

Declaration

I, the undersigned, declare that this research project is my original work and has not been presented for a degree award in any other university.

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This research project has been submitted for examination with my confirmation as a supervisor to the candidate.

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Ato Teshome Bekele

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Acronyms

ATM	Automated Teller Machine
CNBV	National Banking and Securities Commission
CBE	Commercial Bank of Ethiopia
DOI	Diffusion of innovation
ICT	Information Communication Technology
KCB	Kenyan Commercial Bank
NBE	National Bank of Ethiopia
PIN	Personal Identification Number

Abstract

This study aim to see the factors that influence the adoption of agent banking in commercial banks of Ethiopia. The study tries to answer research questions such as Why do commercial banks venture into agent banking? What are the factors influences the adoption of agency banking? To answer the questions descriptive study used to analyze the data gathered from the selected private banks Dashen Bank, United Bank and Lion International Bank.

The study uses different theories which have relation to the adoption of agent banking like innovation theory, agency theory and porter's competitive theory. Based on this a research frame work developed by identifying the factors as independent variable and adoption of agent banking as dependent variable. The factors identified are technology, demography, competition, regulation, consumer behavior and untapped market.

The study identifies that the factors have great influence on commercial banks to adopt agent banking since agent banking has benefit for the banks and the customers in reducing costs. Moreover, agent banking helps the banks to be competitive, widen their customer base, and enable them accessible to reach the unbanked population. The study recommends banks have to conduct technology based competition to widen their customer base by reaching the unbanked society which is the huge untapped opportunity. The regulatory body also has to see the regulation from time to time to control the risk associated with the product and revise points which might have restriction on the process.

Keywords: Adoption of Agent Banking, unbanked population, regulatory body

Chapter one

1.1. Back ground of the study

The development of information communication technology (ICT) has changed the banking industry from manual to computerized systems and enabled the sector to deliver networked services. The technology helps banks to deliver their services through different delivery channels which help them to interact with their customers. All over the world the financial sector, banks, are struggling to get a technological solution to meet the challenges of a rapidly changing environment. Ethiopian banks could not escape from this incidence since globalization obliged them to seek technological solution to survive.

New technologies have brought enormous changes to the banking sector. The advancement of technology makes the delivery of banking products and services more convenient and efficient than ever before. Banks are using the technology to deliver their service since it saves cost, and uses as a competitive advantage to support their service with new developments, helps them to be accessible with the unbanked population through different delivery channels. The banking sector has started giving its service through various channels like automatic teller machines (ATMs) and point of sale (POS) terminal as alternative beyond their branches. Following the development of mobile technology other delivery channels have been developed. One of the delivery channels which are mainly focused on accessibility of the unbanked population is agent banking.

Agent banking is an arrangement by which licensed institutions engage third parties to offer certain banking services on their behalf. Agent banking model is one in which banks provide financial services through non-bank agents such as grocery store, retail outlets, post offices, pharmacies, or lottery outlets. The national bank of Ethiopia (NBE) the supervisory body of the financial sector has issued a directive for the mobile and agent banking operation through its directive no FIS/01/2012. NBE issued the directive to strengthen the financial inclusion and widen the financial sector accessibility to the unbanked population especially the rural areas which are far distant from the areas where banking services are located. Ethiopian banks have been using electronic banking through ATMs and POS terminals to give services for their

customer beyond their branches. Now, to increase accessibility and cut costs they are in a way of adopting agent banking which has been practiced in different countries. As different studies showed agent banking has been implemented in Latin America especially in Brazil and other countries have been adopted following Brazil. From Africa Kenya has a great success with regard to the implementation of agent banking (AFI, agent banking in Latin America).

Following the NBE directive agent banking considered as one of the competitive advantage by Ethiopian banks and has got a focus. The directive issued aiming 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 regulation). The regulation is one factor which influences commercial banks to adopt agent banking.

The Ethiopian banking industry is in a stiff competition where using innovative financial services delivery channels such as agent banking as competitive advantage to win the competition. Agent banking also helps the banks in resource mobilization and broadens their customer base. Thus commercial banks to win the competition and become the first will adopt agent banking to deliver their product and services as alternative channel.

Therefore, the study tries to see the factors which influence the adoption of agent banking by Ethiopian commercial banks in case of selected banks.

1.2. Statement of the problem

The banking industry in Ethiopia is in a stiff competition where the competition pushed the banks to be innovative. Banks started to be innovative with the adoption of electronic banking in the sector. The commercial bank of Ethiopia (CBE) has started the initiation in the late 2001 but failed due to the lack of appropriate infrastructure and remain being VISA membership until Dashen Bank introduced the card payment system in 2006 (Garadachew 2010). Following this all banks have joined the electronic banking system and start to deploy delivery channels like automatic teller machines (ATMs) and point of sale (POS) terminals for the banking transactions. The National Bank of Ethiopia (NBE) issued a directive of mobile and agent banking operation to strengthen the financial inclusion and expand the financial services to the unbanked

population. This forces the banks to use agent banking as a delivery channel for their product and services.

Agency banking had a great potential to extend the distribution of financial services to poor people who are not reached by traditional bank branch networks; it lowers the cost of delivery, including costs both to banks of building and maintaining a delivery channel and to customers of accessing services like travel or queuing times.

Agent banking is a new concept for the Ethiopian banks. Even if NBE forced the banks to adopt agent banking, there are other factors which influences the banks to adopt agent banking besides the regulation. The spread of mobile technology in the country is a great opportunity for the banks to adopt the agent banking since the majority of the rural population is younger who is eager to use the technology advancement. Banks to win the competition needs to use new ideas like agent banking which enables to reach the unbanked population which is the untapped market opportunity.

Therefore, the purpose of this study focuses on establishing the factors influencing the adoption of agency banking services by commercial banks in Ethiopia.

1.3. Objective of the study

1.3.1. General objective

The Ethiopian banking industry is one of the sectors which have great contribution for the development of the country's economy. Banking plays a great role in the capital mobilization and granting financial facilities for the other business sectors. It is customary that businesses always seek new products and services to improve their positions likewise banks are venturing to agent banking business. Therefore, the general objective of this study will be identifying various factors which influence the adoption of agent banking by Ethiopian commercial banks.

1.3.2. Specific objectives

The specific objectives of the study will be

1. To establish the reason for commercial banks venturing into agent banking
2. To identify the factors that influence the adoption of agent banking
3. To evaluate the factors that affects the adoption of agent banking

1.4. Research questions

1. Why do commercial banks venture into agent banking?
2. What are the factors influences the adoption of agency banking?
3. How do the factors influence the adoption of agent banking?

