AGENCY BANKING AND FINANCIAL PERFORMANCE OF KENYA'S LISTED COMMERCIAL BANKS

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A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS, ECONOMICS AND TOURISM IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS ADMINISTRATION (FINANCE) OF KENYATTA UNIVERSITY

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DECLARATION

This research project is my original work and has not been presented to any other university/institution.

Signature…….. Date …….……

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This research project has been submitted for examination with my approval as the University supervisor.

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DEDICATION

I dedicate this project to my dearest mum for her continuous support during this study, which has been beyond expectations. Secondly, I dedicate this project to my friend Faith Muriithi for her tireless moral support and guidance. God bless you abundantly.

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OPERATIONAL DEFINITION OF TERMS.

Agency banking: The process whereby banking services are offered by entities other than banking facilities. This implies that transactions like cash deposits and withdrawals are done by entities other than the bank.

Agency banking maintenance costs: This is the cost incurred by commercial banks to maintain an agency banking network as compared with what they could incur to open a fully-fledged branch

Agency banking network: A network of banking agencies that conduct banking services for clients across the country.

Bank regulation: Rules that regulate banking institutions within the country. These bureaucratic rules require the banks to abide by given restrictions, requirements, and guidelines designed to regulate banking institutions and ensure the financial market is transparent.

Commercial Bank: A financial institution that offers basic banking services like facilitating savings, making depositions, giving out loans, facilitating investments, and giving mortgages.

Financial accessibility: Being able to access banking/financial services like deposit, credit, insurance, and payment, as well as any other risk management service. The opposite of financial inaccessibility is unbanked which is the involuntary inaccessibility to such services.

Financial performance: Refers to a measure of financial activity. In other words, it represents the degree to which financial goals have been met. Therefore, policies and operations are evaluated to determine how successful they are in monetary terms.

Outlet: Refers to a place where agents working for or with a commercial bank conduct their financial activities.

LIST OF ABBREVIATIONS & ACRONYMS

AB	Agency Banking
ANOVA	Analysis of Variance
ATM	Automated Teller Machine
CASI	Computer-Assisted Self-Interviewing
CBK	Central Bank of Kenya
ID	Identity Card
KCB	Kenya Commercial Bank
NACOSTI	National Commission for Science, Technology and Innovation
PC	Personal Computer
PIN	Personal Identification Number
POS	Point of Sale
SAQs	Self-Administered Questionnaires
SBM	State Bank of Mauritius
SPSS	Statistical Program for Social Sciences

ABSTRACT

Gone are the days when each banking exchange required a visit to the banking office. Money transactions have changed in form, and banks have contracted their activities to third-parties to avoid the cost associated with opening up new. Kenyan keeping money division has been quick to grasp the progressions, and in the course of the most recent seven years, a bunch of operators have so far taken up the choice. Organization banking includes various advances together for the money-related establishments to monitor the exchanges done by the retail outlet. This investigation is based on past trends whose objective is to assess agents investing in the country's business banks. This research embraced a descriptive research plan where the primary target was 18 banks in Kenya that offer banking services through Agency Banking. The research was conducted in order to close significant gaps in knowledge on this topic, especially with regard to the Kenyan agency banking sector, where no comprehensive attempts have been made to understand this aspect of the office betting on the execution of bank experts' business. Particular goals were to explore the impact of agency banking organization, agency banking networking, maintenance cost required, and impact of monetary openness related to office saving money on the budgetary performance of business banks in Kenya. The research accordingly focused on every single business bank offering agency banking in Kenya, which was eighteen as of December 2016. The research was a census survey meaning that data was collected from all the 18 Commercial banks offering agency banking in Kenya though individuals being interrogated. Essentially, both primary and secondary information was used in the research. Essential information was gathered through blended modes of data collection where face-to-face interviewing and self-completion techniques were used. CBK's annual report and supervisory reports were also used to obtain further information to determine the total number of operators registered and the value-based esteem led by the specialists. To test the legitimacy and unwavering quality of the instrument, a pilot research was likewise directed. Quantitative information gathered was investigated by the utilization of descriptive statistics using SPSS and presented through rates, standard deviations and frequencies. The findings were presented using relevant bar charts, pie graphs, diagrams, and in prose-form. Content Analysis was used to test information that is subjective or part of the information gathered from the open-ended inquiries. The research shows that the highest correlation was between agency banking network and agency banking maintenance cost, and agency banking maintenance cost and financial performance, as well as the financial performance and agency banking network. At the 0.01 level, all of these associations were significant and positive. R-squared of 0.626 and a standard error of 0.719 were reported. The study concludes that Kenya's listed commercial banks' financial performance was significantly improved through agency banking. According to the report, commercial banks should completely embrace agency banking by using better security information technologies to increase client reliability. The report also suggests that the Central Bank should think about developing a clear agency banking regulatory strategy that establishes a common platform for all financial institutions. By doing this, fair market completion can be improved. Financial institutions would be prevented from abusing their customers.

