits from it. Many Banks have already implemented or are planning to implement E-banking because of the numerous potential benefits associated with it.

2.5   E-banking Risks

Although E-banking has bright prospects, it involves some financial risks as well. The major E-banking risks according to FSA (2010) include:-

Operational risks: - Banks faces three main types of operations risk: such as volume forecasts, management information systems and Outsourcing. Accurate volume forecasts have proved difficult - One of the key challenges encountered by banks is how to predict and manage the volume of customers that they will obtain. Many banks going on-line have significantly misjudged volumes. When a bank has inadequate systems to cope with demand it may suffer reputational and financial damage and even compromises in security if extra systems that are inadequately configured or tested are brought on-line to deal with the capacity problems. The second type of operations risk concerns management information systems. Again, this is not unique to E-banking. Banks may have difficulties in obtaining adequate management information to monitor their eservice, as it can be difficult to establish/configure new systems to ensure that sufficient, meaningful and clear information is generated. Such information is particularly important in a new field like E-banking. Finally, a significant number of banks offering E-banking services outsource related business functions, security, either for reasons of cost reduction or, as is often the case in this field, because they do not have the relevant expertise in house.

Outsourcing a significant function can create material risks by potentially reducing a bank's control over that function Security risk: Security issues are a major source of concern for everyone both inside and outside the banking industry. E-banking increases security risks, potentially exposing hitherto isolated systems to open and risky environments. Security breaches essentially fall into three categories; breaches with serious criminal intent (e.g. fraud, theft of commercially sensitive or financial information), breaches by 'casual hackers' (e.g. defacement of web sites or 'denial of service' - causing web sites to crash), and flaws in systems design and/or set up leading to security breaches (e.g. genuine users seeing / being able to transact on other users' accounts). All of these threats have potentially serious financial, legal and reputational implications.

Reputational risk: - This is considerably heightened for banks using the Internet. For example, the Internet allows for the rapid dissemination of information, which means that any incident, either good or bad, is common knowledge within a short space of time. Internet rumors can easily become self-fulfilling prophecies. The speed of the Internet considerably cuts the optimal response times for both banks and regulators to any incident. Banks must ensure their crisis management processes are able to cope with Internet related incidents (whether they be real or hoaxes). Any problems encountered by one firm in this new environment may affect the business of another, as it may affect confidence in the Internet as a whole. There is therefore a risk that one rogue e-bank could cause significant problems for all banks providing services via the Internet. This is a new type of systemic risk and is causing concern to E-banking providers. Overall, the Internet puts an emphasis on reputational risks.

In addition, legal risks (e.g. without proper legal support, money laundering may be influenced); Strategic risks; credit risks; market risks; and liquidity risks are also E- banking risks. Therefore, identification of relevant risks, and formulation and implementation of proper risk mitigation policies and strategies are important for banks while performing E-banking. Among these security risk that affects the network system is the major one (FSA, 2017).

Strategic Risk: - E-banking is relatively new and as a result there can be lack of understanding among senior management about its potential and implications. People with technological but not banking skills can end up driving the initiatives. E-initiatives can spring up in an incoherent and piecemeal manner in firms. They can be expensive and can fail to recoup their cost. Furthermore, they are often positioned as loss leaders (to capture market share), but may not attract the types of customers that banks want or expect and may have unexpected implications on existing business lines.

Business Risk: - Business risk is also significant in E-banking. Given the newness of E-banking, nobody knows much about whether E-banking customers will have different characteristics from the traditional banking customers. They may well have different characteristics. This could render existing score card models inappropriate, thus resulting in

either higher rejection rates or inappropriate pricing to cover the risk. Banks may not be able to assess credit quality at a distance as effectively as they do in face to face circumstances. It could be more difficult to assess the nature and quality of collateral offered at a distance, especially if it is located in an area the bank is unfamiliar with (particularly if this is overseas).

Security: - Security issues are sources of concerned for everybody more especially as it concerns banking industry. E-banking are prone to security breaches such as fraud, theft of commercially sensitive or financial information, defacement of web sites or denial of service and flaws in system design and/or set up leading to security breaches. All these security breaches have potentially serious financial, legal and reputational implications (FSA,2017).

2.6   Evolution of E-banking in Ethiopia

The number of banks operating in Ethiopia has reached eighteen (18) of which sixteen (16) are private while the remaining three are state owned. During the fiscal year 2014/15, these banks opened 485 new branches raising the total branch network in the country to 2,693 from 2,208 previous 2013/2014 budget year. As a result, bank branch to population ratio declined from 1:39,833.8 people to 1:33,448.2 in 2014/2015 (NBE, 2014/15 Annual Report).

E-banking services in Ethiopia commenced in late 2001 while Commercial Bank of Ethiopia (CBE) introduced about eight ATMs to deliver service to the local users but not found successful due to lack of appropriate infrastructure (Ayana, 2012). Later on in the year 2005 Dashen bank started delivering; Cash withdrawal, fund transfer between accounts attached to a single card, mini statement, balance Inquiry, and Personal Identification Number (PIN) change services through ATMs located at different convenient locations. Dashen's ATM is available 24 hours a day, seven days a week and 365 days a year providing service to Debit Cardholders and International Visa Cardholders coming to the country (Ayana, 2012).

It is merely known that the emerging of E-banking service in Ethiopia lead to adopt agent banking service by its competitive advantages including technological, economic and of course by its simplicity to access. According to (Ayana, 2012), Dashen Bank commenced

delivering mobile banking service in Ethiopia for the first time to acquire E-commerce and mobile merchant transactions that allows transfer of funds from one's account to others during 2009.