1.5. Scope and limitation of the study

This study is intended to describe factors influences adoption of agent banking innovation by commercial banks in Ethiopia. Since agency banking is a new concept for the Ethiopian banking industry, the study is limited with the selected banks which have been approval by the NBE. In addition, the study is limited to the factors (variables) identified in the conceptual framework part of the study. The data sources will be both primary from questionnaires and secondary from commercial banks publications and reports. The study is limited to the banks that serve recruiters of agents but it would have been more productive if the study includes customers and agents of the service.

1.6. Significance of the study

The study has importance for commercial banks since it deals with the factors which influence the adoption of agent banking by commercial banks. The importance, advantage and disadvantage of agent banking adoption to commercial banks and customers have seen by the study. The relative challenges faced by the commercial banks identified and discussed. Generally, the study identifies the factors and seen their relationship with the adoption of agent banking where the findings will help in monitoring development and growth of agent banking.

1.7. Methods adopted

In order to attain the objective of the study and answer the research questions, the researcher used both quantitative and qualitative (mixed) research approach. The rationale of using such a mixed approach is to gather data that could not be obtained by adopting a single method and for triangulation (Creswell 2003). The study has a contribution for further studies to be made in the area by adding information. Methods of data collection will be through survey by distribution of questionnaire to the selected bank staffs to identify their intention on the adoption of agent banking. In addition to collecting of data by using questionnaire, different information and Journals will be analyzed.

Finally the data obtained from different sources analyzed by using descriptive statistics.

1.8. Structure of the paper

The research paper is divided into five chapters. Chapter one is the introduction part, which contain statement of problem, objectives of the study, research questions, research method adopted, scope & limitations of the study and significance of the research paper. Chapter two presents the literature review regarding the research area of the paper and sets out the theoretical frameworks for the research. Chapter three covers the research methodology, which contains four basic headings: first, introduce research purpose; second the research approach used in the study, third, research strategy, and finally the research method adopted. The research results and discussion will present in chapter four. The final part chapter five covers the conclusion of the paper and summary of the findings.

Chapter two

2. Literature Review

2.1. Introduction

This chapter is designed to discuss the concept of agent banking, the global development of agent banking, briefly discuss the agent banking model and the success factor of agent banking adoption worldwide. In addition, theoretical frame work and conceptual frame work of the study mentioned in this part.

2.2. The Concept of Agent Banking

A banking agent is defined as retail or postal outlet contracted by a financial institution or a mobile network operator to process clients „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). Ivatury 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 menu-driven application on their customers „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 Ivatury 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).

2.3. Global Development of Agent Banking

A banking agent is defined as a retail or postal outlet contracted by a financial institution or a mobile network operator to process clients' 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). 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

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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.

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2.4. The Agent Banking Model

Agent banking, also known as correspondent banking, is a model for delivering financial services whereby a bank partners with a retail agent or correspondent in order to extend financial services to locations for which bank branches would be uneconomical. It is a delivery channel that holds high potential for closing the delivery gap. Agent banking is a branchless banking model that allows financial institutions to use third party retail agents and leverage on ICT to provide financial services outside the traditional brick and mortar bank premises. It is a great opportunity for the banks to reach out more people in rural areas where they cannot open branches easily being a mechanism in reducing costs and boost their deposit mobilization. Banking agents can be post offices, shops, pharmacies, microfinance institutions, retail outlets, supermarkets, petrol stations and internet/communication centers.

As many literatures show agents can extend banking services like cash deposit and withdrawal, cash disbursement and cash repayment of loans, cash payment of bills, cash payment of retirement and social benefits, transfer of funds, balance enquiry, generation and issuance of mini bank statements, collection of documents in relation to account opening, loan application, credit and debit card application, collection of debit and credit cards, agent mobile phone banking services, cheque book request and collection, collection of bank mail or any other activity as central bank may prescribe being as the agreement concluded between the agent and the bank. There are certain activities against which banking agent is prohibited and these include transacting during communication failure, failure to issue receipt or acknowledgement, charging any fees, ceasing or diminishing of initial commercial activity, guaranteeing customers, offering banking services on own account, continuing banking business in existence of a criminal record or disciplinary case, offering services not included in the contract, opening accounts, carrying out loan appraisal and approvals, cheque deposit encashment, foreign exchange transactions, agents being run by a bank's employee or associate. Agent banking presents various benefits for the banks, for the customers, for the agents and for the country in which it is practiced. First and foremost, agent banking allows financial institutions to establish physical presence in rural areas, remote areas or low population density where the cost of opening a branch may not make business sense. Secondly, it allows customers to access financial services in a more familiar way than in a branch as the unbanked are not familiar with the procedures of a traditional bank branch. Thirdly, it increases the sales from customers seeking banking services while increasing the income source for the agents through the commissions or fees they get from banks. Last but not least, agent banking contributes to a more efficient and inclusive financial system by extending financial services to a wider population (Mas & Siediek, 2008).

2.5. Success Factors in Agent Banking Adoption

There are many technological and operational challenges in employing a successful agent banking strategy. Technology should be in place to enable banks and their customers to interact remotely in a trusted way through existing local retail outlets. Agent banking requires a generally good infrastructure in terms of road network, communication and information technology. Considerations should be made for areas that are hard to reach due to a poor fixed infrastructure and poor transport system. There are various risk implications of use of agents by banks.

Entrusting retail customer contact to the agents is riskier than these same functions in the hands of bank tellers in conventional bank branch. Special attention should be paid to credit risk, operational risk, liquidity risk and reputation risk. The use of retail agents potentially raises special concerns regarding consumer protection and compliance with rules for combating money laundering and financing of terrorism which deserves the institution's attention. The time lag between collection from customers and depositing the same to the bank by the retail agents generates credit risk. There are chances of customer or retail agents committing fraud, loss of bank's equipment or other property from a retail agent's premises, data leaks or data loss from hacker attacks, inadequate physical or electronic security or poor backup systems. All these factors lead to operational risk. Retail agents that are relatively small, unsophisticated and remote may not have enough cash to meet customer's requests for withdrawals and may lack experience in the more complex liquidity management required for offering financial services. When retail agents underperform or are robbed, the bank's image may suffer causing reputational risk which may also be caused by operational risks such as loss of customer records or leakage of confidential customer data, as can liquidity shortfalls in the retail agents' cash drawer. Banks bear the risks that customers are improperly identified and that they use the retail agent to launder money or channel funding to terrorists, with or without the agent's knowledge or complicity. There is need to consider all of the above risks and extend the risk management program to cover the same. Proper assessment of agent's credit worthiness and proper limit structure for agents' various activities commensurate with this assessment should be in place. Also a proper dispute resolution mechanism should be established.