CHAPTER ONE
INTRODUCTION

1.1 Background information

In the last ten or so, commercial banks have realized that the best way to expand services to the unbanked regions and people would be through the utilization of agency banking. Mosoti and Mwaura (2014) attribute the growth in agency banking around the country to this trend. Brazil is recognized as one of the first nations to implement agency banking effectively.

According to Mwenda and Ngahu (2016), they were put into practice to reduce crowding in the bank by offering convenient and complementary financial services to its customers. Following the success of agency banking in Brazil, other Latin nations implemented it as well, including Peru, Bolivia, Venezuela, Colombia, Argentina, and Ecuador between 2005 and 2009. Agency banking was a major success in Colombia, Brazil, and Peru, demonstrating the fill potential of agency banking in offering remote financial services conveniently (Mwende, Bichanga & Hosoti, 2015).

In Africa, countries like South Africa, Uganda, and Rwanda have implemented agency banking as well, helping advance their respective banking sectors (Mosoti &Mwaura, 2014; King'ang'ai et al., 2016). Agency banking in Kenya was implemented only after the CBK (Central Bank of Kenya) publicized the prudential guidelines and rules to be followed. Since its launch in 2010, agency banking in recent times has greatly increased and improved in relation to access to banking services.

In December 2016, the Central Bank of Kenya, in its bank supervisory report, indicated that 18 commercial banks were actively operating agency banking in Kenya, having contracted 40,592 agents spread across the country (CBK, 2016).

Agency banking is critical to the success of a nation. According to Mwenda and Ngahu (2016), it is one of the main strategies aimed at initiating financial inclusion within the country. The general idea behind these strategies is to create a branchless banking distribution channel that does not rely on banking branches (Ivatury & Mars, 2008). Alongside agency banking, other branchless banking strategies that have been adopted include internet banking, mobile banking, and the use of ATMs.

Like other branchless banking techniques, agency banking is marketed as a less expensive option than traditional branch-based banking (King'ang'ai et al., 2016). It has been noted that the high costs associated with traditional banking systems have hampered the supply of financial services in underdeveloped countries (Mosoti & Mwaura, 2014). This is most likely due to the enormous expenses that commercial banks bear when providing low-income clients with modest balances who are unlikely to conduct many transactions.

The enormous expenditures are likely to make it more difficult for banks to build branches that are easily accessible to their clients. This, therefore, as noted by Veniard (2010), makes it impossible for these customers to access banking services or even travel a long distance to access these services. Nonetheless, it is important that whatever strategy a firm adopts should positively influence its financial performance. This is especially critical in the context of such a firm as a commercial bank, given the nature of its role in the overall economy.

According to Acharya, Shin, and Yorulzamer (2011), these outlets help cater to the economy's liquidity. Any move that could impact their financial performance should, therefore, be critically analyzed and the potential impact understood. This study further examined and assessed the connection between Kenyan commercial banks' financial performance and agency banking.

1.1.1 Agency Banking

The term "agency banking" refers to a bank hiring a retail location to provide specific financial services to its clients on the bank's behalf, such as deposits and cash withdrawals. This is implied by the different definitions proposed by different researchers. Mwenda and Ngahu (2016) define agency banking as an arrangement whereby official financial institutions license 3rd parties to provide banking services to remote customers.

According to King'ang'ai et al. (2016), it is a sort of branchless banking in which some of the tasks that bank employees typically complete in banking halls are handled by third parties. Individual banking institutions have made various technological developments to keep track of outlet transactions. For instance, commercial banks have introduced barcode scanners, PIN pads, point-of-sale (POS) card readers, personal computers (PCs), and mobile phone technologies.