2.7 Agent banking in Ethiopia

Like all other social entities financial institutions in Ethiopia are being constantly expanding with technological innovations. For instance, till recently, bank customers were used to stand in line to get financial services, but now because of the multi-channel service outlets they can perform it from anywhere at any time. Funds are transferred electronically between financial institutions and individual accounts, and between individual accounts using agent banking service (Afework, 2015).

In Ethiopia there are different banks who launches mobile and agent banking services and on NBE's pending list for the approval of the service from different technology service vendors including Bole Atlantic Mobile Wallet Technologies for United Bank S.C, Rewire for Addis International Bank, M-Fino for Dashen Bank, MOSS ICT for M-Birr, Techno Brain for Oromia International Bank, Belcash for Wegagen Bank S.C and S2M ICT for Awash International Bank and Abay International Bank S.C.

As per recent data by Belcash technology Solutions (2017), they are vending agent banking service by brand name called "Hellocash" having feature including account opening, cash depositing, cash withdrawal, bill payments, top upping mobile balance, transferring money and upcoming services like receiving international money transfers from worldwide. They currently launch their service in two banks: Lion International bank, Cooperative Bank of Oromia and one micro-finance: Somali Micro-finance. With those financial institutions, there are about 5,000 agents and 825 acceptance networks (Servicing only payments of goods and services) having around 710,000 customers running a total transaction of 3.4 million with the total value balance of 2.1 billion birr. In daily bases, they are running around 20,000 transactions with the value balance of 12 million birr.

2.8   Available Agent Banking Services VS Different Type of Users

As per the operational policy and procedure of agent banking service of Lion International Bank S.C (2015), it categorizes conventional banking service and agent banking services excluding cases regarding with loan and international banking services as follows

Table 2.1 Facilities delivered by Agent banking service.

Registered users, holding Agent banking account	Unregistered users (Customers or walking customers), not holding agent banking account but having a mobile phone
Can deposit money	Cannot deposit money
Can send money	Cannot send money
Can receive money	Can receive money
Can withdraw money	Cannot withdraw money
Can make payments via Branch & Agents	Can make payments via Branch and Agents
Can make payments directly	Cannot make payments directly

2.9   Challenges of Agent Banking

Chiteli (2013) noted that the organizations must find ways of operating by developing new competencies as the old competencies gained are quickly eroded due to changes in both internal and external environment. Because organizations cannot run away from innovation which sustains them, there is need for them to change with the changes in the environment otherwise they would be irrelevant. To ensure survival and success, organizations need to develop capability and capacity to manage threats and exploit emerging opportunities promptly. This requires formulation of competitive strategy that

refers to the positioning of a firm to maximize the value of the capabilities that distinguish it from its competitors. For instance: The Kenyan business environment has experienced many changes among them: international, privatization, increased competition, acceleration implementation of economic reforms, increased customer demands, privatization and commercialization of public sector, price decontrols and liberalization of both domestic and foreign markets.

2.9.1 Insecurity

Atandi, (2013) tries to determine the extent to which insecurity affects agent banking. It is found that there is no problem with the security situation in the assessed areas of operation, however there is fears about the security situation as robbers are likely to attack them, this makes agents close their businesses early enough hence limiting the time available for customers to transact. On the side of clients, agents argued that they had lost clients due to fear of being attacked while withdrawing or depositing large amounts, resulting them to prefer do visit traditional bank branches implies not few potential segment of the population not using the agent banking hence not accessing financial services.

According to research done by CGAP (2010), gents have been robbed in the past three years in Brazil. It is therefore critical to put in place measures to secure agents and clients.

2.9.2 Capital Availability

Capital availability affects agent banking, to be recruited as an agent one needs to have capital so as to put in place operating capital, which is held in his/her account with the principal institution. This cash is used as the agents float which must be replenished all the time as he receives deposits and also withdrawals from the clients. Large number population are left out because they can not raise this capital. This limits the spread of many agents and hence inhibits financial access. The hard economic conditions are definitely to blame for lack of affordability of starting capital (Atandi, 2013).

2.9.3 Network Instability

As per Atandi (2013) mobile network failures affects the operations of agent banking. It is admitted that agent banking depend on mobile phone network that agents and customers experiences serious mobile phone network instability challenges. This means that as observed five clients per day are turned away, based on average transactions of 10 initiated by each agent per day due to network problems. Therefore, it is found as a major problem affects almost half of the agency business. Given that agent banking can only be done from one location that is enclosed and secure, network failure completely affects the operations of agent banking.

2.9.4 Liquidity

Agents experience that they have to rush all times to the bank and replenish their accounts held with the principal institution so as to continue serving clients. If their reserves are exhausted, the agent codes are automatically deactivated, this is only activated after toping up their float at the bank, the time they move up to banks and deposit interrupts the operations of agency (Atandi, 2013)

2.9.5 Credibility/Trust

Banking being a confidential matter, requires that clients must entirely trust the bank and those carrying out transactions on their behalf. Banking agents must be trusted so as to be able to attract many clients to transact with them. Simply the principal institution must be trusted. According to Atandi, (2013), most of the agents admitted that clients trusted the bank, while some of the agents feel some customers do not trust the bank and hence don't trust them either, and therefore don't deposit their cash or even never opened an account with them.