There should be customer protection against risks of fraud, loss of privacy, and loss of service in order to establish trust among consumers as trust and customer confidence is the single most necessary component for growth of any branchless banking model. As it deals with a large number of first time customers with low financial literacy level, agent banking requires that adequate measures for customer protection, awareness and dispute resolution are in place. The competition amongst commercial banks to offer banking services to the population has increased greatly, thus increasing efficiency and access. Early movers are able to partner exclusively with businesses that have the largest number of local retail outlets thereby patching together a sizable agent network relatively quickly

Demographic factors for instance age, gender, income and education levels impact on the ability of customers to use their credit cards, debit cards and PIN security systems. So, banks are expected to train agents to render the service easily and here education plays a significant role to transfer technology to the user. The success of agent banking is also based on the ease of banking by the agent. In Brazil for example, the available technological network allows any agent to deposit cash received in any bank to be transferred to his own bank at no fee. Therefore, it is not necessary for an agent of one bank to travel long distances to deposit cash in his own bank branch. Availability of agent channels is vital in ensuring a wide reach by the bank through its retail agents especially in rural areas. Urban areas have various channels like shops, super markets, and pharmacies as mentioned earlier. Physical security can pose a challenge with regard to security of cash and even the people managing and working with agents. The specific security challenges are robbery, theft and fraud. Distance to the nearest bank branch may be a challenge particularly in the rural areas. In Brazil for instance, some commercial banks have accounts with other banks with branches near the location of their agents to enable their agents' bank their cash. This has solved the problem of distance. In Columbia however, an agent has to travel to his own branch to deposit cash received. While developing an agent channel for a bank presents a range of technological and operational challenges that may be new for a bank, the main challenge is strategic; understanding specifically how this new channel fits within its customer segmentation, service proposition, and branding objectives. The challenge is particularly important for banks pursuing agents as a way to offer banking services to those previously with no bank accounts. Banks will need to tackle basic financial education barriers to these potential customers, develop appropriate product that target their needs and economic means, find efficient ways to reach them with effective marketing messages and put in place a mechanism for checking customer identities as many of them may not have any form of formal education. MAs and Siediek (2008) are of the view that a bank without a large network of branches faces a challenge of failure to bank with another bank due to associated charges. Ultimately, scale and ubiquity are best achieved by tapping into shared or interoperable networks of agents that serve multiple banks; much like a POS enabled store today can accept cards from Visa or MasterCard issued by any bank in their respective associations.

2.6 Theories

Under this, the researcher discussed the theories under agency banking which guided this study. This study was based on three theories namely; porter's Generic competitive strategies, agency theory and innovation theory

2.6.1. Porter's Generic Competitive Strategies (ways of competing)

A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. These combined with the scope of activities which a firm seeks to achieve them lead to three generic strategies namely cost leadership, differentiation and focus. The focus strategy has two variants cost focus and differentiation focus. In cost leadership a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry. In differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important and uniquely positions it to meet those needs. Differentiation is aimed at the broad market that involves the creation of a product or services that is perceived throughout its industry as unique. The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. (Porter, 1985)

2.6.2. Agency theory

Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals and agents of the principals. The two problems that agency theory addresses are: (1) The problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing; and (2) The problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions.

The first scholars to propose, explicitly, that a theory of agency be created, and to actually begin its creation, were Stephen Ross and Barry Mitnick in the early, 1970s. Research on agency theory has had several findings. Most notably, an agent is more likely to adopt the goals of the principal, and therefore behave in the interest of the principal, when the contract is outcome-based. Also, when the agent is aware of a mechanism in place that allows the principal to verify the behavior of the agent, he is more likely to comply with the goals of the principal.

2.6.3. Diffusion of innovations theory

Diffusion of Innovation (DOI) Theory, developed by E.M. Rogers in 1962, is one of the oldest social science theories. It originated in communication to explain how, over time, an idea or product gains momentum and diffuses (or spreads) through a specific population or social system. Researchers have found that people who adopt an innovation early have different characteristics than people who adopt an innovation later. When promoting an innovation to a target population, it is important to understand the characteristics of the target population that will help or hinder adoption of the innovation. There are five established categories of adopters, and while the majority of the general population tends to fall in the middle categories, it is still necessary to understand the characteristics of the target population. When promoting an innovation, there are different strategies used to appeal to the different adopter categories. Innovators - These are people who want to be the first to try the innovation. They are venturesome and interested in new ideas. These people are very willing to take risks, and are often the first to develop new ideas. Very little, if anything, needs to be done to appeal to this population. Early Adopters - These are people who represent opinion leaders. They enjoy leadership roles, and embrace change opportunities. They are already aware of the need to change and so are very comfortable adopting new ideas. Strategies to appeal to this population include how-to manuals and information sheets on implementation. They do not need information to convince them to change. Early Majority - These people are rarely leaders, but they do adopt new ideas before the average person. That said, they typically need to see evidence that the innovation works before they are willing to adopt it. Strategies to appeal to this population include success stories and evidence of the innovation's effectiveness. Late Majority - These people are skeptical of change, and will only adopt an innovation after it has been tried by the majority. Strategies to appeal to this population include information on how many other people have tried the innovation and have

adopted it successfully. Laggards - These people are bound by tradition and very conservative. They are very skeptical of change and are the hardest group to bring on board. Strategies to appeal to this population include statistics, fear appeals, and pressure from people in the other adopter groups.

2.7 Relevance of the theories to agent banking adoption

Agent banking is a new phenomenon to the Ethiopian banks which can be considered as innovation to the banks. Relating to the diffusion theory, agency banking is an innovation which takes time to reach the mass. Innovation theory originated in communication to explain how, over time, an idea or product gains momentum and diffuses (or spreads) through a specific population or social system. Agent banking targets the rural population to deliver banking services for the unbanked society through technological advancement, using the mobile technology.