Interesting technologies like barcode scanners are sued to instantly pay the bills or expenses incurred in facilities, including hotels, supermarkets, and so forth. Nevertheless, these technologies require not only capital investment from individual agents but also the expertise and training to acquire technological equipment. However, the process of agency banking is limited by expenses incurred in training and acquiring such equipment, which has acted as a barrier to the growth of the agent network (Ivatury, 2006).

The main parties involved in the process of agency banking include the agent’s operative operating at the POS, the bank, and the client. Before beginning any transaction, each party should verify themselves, ideally using two sources of security; as a result, the authorized agent and the consumer both have a secret PIN in addition to their card.

A bank may additionally provide each of its customers with a special secret key, which would allow the bank to authenticate itself to them before every transaction in order to prevent fake POS terminals (Ivatury & Mars, 2008).

Relationships between banks and the banking sector are being significantly impacted by agency banking. Banking has evolved beyond traditional brick-and-mortar branches where customers had to visit in person for activities such as cash withdrawals, check deposits, or account statement access. This is because of the various outlets being involved in offering banking services with the advent of agency banking.

Retailers and post officers are not only common within the country but globally. They are vital distribution networks for financial institutions. Lozano (2012), points out that the points of service include post offices in the Australian Outbacks whereby the clients are able to carry out transactions from all the banks, rural France whereby the corner stones are used by credit Agicole so as to avail the required financial services and the outlets of small lottery located in Brazil where the consumers are able to both access their social payments, and bank accounts.

1.1.2 Performance of Listed Commercial Banks

A commercial bank is a financial intermediary institution that assume stores and give praise among other money-related administrations. In Kenya, the agency banking division assumes a prevailing job in the monetary segment, especially for the preparation of reserve funds and the arrangement of credit.

During the period 2011-2016, the Kenyan keeping money framework demonstrated flexibility, which was ascribed to some degree to the low budgetary joining in the worldwide budgetary market and the concentrated supervision and sound administrative changes (Bank Supervision Annual Report, 2016).

The Central Bank of Kenya is notably focused on the growing use of agency banking in Kenya. 53,833 agents were employed nationwide by commercial banks and 2,068 by five microfinance banks (MFBs) as of December 2016. Comparing this to December 27, 2015, the previous year, when the number of agents hired by MFBs and commercial banks was 1,154 and 40,592, respectively, shows a significant increase.

The rise of the sector has been aided by the spread of agency banking, which has greatly increased access to financial services throughout Kenya. This implies that the business banks' use of agencies had increased by 33%, whereas the microfinance transactions increased by 79% (CBK, 2016).

1.2 Statement of Problem

In spite of the fact that commercial banks in Kenya and abroad have resulted to agency banking as opposed to setting up branches in rural and Semi-urban areas, questions revolving around implications on financial performance still need to be answered adequately. For instance, what are the implications of agency banking on the commercial bank’s financial efficiency? Can agency banking be employed as a growth strategy?

These and many more are questions that need to be answered adequately with respect to increased agency banking in the Kenyan Banking Industry (Otieno, 2016). Past studies conducted on agency banking have not adequately explored these questions.

Most of the past studies, such as Jaldesa, Muturi, and Sumba (2015) and Mosoti and Mwaura (2014), among others, mainly focus on the variables behind the adoption and implementation of agency banking. They, therefore, do not expound on the implications of its embrace on the financial performance of the banks. Ndiragu (2011) used quantitative data to dictate how the commercial banks' performance in the country is leveraged by agency banking.

Although most of the existing studies have adequately addressed agency banking as a concept, little has been done to include agency banking networks, agency banking maintenance cost, and financial accessibility as indicators of agency banking. In addition, the studies have a methodological gap as they do not inferentially relate different banking indicators with commercial banks' financial performance.

Given the inadequacy of the existing studies, it is thus apparent there is a need to conduct an extensive study on specific banks that have extensive agency banking with a view to investigating how agency banking and the financial performance of commercial banks in the country relate to each other.

1.3 Objectives

1.3.1 General Objective

The study's main goal was to evaluate agency banking effects on listed commercial banks' performance.

1.3.2 Specific Objectives

The study specifically sought to:

(i) Investigate the relationship between listed commercial banks in Kenya financial performance and their agency banking network.