2.9.6 Technology Acceptance

Especially in developing and underdeveloped countries, awareness to use technological advancements by end users is found as one of the major obstacle to adopt and launch services that basically require advanced technologies like agent banking which is mainly

dependent on information technology. According to Warshaw (1989), Technology Acceptance Model (TAM) assumed two sets of beliefs, i.e. Perceived Ease of Use (PEOU) and Perceived Usefulness (PU) to look at individual's technology acceptance. TAM proposes perceived usefulness (PU) and perceived ease of use (PEOU) as fundamental determinants of technological adoption where an individual's intention to use an application is predicted and explained by once perception of the technological usefulness and its simplicity.

Perceived Ease of Use (PEOU): - refers to the level of degree where an individual believes that using a particular system would be free of physical and mental effort. It measures the prospective user's assessment of the mental efforts required of the use of the target applications. Confirm the positive relationships between attitude towards use and ease of use and it show that PEOU is a proven key determinant of users' intention to accept information technology (Warshaw, 1989).

Perceived Usefulness (PU): - it is related to users' perception of the degree to which using a system will be beneficial. It provides diagnostic lenses into how actual use and intention to use or attitude towards using are influenced. It relates with the cost and time saving and it considered from the perspective of improving service delivery and creating more access to users (Warshaw, 1989).

2.10 Opportunities of Agent Banking

Financial institutions have recorded an increase in their profits and Agent Banking is one of the main attributes to such huge profits. Banks are finding it cheaper to set up agents as opposed to opening a branch where they will incur extra costs of staffing, rent, electricity etc. With Agent Banking, the agent incurs almost all the costs. Agent banking has made it possible for bank products and services to penetrate areas that at first seemed impossible. With Agent Banking banks have reached even the smallest of villages. With regards to wide customer base Bank agents are paid commissions when they sign up new customers and this has led to an increase in the number of customers for banks. Banks are finding it effective to

increase their customer numbers in this manner as opposed to using sales people (Lehman, 2010)

Mobile and Agent Banking business increased income through commission; bank agents are usually awarded commissions whenever they perform transactions on behalf of the bank. Increased customer traffic brings additional benefits to the agent; the increased traffic brought about by customers performing banking activities also translates to more people getting to know your business hence more sales, the question comes at the initial stage there might not be sufficient number of customer who frequently visit the agent premises (Chiteli 2013).

2.10.1 Deposit Mobilization

Deposit, is a main source for providing loans and so are important financial source of banks.

Banks make profit using their deposits: Mahendra (2005) said that deposits provide most of the raw materials for bank loans and thus represent the ultimate source of the bank's profits and growth. Banks make profit by using their deposits, therefore it is said that depositors can disciple banks. Maria and Sergio (2001), found that depositors discipline banks by withdrawing deposits and by requiring higher interest rates. For depository corporations mainly deposit money banks, their principal objectives is undertaking financial intermediation to make profit and increase their shareholders value (Sheku, 2005). They achieve their objectives mainly by attracting deposits and investing the money on profitable investment portfolio.

Cheaper than raising equity: Banks, as any other business organizations, funds from debt and/or equity. In the banks context raising equity is more expensive or costly than attracting deposits. Lorenzo et al (2010) states that, if the lending channel plays a role, the deposit growth should lead to an increase in the supply of loans due to the additional source of financing for banks. As demand for loan increases because of the development work done by individuals, businesses and government, banks should extend their deposit base. When a commercial bank creates a deposit by lending to a business man, it is clearly performing a function for which it is entitled to a return in the form of interest payments (Harold, 1946).

Fund investment and/or development projects: Debt is largely held by domestic commercial banks which are funded mainly from deposits. The government demand for bank assets enabled banks to continue to expand their deposit base rapidly and profitably (Herald and Heiko, 2009). Individual investors and government are mainly depend on the deposits of banks to fund their investments and/or development projects.

Generally, the banking system can be viable only if it can mobilize deposits at the required rate. And this can be done only by making a bank deposit more attractive (V. V. Bhatt, 1970). Hence, its an opportunity for financial institutions in commencing Agent Banking service since it can be referred as one additional source of deposit mobilization.

2.10.2 Financial Inclusion

Financial inclusion is provision of a broad range of high quality financial products, such as savings, insurance, credit, pensions, and payment, which are relevant, appropriate and affordable for the entire adult population, especially those low income segments. Inclusive financial sector is characterized by the level of competition between them, the diversity of financial service providers and the legal and regulatory environments that ensure integrity of the financial sector and access for all (EFInA , 2017).

Financial inclusion is the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy.(V. Leeladhar, 2005).

The difficulty in accessibility and the high cost of mainstream financial services act as a barrier to financial inclusion for many in the developing world. The convergence of banking services with mobile technologies means however that users are able to conduct banking services at any place and at any time through mobile banking services (Tashima and Khumbula, 2011). Thus, Agent Banking services offers a potential solution for the millions

of people in emerging markets that have access to a cell phone, yet remained excluded from the financial mainstream.

2.11 Review of Related Empirical Studies

Some related studies were conducted by different researchers in different parts of the world. Specifically, (Atandi, 2013) and (Chiteli, 2013) have conducted researches on the challenges and opportunities of Agent banking adoption. The aims of their study were to analyze competitive advantage of agent banking operation and investigate challenges and opportunities in implementation of same. Accordingly, they have spotted low level of internet penetration, poorly developed telecommunication infrastructure, lack of infrastructure for telecommunications, cash liquidity of agents and credibility and trust of banks among agents and end users as well.