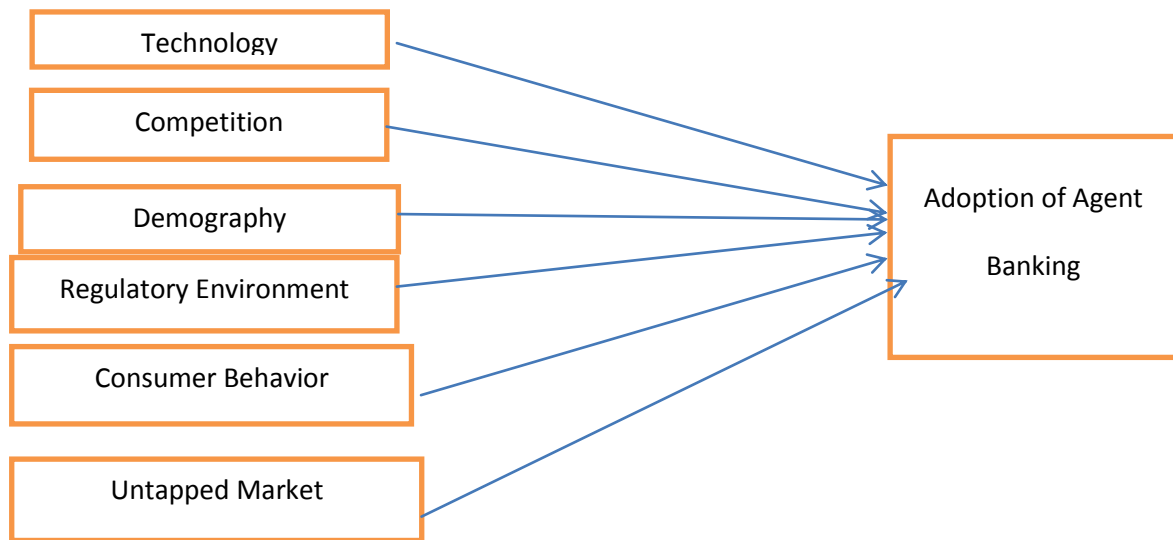
Commercial banks launch new products to gain competitive advantage over their competitors. As porters competitive advantage theory, one of the external environment considered in the business organization is competition which necessitates the designing of new ways of doing like adopting agent banking as a means of maintain competitive advantage being early adopter.

Agent banking is delivering the banking service by the agents on behalf of the financial institutions. This can be done on the basis of the agreement concluded between the two parties. This relationship clearly relates with the agency theory by considering the agents and the financial institution (principal). The NBE regulation of mobile and agent banking operation requires the existence of such relationship which can be seen the regulatory environment as a factor which forces the adoption of it.

2.8. Conceptual frame work

The researcher considering the above mentioned theories and related studies made on the adoption of electronic banking and agent banking in Ethiopia and worldwide, tries to identify the factors that influence the adoption of agent banking by Ethiopian commercial banks. The conceptual framework developed by showing the relationship of these factors against the resultant variable which is adoption of agent banking.

The independent variables are the environmental factors that drive banks in the innovation of agent banking such as technology, demography, regulatory environment, consumer behavior, competition and the huge untapped market. And the dependent variable is adoption of agent banking.



Conceptual frame work: researchers own frame work

Terms

Technology

Technology means the art of logic or the art of scientific discipline. It is a design for instrumental action that reduces the uncertainty in the cause–effect relationships involved in achieving a desired outcome. Technology is the technical means people use to improve their surroundings. It is also knowledge of using tools and machines to do tasks efficiently. We use technology to control the world in which we live. Technology involves people using knowledge, tools, and systems to make their lives easier and better. This means that technology is invented to make work easier and more effective. Any device invented and given the name technology means it makes work easier and more easily accomplished. Technology can be ancient technology or modern technology. Agency banking is a modern technology which uses recently

invented gadgets such as mobile phones and POS. Branchless banking requires the outsourcing of cash transfers to these distributed networks of agents such as small shops. Technology application requires knowledge on card readers, mobile phones, and sometimes personal computers that connect with the bank's server using a dial-up or other data connection as well as software requirements, inter-operability and protocols accepted. This determines the viability of the service by the agent. Technological factor in this study will be used to relate to mobile devices; software requires, inter-operability and protocols accepted and communications infrastructure (optimization and efficiency of bandwidth, communications interface, interference from other communications technologies). Most mobile phones have an embedded chip that can be used to store value or provide secure authorization and identification that does not rely on a card reader, PC and modem combination or a POS terminal. So, this is to see the technology as one of the factors which influence adoption of agent banking.

Regulatory environment

Due to its vested mandate in modernizing the financial sector in Ethiopia, the national bank of Ethiopia has taken the initiative to launch the national payment system which believes to facilitate the inter banking transaction and drives the entire payment system. It also advocates the core banking platform as a minimum requirement in implementing the banking service in Ethiopia. Encouraging results have been witnessed in terms of technological advancement and financial deepening of the Country. However, the majority of the rural population has still faced difficulties in accessing financial services and mainly depends on informal sources of financial services, which are sometimes not reliable enough to make a significant impact on income improvement and asset accumulation. By recognizing the imminent financial inclusion challenges attached to the cost of financial services and the distance to bank branches in remote areas, the National Bank of Ethiopia has recently issued the Mobile and Agent Banking Proclamation, which enables the use of third parties (agents) to deliver financial services. It is believed that it is an important tool for increasing access and convenience of financial services to a wide variety of target clients, particularly those who do not usually have access to formal financial institutions.

Demography

It is the study of populations, especially with reference to size and density, fertility, mortality, growth, age distribution, migration, and vital statistics and the integration of all these with social and economic conditions. Demography is one of the environmental factors which are a driving innovation in branchless banking (agent banking).

Ethiopia is the second largest population in Africa where the majority of the population is in the rural part of the country. The population is predominantly young hence can be easily being taught to adopt modern technologies.

Competition

Competition occurs when two or more organizations act independently to supply their products to the same group of consumers. The Ethiopian banking industry found in a stiff competition among the existing banks. The banks are mostly provide similar service and want to be the first in the eyes of the customer with their service. There are two bases on which firms can compete price and differentiation. Banks to be different and get competitive advantage they adapt agent banking to deliver their product and services to the target market which is the unbanked population.

Untapped market

Untapped market is demand that has not met by an existing product or brand, or a market that could use an existing product in an innovative way. An untapped market is often the impetus for product innovation or customization. Banks adopt agent banking as a new technology for the Ethiopian considering the existence of untapped market where demand for the banking service is highly needed but could not be satisfied due to infrastructure problem, inconvenience and other factors. Therefore, serving the unbanked population is the untapped market for the banks.

Consumer Behavior

Lamb, et al. (2000) define consumer behavior as the acts of decision-making which directly involve the obtaining and using need-satisfying products and services, which includes the decision-making process which precedes and determines these acts. According to Rice (1997:78),

consumers are people who use products and services and who make payment for those things which are bought.

There are several predetermining factors that influence consumer attitude towards agent banking. Ethiopia is the second largest population nation in Africa where majority of the population lived in rural areas. Due to the technology development and introduction of mobile banking technology in the rural areas banks are looking for alternative delivery channel for the unbanked population such as agent banking. Consumer behavior also influences commercial banks to adopt agent banking because consumers are always demand new ways of life and especially the young population are very much ready for efficient and convenience service supported with technology like agent banking.

Chapter three

3. Research Methodology

3.1 Introduction

This chapter outlines the research methodology that will be used for the study and describes the research design, the study population, the data collection methods and data analysis method

3.2 Research design

The main aim of this study is to conduct descriptive research in order to get as much information as possible regarding the factors which influences the adoption of agent banking by Ethiopian commercial banks. The study uses descriptive research which refers to the investigation in which data is collected and analyzed in order to describe the specific phenomena in its current trends, current events and linkages between different factors at the current time (Kothari, 2004). Descriptive research design was used because it enabled the researcher to generalize the findings to a larger population. Descriptive research obtain information concerning the current status of a phenomenon in order to describe what exists with respect to variables or conditions in a situation. Descriptive surveys also provide details of interest at a single point in time

3.3 Population study

This section describes the banking environment in Ethiopia with respect to the policy and legal framework under which the banking industry operates. The banking industry in Ethiopia is controlled by the National bank of Ethiopia (NBE) acting as the central bank of the country. There are 19 commercial banks registered under the NBE, these comprises 1 state owned banks and 18 other private commercial banks. The study will be held byselecting some private banks such as Dashen Bank, United Bank and Lion Bank which have started agent banking.

Kathuri and Pals (1993) recommend that for descriptive studies, a sample size of 100 subjects is acceptable provided that none of the sub-samples would be less than 20. Therefore, a sample size of 100 bank employees will be drawn from the 3 commercial banks to be utilized in the study. The rationale for a sample size of 100 bank staffs was to ensure thatpossible non-response was

catered for to maintain the sample size as originally designed as recommended by Kathuri and Pals (1993). Probability proportionate to size allocation of the sample will be done to ensure that banks with large number of staffs will get larger samples. The staffs that participated in the study will be picked through simple random sampling techniques. Random sampling was generally considered desirable, as all members of the population had the same chance of being selected, so results were less likely to be biased and can be generalized to the larger population of individuals (Schumacher and McMillan, 1993).

3.4. Data collection method

It is aimed to use both primary and secondary data. Primary data will be collected using self-administered questionnaire. The questionnaire will be designed in different parts to enable the researcher collect information about the banks in order to answers the research questions of the study. The data to be collected helps the researcher to know the relationship between the independent variables and dependent variable. The secondary data will be collected from the already published documents on agent banking in Ethiopian banking industry and worldwide practices.

3.5. Data analysis method

Data analysis is the application of reasoning to understand the data that have been gathered. In its simplest form, analysis may involve determining consistent patterns and summarizing the relevant details revealed in the investigation (Zimund, Babin, and Carr, 2009, pp.70). Data analysis consists of examining, categorizing, tabulating, or otherwise recombining the evidence, to address the initial proposition of a study. The researcher will analyze the data collected through survey to statistical population concerning the factors which influence adoption of agent banking. The data collected via questionnaires will be analyzed with descriptive statistics.

This study will utilize both primary and secondary data. Primary data will be collected using a self-administered questionnaire. The questionnaire will have two parts where part one is about personal and the bank information while the second part is to answer the questions on the factors influencing the adoption of agent banking. Secondary data is from the already published documents on agent banking adoption and in the Ethiopian banking Industry.

The questionnaire will be filled by the selected commercial banks head office staffs directly related to the e banking service and branches staffs since they have direct responsibility in selling the bank's product like agent banking.

The collected data will be thoroughly examined and checked for completeness and comprehensibility. The data will then summarized and analyzed to generate descriptive statistics such as means, standard deviation and frequency distribution which will be used to analyze the data. Data presentation will be done by the use of pie charts, bar charts and graphs, percentages and frequency tables. This will ensure that the gathered information clearly understood and interpreted.

Chapter Four

4 Data Analysis and Distribution

4.1 Introduction

This chapter presents data presentation, analysis and interpretation in the following sub-themes questionnaire response rate, demographic detail of the respondents, bank's profile, the likelihood of the banks to adopt agent banking and the factors influencing the adoption of agent banking. Data analysis was done using Statistical package for social scientists (SPSS) and then presented in tables.

4.2 Response Rate

The analysis revealed that out of 100 questionnaires distributed 80 were returned hence the response rate was 80%. A response return rate per category was 87.5% from Dashen bank, 74.29% from United Bank and 76% from Lion banks. According to Mugenda and Mugenda (2003) a response rate of 60% is good and a response rate of 70% and over is very good. This is shown in the table 4.1 below

Table 4.1: Response Rate

Category	No of Questionnaires Returned	Target No. of questionnaires	Frequencies	Response rate Percentage
Dashen Bank	35	40	35	87.50
United Bank	26	35	26	74.29
Lion Bank	19	25	19	76.00

Source: Research Data

4.3 Respondents' Profiles

This section shows the demographic details of the respondents. The respondents were asked to indicate their position in the bank. The results are shown in Table 4.2

Table 4.2: Positions of Respondents

Category	Frequencies	Percentage
Top management	3	3.8
Middle management	50	62.5
Lower management	27	33.7
Total	80	100

Source: Research Data

Table 4.2 shows that 3.8% of the respondents were in top management positions, 62.5% in middle management, and only 33.7% in lower management. This portrays the fact that the necessary operational framework and infrastructure were being established

Table 4.3: Year of experience in the Current Position

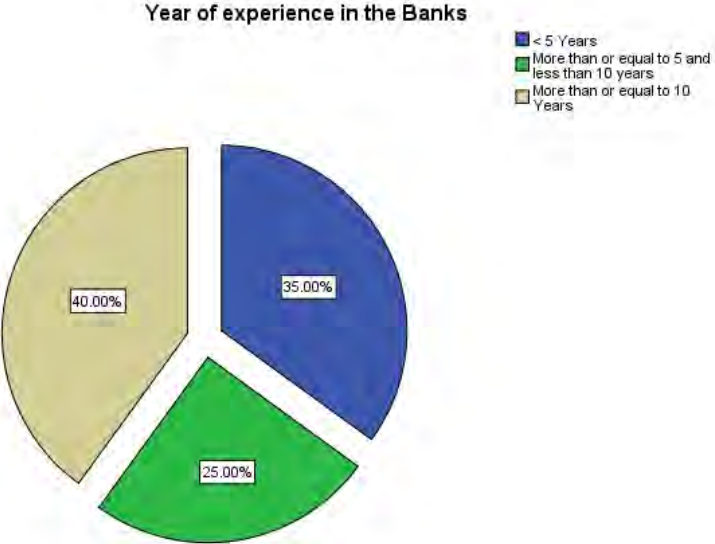
Category	Frequencies	Percentage
less than or equal to 2 Years	33	41.2
More than 2 and less than 5 Years	31	38.8
More than or equal to 5 years	16	20.0
Total	80	100

Source: Research Data

According to the findings 80% of the respondents had served in their current positions for less than 5 years, which may imply job rotation, upward career mobility, and the creation of posts arising from the introduction of agency banking.