As the concept is new for Ethiopian banking industry, very few researchers attempted to assess its opportunities contributing to the bank industries and challenges for adoption of the service. (Ayana, 2012), (Elfagid, 2015), (Kassahun, 2016) and (Afework, 2015) have been conducted a study intended to assess opportunities and challenges of adopting agent banking service and Drivers and Barriers of adopting electronic banking system in Ethiopia and point out technological factors, the services perceived benefit and risk, organizational factors in the way of financial and human resource factors, lack of suitable legal framework, competitive advantages and government support under environmental factors, inadequate banking system and high rates of illiteracy in the way of technology acceptance among challenges.

2.12 Summary and Knowledge Gap

In line with the above theoretical as well as empirical review, it can be concluded that it is of dominant importance to have in place an effective agent banking system towards enhancing financial institutions and encouraging economic development. In this regard, banks, micro finances institutions and agent banking system vendors play a leading role in the enhancement of quality customer services especially for the rural and unbanked societies.

However, limited research has been conducted in the area with a specific reference to the banking sector. Therefore, the findings of this study can contribute to the endeavor of delivering efficient and customer base services in light of contemporary initiations globally.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter presents the methodological framework applied to solve the research problem and to answer the research questions. The chapter starts with the chosen research design, research approach and study area. Afterwards, the sample selection and the data collection methods are presented.

3.1   Research design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data (Kothari, 2004).

Accordingly, the study basically follows descriptive research method which is concerned with description of the state of affairs as it exists at present. Descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way. It sets out to collect, organize, and summarize information about the matter being studied (Punch, 2006).

Accordingly, by assessing selected Ethiopian commercial banks, the study tried to describe challenges and opportunities toward effective adoption and implementation of agent banking service in Ethiopia.

3.2   Population and Sampling Techniques

In research methods, population is the entire aggregation of items from which samples can be drawn (Mattewos, 2016). Based on purposive sampling, the study only considered commercial banks leaving out the rest financial institutions. Out of 18 banks operating in Ethiopia, the researcher has opted to select a sample of 4 banks composed of government owned and private banks. Accordingly, Commercial Bank of Ethiopia, Lion International

Bank, Awash International Bank and Cooperative Bank of Oromia are considered for the assessment. The banks are selected under the assumption that they are pioneer to commence and exercise agent banking than other commercial banks in Ethiopia. Moreover, in order to get convenient data, the study participated a total of 52 respondents out of them 4 E-banking department officials from each selected banks, 12 branch heads (three from each selected banks) that perform recruiting agents and agent banking services and 36 recruited agents (three from each branches) performing agent banking services.

3.3   Source and Instrument of Data Collection

In an effort to obtain information relevant to the study, both primary and secondary data has been employed. Accordingly, in order to get primary data, survey in the form of questionnaires and interviews is prepared and conducted with selected members of commercial banks and concerned organs. In addition, secondary data documents pertaining to agent banking service of the selected commercial banks' including accessible policies and procedures, quarterly and annual report of NBE is referred. In addition to the aforementioned sources, the researcher tried to refer different books, published and unpublished documents and articles to attain the objectives of the study.

3.4   Procedure of Data Collection

In order to attain the objectives of the study, survey, interviews and document analysis was used as a method of data collection techniques. To complete the survey, quantitative data collection instrument in the form of close ended questionnaires were prepared and distributed to E-banking department, branch operation staffs and agents of selected commercial banks. In addition, qualitative data in the form of semi-structured interview was conducted with the concerned organ to obtain detailed explanations that could not be obtained through questionnaires.

3.5   Method of Data Analysis

3.5.1   Quantitative Data Analysis

After the data was collected, it was edited, coded and finally analyzed by using descriptive statistical tools. Statistical Package for Social Science (SPSS) version 2.0 was employed for data entry and analysis. Accordingly, the collected data related to Agent Banking general policies and procedures, Agent Banking implementation challenges and opportunities were analyzed using different descriptive statistics such as mean and standard deviation.

3.5.2   Qualitative Data Analysis

The part of data obtained through semi-structured interview was analyzed using narration and interpretations.

Finally, by collecting the necessary data, the researcher summarized the responses of concerned respondents and fully describes challenges and opportunities for the effective implementation of agent banking service thereby seeking answers to the research questions and achieving envisaged objectives.

CHAPTER FOUR

RESULTS AND DISCUSSION

The previous chapters dealt with general introduction of the study, review of both related theoretical and empirical literatures to identify the knowledge gap and the research methodology used to meet its objectives. This chapter presents the empirical analysis of the data collected through semi-structured interview and close ended questionnaire which was analyzed through statistical package for social science (SPSS) version 2.0. Accordingly, the chapter has two sections in which the first section contains analysis of the data collected through questionnaire while the second section deals with presenting results of the interview conducted.

4.1   Response Rate

In order to attain the study's main objective of assessing challenges and opportunities of implementing Agent Banking service in Ethiopia, a close ended questionnaire was prepared and distributed to respondents which mainly covers Agent Banking policies and procedures, challenges and opportunities of effective implementation of the service.

A total of 52 questionnaires were constructed and distributed to concerned staffs and agents of selected banks and all the questionnaires were returned after being completed. Subsequent assessments were based on a five point Likert Scale ranging from -**Strongly Disagree (1)** to **-Strongly Agree (5)** of which result is discussed below.

4.1.1   Demographic Profile of Respondents

The table below summarized demographic composition of E-banking staffs, branch operation staffs and agents of selected banks in terms of sex, age, educational level and work experience.

Table 4.1 Demographic composition of respondents.