The respondents were asked to indicate their length of service in the bank. The results are as shown in Graph 4.1 below

Graph 4.1: Year of experience in the Banks



Graph 4.1 indicates that 35% of the respondents had worked in the institution for less than 5 years, 40% for a period of 5-10 years, and 25% for more than 10 years. Therefore a majority of the staff at 65% have worked for the bank for at least 5 years. These employees must have joined the bank in the initial stages of agency banking introduction in the market thus they are fully aware or have a clue what agency banking entails.

4.4 Banks’ Profiles

The respondents were asked to indicate the number branches their respective banks have where the results are shown in Table 4.4.

Table 4.4 Branch Network

Category	Frequency	Percent
Less than or equal to 200	57	71.3
More than 200	23	28.7
Total	80	100

Source: Research Data

As shown in Table 4.4, 71.3% of the respondent responded that their banks has 200 or less branches while 28.7% replied 200 or more branch network.

The respondents were asked to indicate how many years the banks have been in operation. The results are shown in Table 4.5.

Table 4.5: How old is your bank

Category	Frequencies	Percentage
0-10 Years	21	26.3
11-20 Years	54	67.5
More than 20 Years	5	6.2
Total	80	100%

Source: Research Data

As shown in Table 4.5 the banks have less than 20 years“ service since the maximum age of private banks in Ethiopia is 21 years and all banks have taken initiative to introduce new products which are the result of technology advancement.

The respondents were asked to indicate the number of employees in the bank. The results are shown in Table 4.6.

The study sought to establish the degree to which agency banking is applicable and from findings given in Graph 4.2 above 5 % of the respondents think that agency banking is “Not applicable” which possibly imply that recruited agents were not active, 33.75% of the respondents are of the view that agency banking is applicable to moderate extent, this implies that banks have put in the place the infrastructure to implement agency banking agency. The respondents view was to a limited and moderate extent was equal 27.5%responses. Of the respondents believe that agency banking can be implemented “to a great extent “which impliesrecruiting a large number of agents was 6.25%. As shown in Graph 4.2, 67.5% for moderate, great and very great likelihood of agency banking implementation respectively indicates a high inclination towards the implementation of agency banking by most respondent banks.

4.6 Factors Affecting Agent Banking Adoption

4.6.1 Technology Factor

Technology involves application of knowledge, tools and skills to solve problems and extend human capacity (Mberia, 2009). Agency banking is a modern technology which uses recently invented gadgets such as mobile phones to operate, however technological changes and innovations have become so rapid that most organizations are playing catch up and since agency banking heavily relies on the technology platform to operate this study sought to establish how technological risks affect agency banking implementation. Respondents were asked the extent to which they agree or disagreed with some of those factors and the results are summarized in table 4.5 below

Table 4.7 Extent to which Technological Factor influence Agency banking Adoption

Factor	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD
Technology							
The level of development of ICT infrastructure and the road network significantly impacts AB adoption.	2(2.5%)	3(3.8%)	5(6.3%)	34(42.5%)	36(45.0%)	4.42	0.917
The adoption of agent banking by your bank can be considered as a technological innovation	1(1.3%)	3(3.8%)	14(17.5%)	35(43.8%)	27(33.8%)	4.05	0.884
The hardware used by the agent banking system are easy to understand by the agents and their personnel	2(2.5%)	13(16.3%)	15(18.8%)	35(43.8%)	15(18.8%)	3.60	1.051
The network failure and road infrastructure has an effect on the adoption of agent banking	3(3.8%)	3(3.8%)	5(6.3%)	42(52.5%)	27(33.8%)	4.09	0.994
The advancement of mobile technology facilitate the adoption of agent banking	1(1.3%)	3(3.8%)	7(8.8%)	40(50%)	29(36.3%)	4.16	0.834

Source: Research Data

From the findings in table 4.5 87.50% of the respondents are of the opinion that the technical level of development of ICT infrastructure and the road network significantly impacts AB adoption while 6.3% disagree with the statement and 6.3% remains neutral with the statement. 77.6% of The respondents agree to consider the adoption of agency banking as technological innovation and 5,1% are in trouble to consider it while 17.5% remains neutral. The hardware used by the agent banking system are easy to understand by the agents and personnel 43.8% of the respondents agree, 18.8% strongly agree, 18.85(disagree and strongly disagree) and 18.8% neutral position with the statement. The network failure and road infrastructure has an effect on adoption of agent banking has got agreement with 86.3% agreement(both agree and strongly agree) of the respondents, 7.6% disagreement and 6.3% neutral stand. 86.3% of the respondents agree with the advancement of mobile technology facilitate the adoption of agent banking, 5.1% disagree and 8.8% remains neutral. Generally, most of the respondents stand tends to the agreement of the statements under the technological factor which shows technology has an influence for the adoption of agent banking.

4.6.2 Demography Factor

Demography composes the gender, age, level of education, level of income, and ways of life. The demographic factor in the study tries to see the demographic factor influence on the adoption of agent banking where the details shown on table 4.6 below

Table 4.8 Extent to which Demography Factors Influence Agency Banking adoption

Demography	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	S.D
The majority of the population is rural, with little access to financial services and can be a driving force to adopt agent banking.	3(3.8%)	4(5.0%)	7(8.8%)	43(53.8%)	23(28.7%)	4	.961
The population is predominantly young, hence can easily be taught to adopt modern technologies	1(1.3%)	3(3.8%)	15(18.8%)	43(58.8%)	18(22.5%)	3.93	.823
The gender, age and academic level of the customers has an impact on adoption of Agent banking	2(2.5%)	4(5.0%)	14(17.5%)	32(40.0%)	28(35.0%)	4	.981
The demographic profile and lifestyle of customers (income, age, occupation, etc.) would assist in understanding the disposition of the general population towards agent banking	2(2.5%)	5(6.3%)	19(23.8%)	34(42.5%)	20(25.0%)	3.81	.969

Source: Research Data

Among the respondents 82.5% are in agreement with the statement that the majority of the population is rural, with little access to financial services and can be a driving force to adopt agent banking where 8.85 disagree and neutral respectively which shows that the unbanked society is an opportunity to promote alternative channel. The predominance of young population makes easy to accept modern technology facilitate the adoption of agent technology agreed by 81.3%, 18.8% disagree and only 1, 3% takes neutral stand. The gender, age and academic level

of the customers has impact on adoption of agent banking has got agreement with 75% of the respondents, 7.5% disagree and 17.55 neutral position. Most of the respondents (more than 65%) have agreed with the statements listed under the demographic factor shows that demography has great influence on the adoption of agent banking