Sex	Percent (%)
Male	64.3
Female	35.7
Age	
20-30 Years	35.7
31-40 Years	50
41-50 Years	10.7
Above 51 Years	3.6
Educational Level	
Diploma holder	35.7
First degree holder	57.1
Masters degree holder	7.1
Work Experience	
0-5 Years	25
6-10 Years	39.3
More than 10 Years	35.7

Source: Field survey report 2017

In the above table 4.1, out of 52 respondents, (64.3%) are male and (35.7%) were females between age range of 20-30 years old, 31-40 years old, 41-50 years old and above 51 took place as (35.7%), (50%), (10.7%) and (3.6%) respectively. Likewise, (35.7%), (57.1%) and (3.6%) respondents have diploma, first degree and masters degree as education level respectively. Moreover, respondents have work experience from 0-5 years, 6-10 years and more than 10 years take a portion of (25%), (39.3%) and (35.7%) respectively.

4.1.2 General Agent Banking Policies and Procedures

As part of assessing the challenges and opportunities of implementing Agent banking service in Ethiopian banking sector, the first section of the questionnaire enquired about the general Agent Banking policies and procedures of the sample commercial banks of which results are presented below.

Table 4.2 General Agent Banking policies and procedures of commercial banks

No.	Item	Mean	S.D
1	Written policy framework is adopted stating the bank's commitment to comply with agent banking obligations in accordance with applicable proclamations and laws.	5.0000	0.00000
2	Cross-country legal and regulatory differences will have impact on the adoption of new technological innovation in the banking sector like Agent Banking.	3.2500	1.70783
3	Your bank provides guidelines on the use of agent banking facility.	4.7500	0.50
4	Internal controls and procedures are in place in order to prevent criminals using the bank's facilities for other illegal activities.	5.0000	0.00000
	Overall Score	*4.5*	

Source: Field survey report 2017

According to the respondent's feedback, the selected commercial banks provide guidelines on the use of Agent Banking facility that allow end users to fully understand and operate the service delivered by their respective banks. In addition, the selected banks approve a written policy and procedure by their respective bank's board in place to perform Agent Banking service which also states the bank's commitment to comply with Agent Banking obligation in accordance with applicable proclamation and laws. Finally, internal controls and procedures are in place which helps to prevent criminals using the banks facilities for other illegal activities.

Thus, it was learned that the selected commercial banks have the required Agent Banking policy framework which is the crucial factor in effective implementation of the service.

4.1.3 Agent Banking Implementation Challenges in Commercial Banks

This second part of the questionnaire intended to enquire about the various challenges facing the selected commercial banks, branches and agents towards implementation of effective Agent Banking service as presented respectively.

4.1.3.1 Agent Banking Implementation Challenges responded by E-banking staffs

Table 4.3 Agent Banking Implementation Challenges responded by E-banking staffs

No.	Item	Mean	S.D
1	Lack of trust is considered as barriers for the adoption of agent banking system in Ethiopia.	3.25	1.5
2	Lack of technical and managerial skills in implementation and development of agent banking technology.	4.25	0.957427
3	Absence of financial networks that links different banks.	4.25	0.957427
4	There is lack of available ICT infrastructure.	4	1.154700
5	Agent banking services may not perform well because of network problems.	3.5	1
6	Delivering Agent Banking by using internet is difficult due to low internet access.	3.75	1.258305
7	Lack of legal frame works that enforce banking industries to adopt technological innovation.	3.5	1.732050
8	High cost regarding with the implementation of agent banking. (Such as cost of ICT equipment and network, software and organizational structure)	3.5	1.732050
	Overall Score	*3.75*	

Source: Field survey report 2017

As per the feedback obtained from respondents of selected commercial banks, it was observed that lack of technical and managerial skill, lack of available ICT infrastructure and absence of interoperability stands for financial network that links different banks take place as a challenge in implementation of Agent Banking service. Moreover, network problem and low internet access are observed as a hinder in delivering and performing the service.

Likewise, high operational and technical costs in terms of ICT equipment and network, software and organizational structure are indicated as a challenge in the implementation of Agent Banking service.

4.1.3.2 Agent Banking Implementation Challenges Responded by Branch Staffs

Table 4.4 Agent Banking Implementation Challenges responded by branch staffs

No.	Item	Mean	Std. Deviation
1	Agents of the bank fear risk to perform the system.	3.375	1.06066017
2	Customers of your bank fear risk to use agent banking system.	3.5	0.9258201
3	Customers do not trust the technology provided by the banks.	3.25	0.46291005
4	Agents lose confidence with the security aspects.	3.25	1.16496475
5	Customers fear to use agent banking system due to network instability.	4.125	0.83452296
6	Delivering Agent Banking by using internet is difficult due to low internet access.	4	1.06904497
	Overall Score	*3.58*	

Source: Field survey report 2017

As can be seen in the above table, the respondents indicated that network instability and low internet access which are vital part in the delivery of the service are marked as a challenge. Also, fear of customers to be part of the operation is raised as challenge of Agent Banking service implementation.

4.1.3.3 Agent Banking Implementation Challenges responded by agents

Table 4.5 Agent Banking Implementation Challenges responded by agents

No.	Item	Mean	Std. Deviation
1	Agents face liquidity problems.	3.5	0.73029674
2	Customers fear to use agent banking system due to network instability.	4.3125	0.87321246
3	Agents lose confidence with the security aspects.	3.375	0.95742711
	Overall Score	*3.73*	

Source: Field survey report 2017

As per the above respondents, network instability and cash liquidity for the operation of the service are indicated as challenges faced by agents to perform Agent Banking service.

4.1.4 Opportunities of Implementing Agent Banking Service in Commercial Banks

The last part of the questionnaire inquired respondents about opportunities of implementing Agent Banking service as presented below.

4.1.4.1 Agent Banking Implementation Opportunities Responded by E-banking Staffs

Table 4.6 Agent Banking Implementation opportunities responded by E-banking staffs

No.	Item	Mean	Std. Deviation
1	Increase deposit mobilization for the banks.	4	0.81649658
2	Enhance productivity in the banking industry.	4.25	0.95742711
3	Agent banking increase accessibility of banking services.	5	0
4	The transactions in agent banking are at a lower price, or at no cost.	2	0
5	No time limit to access bank account and information.	4.25	0.5
	Overall Score	*3.9*	

Source: Field survey report 2017

As it is indicated in the above table, by implementing Agent Banking service in Ethiopia, respondents agreed upon factors including enhancement of productivity in the banking industry, increasing in deposit mobilization for the banks and absence of time limitation to access their account are raised as opportunities of the implementation. Moreover, accessibility of banking services is indicated as a big opportunity for the end users.

4.1.4.2 Agent Banking Implementation Opportunities Responded by Branch Staffs

Table 4.7 Agent Banking Implementation opportunities responded by branch staffs

No.	Item	Mean	Std. Deviation
1	The service reduces paper work	4.5	0.53452248
2	Enhance electronic transactions	4.5	0.53452248
3	Increase deposit mobilization for the banks.	3.875	0.83452296
4	Enhance productivity in the banking industry.	4.25	0.70710678
5	Agent banking makes it easier to do banking activities.	4.5	0.75592895
6	Agent banking increase accessibility of banking services.	4.75	0.46291005
7	Using agent banking system reduces queuing customers for branch services.	4.25	0.88640526
8	The transactions in agent banking are at a lower price, or at no cost.	2.625	0.74402381
	Overall Score	*4.16*	

Source: Field survey report 2017

According to the feedback, reduction of paper work within the operating branch, enhancement of electronic transaction, reduction of customer queuing for branch services and deposit mobilization for the banks are indicated by respondents as opportunities of the implementation of Agent banking service.

Likewise, it was indicated that the service is easier and accessible for the end users rather than the conventional banking operation so as to operate banking activities elsewhere.

4.1.4.3 Agent Banking Implementation Opportunities Responded by Agents

Table 4.8 Agent Banking Implementation opportunities responded by agents

No.	Item	Mean	Std. Deviation
1	Agent banking makes it easier to do banking activities.	4.3125	0.60207973
2	Agent banking increase accessibility of banking services.	4.75	0.57735027
3	The transactions in agent banking are at a lower price, or at no cost.	2.0625	0.77190241
4	No time limit to access bank account and information.	4.4375	0.62915287
	Overall Score	*3.89*	

Source: Field survey report 2017

As responded by agents, they are agreed that the service is accessible anywhere, it is easier to do banking activities and has no time limit to access their account and information are indicated as opportunities of the implementation of Agent Banking service.

On the other hand, towards meeting the study's outlined objectives, interview was conducted with the selected banks E-banking department staffs. Accordingly, a total of five questions were forwarded of which results are presented below.

The first question raised was regarding with available services delivered by the bank department. Accordingly, in was learned that all the selected respondents deliver E-banking services including ATM, Mobile banking, POS and Agent Banking services. However, Internet banking which is the latest service delivery channel is delivered by two of the responding banks Awash International Bank and Commercial Bank of Ethiopia.

The second question was concerned with the availability of legal framework at NBE to enforce banking industries to use E-banking technology. Consequently, the interview conducted revealed that directives regarding with enforcement to establish E-banking department is not yet available. However, any bank is allowed to employ its own E-banking technology and establish a department to perform its services by fulfilling certain requirements including preparation of policies and procedures regarding with the available services.

The third question enquired whether there is any special rule so as to guide banking industries in the implementation of the service. Accordingly, it was indicated that there is a NBE directive number FIS/01/2012 which allows financial institutions to conduct the Mobile and Agent Banking services which currently serve as a governing rule for the implementation of the service. But any modification regarding with the implementation of the service made by any of the institutions needs the approval of NBE.

The fourth question forwarded enquired whether there is challenges regarding with implementation of the service reported by branches and agents. Accordingly, many challenges was pointed out by respondents including lack of telecom infrastructure which is crucial for delivery of the service, change resistance culture of the society to be turned to

cashless society, lack of awareness of the service, commission issue raised by customers and agents and lack of willingness of prospective agents to be recruited due to various requirements stated under agent due diligence required for knowing your customer (KYC) purpose. Likewise, since the technology is developed and provided by other vendors, it was indicated that lack of enthusiasm and recognition of the service as part of their institutions facility among operational staffs.

Moreover, it was indicated that time is not an issue for most of the society to get banking services by queuing at branches which contradict with the objective of Agent Banking services.

The fifth and final question asked was what benefits the institutions gained by delivering the services. Consequently, respondents raise many benefits including marketing benefits in the form of branding and promotion, increase expansion and accessibility of banking services, it served as additional source of deposit mobilization, increase customer base for the institutions, reduction of operational cost and reduction of costs for branch expansion. Furthermore, financial inclusion, digitalization of payments, simplicity, convenience and system security are indicated as benefits.