4.6.3 Competition Factor

The Ethiopian banking industry is in a fierce competition for a limited resource in urban areas and needs to develop or adopt new technologies to win the competition. Ethiopian banks compete in branch expansion, deploying alternative channels (like agent banking, ATM, POS, mobile banking and internet banking), and expanding working hours to widen their customer base. The study tried to see that competition influences commercial banks to adopt agent banking, the details seen in the following table 4.9

Table 4.9: Extent to which Competition Factor Affect Agency Banking Adoption

Competition	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	S.D
Competition influences the adoption of agency Banking	3(3.8%)	14(17.5%)	12(15.0%)	36(45.0%)	15(18.8%)	3.58	1.100
Adoption of agent banking makes the banks competitive	1(1.3%)	2(2.5%)	8(10.0%)	41(51.2%)	28(35.0%)	4.16	.803
Adoption of agent banking makes the banks to increase their accessibility and widen their customer base to bit the competition	1(1.3%)	1(1.3%)	9(11.3%)	42(52.5%)	27(33.8%)	4.16	.770

Source: Research Data

Most of the respondents, 63.8%, have agreed that competition influences the adoption of agent banking, 21.3% disagree and 15% remains neutral. 86.2% of the respondents believe that adoption of agent banking makes the banks competitive, 3.8% disagree and 10% with neutral position. Adoption of agent banking makes the banks to increase their accessibility and widen

their customer base to win the competition statement is in agreement with 86.3% of the respondents, 2.6% disagree and 11.3% with neutral stand. Since banks are compete with the same and limited resource especially in the urban area, being accessible by introducing new delivery channel which reduces cost for both the customers and the banks to the unbanked society is a competitive advantage. Therefore competition can be considered as a factor which influences adopting of agent banking.

4.6.4 Untapped Market Factor

Agent banking allows banks to expand services into areas where they do not have sufficient capacity to establish a formal branch, which is particularly in a rural areas where a high percentage of people are unbanked. This is the untapped market where banks can considered as good opportunity to enter to widen their customer base, reduce cost and being accessible to the society. The study tried to see and the detail presented below on table 4.10

Table 4.10: Extent to which untapped market Factors Affect Agency Banking adoption

factor	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	S.D
Untapped market							
Agent banking can be considered as untouched market opportunity for the banks	1(1.3%)	1(1.3%)	6(7.5%)	45(56.35%)	27(33.8%)	4.2	.736
Agent banking helps the banks to widen their market share by reaching the unbanked which is untapped market	1(1.3%)	0(0)	7(8.8%)	40(50.0%)	32(40.0%)	4.28	.729

Source: Research Data

Agent banking can be considered as untouched market opportunity for the banks agreed by 90.15%of the respondents, 2.6% disagree and 7.5% remains neutral. 72% of the respondents agree with the statement agent banking helps the banks to widen their market share by reaching the unbanked, only 1.3% strongly disagree and 8.8% remains neutral. This indicates that agent banking can be considered as untapped market opportunity which influences banks to adopt agent banking.

4.6.5 Regulatory Environment

National Bank of Ethiopia (NBE) the regulatory body for commercial banks sets directive for the agent banking operation and respondents were asked their opinion with regard to the regulation. The responses are shown in Table 4.14 below,

Table 4.11: Extent to which regulatory Environment Affect Agency Banking Adoption

Regulatory Environment	Strongly Disagree	Dis agree	Neutral	Agree	Strongly Agree		
Existence of regulatory guidelines on agency banking positively supports AB adoption	4(5.0%)	7(8.8%)	29(36.3%)	29(36.3%)	11(13.8%)	3.45	1.005
The NBE regulation of mobile and agent banking operation is complete and friendly to apply	3(3.8%)	17(21.3%)	30(37.5%)	16(20.0%)	14(17.5%)	3.26	1.099
Agency banking will enhance access to the bank's services by both existing and new customers	2(2.5%)	2(2.5%)	6(7.5%)	51(63.7%)	19(23.8%)	4.04	.803

Source: Research Data

As table 4.11 shows 50.1% of the respondents agree that the existence of regulatory guideline on agency banking positively support adoption of agency banking, 14.3% disagree with the statement and 36.3% takes neutral position. Respondents taken equal stand for agree and neutral (37.5% for each) for the statement the NBE Regulation on mobile and agent banking is complete and friendly to apply, 25.1% of the respondents dis agrees. The highest number of respondents stands neutral being they are unclear with the details due to lack of briefing session or training and low level of awareness creation. On the other hand 87.5% of the respondents agree that agency banking enhance access to the bank's services by both existing and new customers,5% only dis agree and 7.55 remains neutral which shows that introducing alternative channel widen

the customer base. From the findings existence of regulation is supported but the regulation is tight on the due diligence.

4.6.6 Consumer Behavior

Table 4.12 Extent to which Consumer Behavior Affect Agency Banking Adoption

Consumer Behavior	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	S.D
The advancement of technology changes consumer behavior for seeking alternative delivery channels for the banking services.	3(3.8%)	1(1.3%)	14(17.5%)	41(51.2%)	21(26.3%)	3.95	0.913
Customers are ever more demanding owing to exposures to modern ways of life.	1(1.3%)	6(7.5%)	11(13.8%)	34(42.5%)	28(35.0%)	4.03	0.954
Agency banking is easy to understand and use	3(3.8%)	2(2.5%)	22(27.5%)	37(46.3%)	16(20.0%)	3.76	0.931
Agency banking should initially be experimented on a limited basis before extending it further	0(0)	5(6.3%)	14(17.5%)	44(55.0%)	17(21.3%)	3.91	0.799
Availability of appropriate agency channels influences AB adoption	2(2.5%)	4(5.0%)	13(16.3%)	48(60.0%)	13(16.3%)	3.83	0.854
Proximity and accessibility to a bank branch by the retail agents impacts AB success	2(2.5%)	3(3.8%)	18(22.5%)	42(52.5%)	15(18.8%)	3,81	0.873

Source: Research Data

Table 4.12 shows that most of the respondents agree with the statements listed under the consumer behavior. This implies that introduction of new products by the banks goes with the development of ways of life being easy to understand and easily accessible.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusion and recommendations of the research study.

5.2 Summary

The objective of this research study was to determine the factors that influence the adoption of agent banking in commercial Banks. The study tried to see the factors influencing the adoption of agent banking as technology, competition, consumer behavior, untapped market, regulatory requirement and demographic factor.

Adoption of agent banking has a benefit for the banks in reducing costs which enables them access for the unbanked population. It also gives benefit for the population by reducing cost being accessible. Agent banking is a new phenomenon for the Ethiopian banks where technology is a decisive to adopt and implement as alternative channel for the customers. This helps the banks to reduce costs in connection with the establishment of new branches. Agent banking helps the banks to reach the unbanked population and this can increase their market share by widening their customer bases. These days“ customers are more eager to use the technological advancement and the younger population especially in need of the new developments which drives the commercial banks to join the technological innovation to win the competition and satisfy their customer needs. Therefore, banks need to focus on the new product development like agent banking to enhance their customer satisfaction and reduce their cost.