CHAPTER FIVE
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1   Summary of Findings and Conclusion

Agent banking service has become interesting for many developing and under developed countries having large rural and unbanked population. To this end, the study aimed to assess the challenges and opportunities of implementation of Agent Banking service in Ethiopian banking sector. Accordingly, the following conclusions are drawn from the analysis in the preceding chapter:

➢ There is a written policy framework that guides financial institutions to oblige in accordance with applicable proclamations and laws.

➢ A cross-country legal and regulatory difference doesn't have impact on the adoption of new technological innovations.

➢ Selected institutions have internal controls and procedures to prevent illegal actions regarding with Agent Banking facilities.

➢ There is lack of technical and managerial skills in implementation Agent Banking service.

➢ Deficiency exists in the financial network that links different banks.

➢ Poor ICT infrastructure hinders the delivery of the service.

➢ It is costly to implement Agent Banking due to high cost of ICT equipment and network, software and organizational structure.

➢ Telecom network instability and low internet access makes the delivery of the service challenge full.

➢ Liquidity is part of the challenge faced by agents.

➢ Pricelists in the form of commission designed by financial institutions is not attractive by end users.

➢ Change resistance culture of the society makes the implementation and delivery of the service so difficult.

➢ Prospective agents are not attracted to be part of the business due to various requirements stated under agent due diligence required for knowing your customer (KYC) purpose.

➢ Deposit mobilization, accessibility of banking services, simplicity, reduction of operational cost and reduction of costs for branch expansion are stated as benefits.

Having its own positive contribution to the economy as well as to the society, the emphasis given to implementing Agent Banking services efforts by commercial banks is low resulting from low level technical and managerial skills, absence of financial networks among banks, low internet access and network instability and lack of awareness creation of the service to the society by the service deliverer. Moreover, commission and liquidity issue among agents and end users hinder the smooth delivery of the service.

Finally, it can be concluded that although Ethiopia has made a significant progress in terms of launching, promoting and delivery of the service, many gaps still remain in being one of a developing nation having effective and efficient Agent banking service so as to reach the unbanked society who takes a greater portion of the population.

5.2 Limitation of the study

In the course of conducting the research, the researcher confronted limitations of related researches conducted on the area as the issue is relatively new in Ethiopia, documents about agent banking programs and manuals, journals and publications related to the subject. Likewise, the research doesn't consider customers of the service due to time and budget limitations. Moreover, the researcher faced problems about unwillingness and negligence of some respondents.

5.3   Recommendations

In view of the research's forgoing findings, the following recommendations are forwarded**;**

➢ Since policy framework is a crucial part on the strategic plan of institutions, the researcher recommended those policies to be applied in strengthen way afterwards.

➢ Financial institutions commencing Agent Banking service should enhance their way and culture of applying controlling procedures so as to prevent illegal actions effectively.

➢ Banks should facilitate proper and continuous training courses for their employees to have adequate understanding of the Agent banking technology so as to achieve the desired objectives.

➢ Since Agent Banking service delivery is dependent on telecom technology, Ethio telecom who is a sole provider of telecom service in Ethiopia should enhance and accessible their overall services nationwide.

➢ The research recommended that bank should collaborate with financial network that links different banks to enhance their service delivery and share costs of ICT equipment and network, software and organizational structure which were indicated as a big challenge in the implementation of Agent Banking service.

➢ Banks should visit and give training to agents on how to operate the service and attract customers to open accounts and to make deposit to avoid their liquidity problems.

➢ Commission rates which are indicated as unattractive should be revised by banks in adequate form to be mutually benefited by the service delivered with end users.

➢ Banks are recommended to have continuous awareness creation for societies about the benefits of the service and operation through promotions, symposiums and a door to door community awareness.

➢ Though it is a must to fulfill agent due diligence for Knowing Your Customer (KYC) purpose to implement effective Agent Banking service, the research recommend banks to review and modify their requirements to give consideration for validity of identification cards, genuineness of permits and non-tolerable critical points

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Appendix I

(Questionnaires for E-banking department staff of the bank)

This questionnaire is prepared to collect data for the research entitled**: "Opportunities and Challenges of Agent Banking the Case of Selected Commercial Banks in Ethiopia"** as a partial fulfillment for the requirements for the Degree of Masters of Business Administration in General Management at St Mary's University.

You are kindly requested to provide appropriate and genuine data to the best of your knowledge for each question listed below. This research assures you that the information obtained is only used for academic purpose and kept confidential.

Part I :- Demographic profile of respondents

Please indicate the following by ticking (√) on the spaces provided:

1. Gender: ☐ Male ☐ Female

2. Age: ☐ 20-30 ☐ ☐ 31-40 ☐ 41-50
51-60

3. Educational level: Diploma holder ☐ First degree ☐ holder

   Masters ☐ degree

4. Work experience: 0-5 ☐ Years 6-10 Years ☐

   More than 10 Years ☐

Part II: - Questionnaires for E-banking department staff of the bank.

A. General Agent Banking Policies and Procedures: Please put a tick (√) mark to the extent that describes the general Agent Banking policies and procedure in your bank.

Key: 5=Strongly Agree, 4= Agree, 3= Neutral, 2= Disagree and 1= Strongly Disagree

No.	General Agent banking Policies and Procedures.	5	4	3	2	1
1	Written policy framework is adopted stating the bank's commitment to comply with agent banking obligations in accordance with applicable proclamations and laws.					
2	Cross-country legal and regulatory differences will have impact on the adoption of new technological innovation in the banking sector like Agent Banking.					
3	Your bank provides guidelines on the use of agent banking facility.					
4	Internal controls and procedures are in place in order to prevent criminals using the bank's facilities for other illegal activities.					