The study reveals that there is a clear indication that the banking sector is enthusiastic about agent banking and the opportunity to reach the un-banked and under-banked population in otherwise remote areas.

5.3 Conclusion

The objective of the study was to establish the reason for commercial banks venturing into agent banking, to identify the factors that influence the adoption of agent banking and evaluate the factor that affects the adoption of agent banking.

The study concludes that commercial banks adopt agent banking as alternative delivery channel to provide their product and service to the customers. Commercial banks used the conventional banking way by opening branches to reach the population due to cost constraint hinder their expansion. However, agent banking as an alternative channel used them to reach the unbanked population with reduced costs. Therefore, commercial banks are eager to adopt agent banking which is an opportunity to them for rapid expansion and widening of customer base.

The study also identified factors which influences commercial banks to adopt agent banking as technology, demography, competition, untapped market, and regulation and consumer behavior. The findings revealed that the factors identified as independent variable have great influence on commercial banks to adopt agent banking (dependent variable). The development of ICT has great contribution for the implementation of agent banking. The development of modern technology creates attention on the population especially the young who are predominant taught to be easy to accept this modern technology. Commercial banks also to reach the unbanked population who has little access to financial services consider adoption of agent banking as an alternative delivery channel to deliver their product and service.

The study concludes competition has influence on commercial banks on adoption of agent banking since it helps them to win the competition by increasing their customer base and easily reach the unbanked population. Agent banking is an opportunity for the banks being it is untouched market enables banks to reach the unbanked population. The supervisory body, NBE, regulation also influences banks to adopt agent banking since the directive aims that agent banking has great contribution for the financial inclusion and widen the customer base of the banks by reaching the unbanked population.

The study concludes that these factors highly influence commercial banks to adopt agent banking since agent banking makes them accessible by the population with in the near distance. This benefits both the banks and customers in reducing cost to travel to get financial services and to

open branches which is costly. Banks adopt agent banking to be competitive using modern technology. Generally, the factors identified influences commercial banks to adopt agent banking to maintain their existence in the market and being preferred by the customers.

5.4 Recommendations

ICT has made great contribution for banks to develop alternative delivery channels, like agent banking. Agent banking requires third party participation on behalf of the banks to deliver banking activities (such as accepting deposit, effecting withdrawals, effecting loan repayment, etc.). Banks should give training for their staffs in order to make the adoption successful. The training should ensure all employees understand agent banking. For any strategy to be successfully implemented, the management needs to be supportive and ensure that all the resources required are available.

The other point to be mentioned is the regulatory aspect of agent banking. NBE has issued directive to regulate mobile banking and agent banking accordingly the supervisory body should regulate closely the banking sector and strictly enforce compliance with the agent banking guideline. The introduction of third party presents several risk factors with effective regulation and supervision of the banks and the regulator closely monitors the banking sector and strictly enforces compliance with the agent banking guide line.

Banks should have to update their technology link with agents since technology is the main link between all operations of the banks. Therefore, updating the technology link with the agents facilitate customer satisfaction.

5.5 Suggestions for Further Research

This study determined the factors that influence agent banking adoption among commercial banks in Ethiopia. However, it did not establish the impact of agent banking with regard to financial access by the un-banked population. Therefore, future research studies could be conducted to determine the extent of financial inclusion through agent banking in Ethiopia.

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Addis Ababa University

College of Business and Economics

Department of Management

Executive MBA

Questionnaire to be filled by

Dear respondent

**REQUEST FOR RESEARCH DATA ON FACTORS INFLUENCING ADOPTION
OF AGENT BANKING AMONG COMMERCIAL BANKS IN ETHIOPIA**

I am a post graduate student in the college of Business and Economics at the Addis Ababa University. I am undertaking a survey on the Factors Influencing the Adoption of Agent Banking among Commercial Banks in Ethiopia, in partial fulfillment of the requirement for the award of an Executive MBA degree.

I therefore request for your kind assistance in completing the attached questionnaire to the best of your knowledge. The information you give will be treated with strict confidence and is solely for academic purposes. Even where a name is given, it will not under any circumstances appear in the final report.

Your assistance and co-operation will be highly appreciated.

Thank you.

Tesfaye Molla

Questionnaire

Part 1

1. What is the name of your bank _____?
2. How many branches does your bank have? _____
3. How old is your bank?

0 -10 Years ()

11 – 20 Years ()

21 – 30 Years ()

Above 30 years ()

4. How many employees does your bank have? _____

5. What is your position in the bank?

Top management ()

Middle management ()

Lower management ()

6. How long have you worked in the bank? _____

7. How long have you worked in the current position? _____

8. To what extent do you consider adopting agency banking?

Not applicable () to a limited extent ()

To a moderate extent () to a great extent ()

To a very great extent ()

9. Kindly state the main factors that affect the adoption of agent banking.

Part 2

10. Kindly indicate the extent to which you agree with each of the following statements as regards the adoption of agent banking by your bank.

Factor	Strongly Disagree	Disagree	Neutral	Agree	Strongly Disagree
	1	2	3	4	5
The adoption of agent banking by your bank can be considered as a technological innovation					
The hardware used by the agent banking system are easy to understand by the agents and their personnel					
The network failure and road infrastructure has an effect on the adoption of agent banking					
Being majority in number of the younger generation will make easy the adoption of agent banking					
The advancement of mobile technology facilitates the adoption of agent banking					
Adoption of agent banking makes the banks competitive					
Adoption of agent banking makes the banks to increase their accessibility and widen their customer base					
Agent banking can be considered as untouched market opportunity for the banks					
Agency banking will enhance access to the bank's services by both existing and new customers					
Agency banking services are compatible with the bank's existing service offerings					
Agency banking is easy to understand and use					
Agency banking should initially be experimented on a limited basis before extending it further					
The level of development of ICT infrastructure and the road network significantly impacts AB adoption.					
Managing credit risk, operational risk, liquidity risk and reputation risk greatly influences AB adoption.					

Availability of physical Security has an impact provision of AB services					
Competition influences the adoption of agency Banking					
Availability of appropriate agency channels influences AB adoption					
Proximity and accessibility to a bank branch by the retail agents impacts AB success					
Existence of regulatory guidelines on agency banking positively supports AB adoption					
Education level of agents and customers has direct impact on agency banking success					
Collaboration with other banks on various aspects e.g. receiving agents deposits on behalf of other banks, has an impact on provision of AB services					

11. Kindly give any other comments you may have about agent banking

Your participation and assistance is highly appreciated!