B. Agent Banking Implementation Challenges. Please put a tick (√) mark to indicate the challenges of implementing Agent banking system.

Key: 5=Strongly Agree, 4= Agree, 3= Neutral, 2= Disagree and 1= Strongly Disagree

No.	Agent Banking Implementation Challenges	5	4	3	2	1
1	Lack of trust is considered as barriers for the adoption of agent banking system in Ethiopia.					
2	Lack of technical and managerial skills in implementation and development of agent banking technology.					
3	Absence of financial networks that links different banks.					
4	There is lack of available ICT infrastructure.					
5	Agent banking services may not perform well because of network problems.					
6	Delivering Agent Banking by using internet is difficult due to low internet access.					
7	Lack of legal frame works that enforce banking industries to adopt technological innovation.					
8	High cost regarding with the implementation of agent banking. (Such as cost of ICT equipment and network, software and organizational structure)					

C. Agent Banking Implementation Opportunities. Please put a tick **(√)** mark to indicate the opportunities of implementing Agent Banking system in your bank.

Key: 5=Strongly Agree, 4= Agree, 3= Neutral, 2= Disagree and 1= Strongly Disagree

No.	Agent Banking Implementation Opportunities	5	4	3	2	1
1	Increase deposit mobilization for the banks.					
2	Enhance productivity in the banking industry.					
3	Agent banking increase accessibility of banking services.					
4	The transactions in agent banking are at a lower price, or at no cost.					
5	No time limit to access bank account and information.					

Appendix II

(Questionnaire designed for the agent recruiting/bank branch staffs)

A. Agent Banking Implementation Challenges. Please put a tick (√) mark to indicate the challenges of implementing Agent banking system.

Key: 5=Strongly Agree, 4= Agree, 3= Neutral, 2= Disagree and 1= Strongly Disagree

No.	Agent Banking Implementation Challenges	5	4	3	2	1
1	Agents of the bank fear risk to perform the system.					
2	Customers of your bank fear risk to use agent banking system.					
3	Customers do not trust the technology provided by the banks.					
4	Agents lose confidence with the security aspects.					
5	Customers fear to use agent banking system due to network instability.					
6	Delivering Agent Banking by using internet is difficult due to low internet access.					

B. Agent Banking Implementation Opportunities. Please put a tick **(√)** mark to indicate the opportunities of implementing Agent Banking system in your bank.

Key: 5=Strongly Agree, 4= Agree, 3= Neutral, 2= Disagree and 1= Strongly Disagree

No.	Agent Banking Implementation Opportunities	5	4	3	2	1
1	The service reduces paper work					
2	Enhance electronic transactions					
3	Increase deposit mobilization for the banks.					
4	Enhance productivity in the banking industry.					
5	Agent banking makes it easier to do banking activities.					
6	Agent banking increase accessibility of banking services.					
7	Using agent banking system reduces queuing customers for branch services.					
8	The transactions in agent banking are at a lower price, or at no cost.					

Appendix III

(Questionnaire designed for Agents)

A. Agent Banking Implementation Challenges. Please put a tick (√) mark to indicate the challenges of implementing Agent banking system.

Key: 5=Strongly Agree, 4= Agree, 3= Neutral, 2= Disagree and 1= Strongly Disagree

No.	Agent Banking Implementation Challenges	5	4	3	2	1
1	Agents face liquidity problems.					
2	Customers fear to use agent banking system due to network instability.					
3	Agents lose confidence with the security aspects.					

B. Agent Banking Implementation Opportunities. Please put a tick **(√)** mark to indicate the opportunities of implementing Agent Banking system in your bank.

Key: 5=Strongly Agree, 4= Agree, 3= Neutral, 2= Disagree and 1= Strongly Disagree

No.	Agent Banking Implementation Opportunities	5	4	3	2	1
1	Agent banking makes it easier to do banking activities.					
2	Agent banking increase accessibility of banking services.					
3	The transactions in agent banking are at a lower price, or at no cost.					
4	No time limit to access bank account and information.					

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Appendix IV

(Interview questions designed for E-banking department of selected banks)

This questionnaire is prepared to collect data for the research entitled**: "Opportunities and Challenges of Agent Banking the Case of Selected Commercial Banks in Ethiopia"** as a partial fulfillment for the requirements for the Degree of Masters of Business Administration in General Management at St Mary's University.

You are kindly requested to provide appropriate and genuine data to the best of your knowledge for each question listed below. This research assures you that the information obtained is only used for academic purpose and kept confidential.

Interview

Please indicate the following by ticking (√) on the spaces provided:

A. Type of your organization: State owned bank _____Private bank_____

B. position, please Specify_____

> **Part I:** **Interview questions designed for E-banking department of selected banks.**

1. What type of Electronic banking service do you provide? ATM, Internet banking, mobile banking, agent banking or others?

2. Are there any legal frameworks at national bank of Ethiopia to enforce banking industries to use E-banking technology such as agent banking system?

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3. Is there any special rule that guide banking industries in implementation of agent banking system?

4. What such challenges are reported from your branches and agents regarding with the implementation and operation of the service?

5. What are the benefits your institution gained from the adoption of agent banking system?

Declaration

I, the undersigned, declare that this thesis is my original work and has not been presented for a degree in any other university and that all sources of material used for the thesis have been duly acknowledged.

<u>   Tilahun Girma   </u>   _____

                Name   Signature and Date