(ii) Evaluate the relationship between listed commercial banks in Kenya performance and the agents' maintenance costs.

(iii) Assess the potential impact on listed commercial banks in Kenya financial accessibility of the relationship between agency banking and commercial bank performance.

1.4 Research Questions

The following inquiries served as the research's compass:

(i) What is the effect of agency banking network on financial performance of listed commercial banks in Kenya?

(ii) What impact does agency banking maintenance cost have on financial performance of listed commercial banks in Kenya?

(iii) What is the effect of financial accessibility associated with agency banking on financial performance of commercial banks in Kenya?

1.5 Significance of the Study

The research findings may help the commercial banks' management in decision-making on how agency banking may benefit the bank and how to best ensure this. From the research results, the banks yet to adopt agency banking cam gain useful insights as to whether it is a viable strategy to adopt or not for the bank. The study has provided recommendations on how agency banking may be enhanced to ensure improved financial performance for the bank.

The banks that have adopted agency banking may adopt the recommendations accordingly to enhance their performance. In addition, the study findings may also offer useful information to the government as the regulator through the Central Bank on the areas that may need to be improved in the regulatory framework for agency banking.

This may help to ensure that agency banking is improved to the benefit of Kenyan commercial banks, which will enhance the economic growth of the country. The findings have further helped to advance research and knowledge about agency banking and its impact on commercial banks in regard to their financial results. It extends the body of literature on agency banking. As such, scholars interested in advancing research in this field may use it as a reference.

1.6 Scope of the study

The research's main assessment was of the relationship between Kenya's commercial banks' financial performance and agency banks. In particular, it investigated the impact of agency banking network, agency banking maintenance cost, and financial accessibility associated with banking on Kenya's commercial bank's financial performance. The research covered the 18 commercial banks in Kenya that have implemented agency banking. Primary data that was utilized during this research was gathered from senior managers and the heads of agency banking in these banks. Financial statements of select institutions in the country were also assessed as a source of secondary data.

1.7 Limitations of the study

Banks are usually very conservative with information. Some were unwilling to share vital information with the researcher. The researcher, therefore, used reports from the central bank that are usually out there for the public domain.

In addition, most managers are usually on tight schedules, and getting a hold of them was a little difficult. The researcher made appointments in advance for meetings with managers. The research targeted only the implications of agency banking on commercial banks' financial performance through the effects of agency banking network, agency banking maintenance cost, and financial accessibility associated with agency banking.

However, these may not be the only effects caused by agency banking that may influence financial performance. Considering that factors like customer satisfaction were not to be involved in the study, it may be difficult to get a conclusive picture of the manner in which commercial banks have been affected by agency banking in the last few years.

1.8 Organisation of the study

This research project is organized into five chapters:

Chapter one introduces the concept of Agency Banking. The statement of problem is made clear with research objectives, the hypotheses tested, scope, and significance of the study and limitation of the study. Chapter two reviews the literature of the study by giving the theories, empirical reviews, summary of knowledge and the conceptual framework. Chapter three contains the methodologies used for the study including the target population, research instruments, sample size, sampling methodology, validity of instruments, instrument reliability, data collecting process, data analysis methods, operationalization of variables, ethical issues, references, and appendices. Chapter four focuses on the data analysis and interpretation of the findings. It shows the response rate and demographic information and is organized into sections based on both diagnostic and inferential statistics.

The findings are then categorized into both descriptive and inferential statistics. Chapter five presents the analysed findings, makes relevant conclusions from the summaries, it gives recommendations and suggestions for further research by future scholars.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This section examined the body of research that recorded hypotheses and earlier investigations pertaining to the topic under investigation. In this regard, the chapter entailed a theoretical review that encompassed the theories on which the research was grounded; an empirical review provided a review of other similar studies made before, methods used and their specific objectives, and a critique of their study. Ultimately, it provided a conceptual framework that showed how the variables included in this study related to one another.

2.2 Theoretical Review

2.2.1 Agency Theory

According to the framework, a company is viewed as a linkage of contracts that are set off by people with personal interests (Rose, 1992). Its key area of interest is the ways to find an amicable solution to disputes arising from agency relationships.

According to (Mercado-Mendez & Willey, 1995), this theory tries to find a solution where conflict arises from goals set by both the agent and the principal. When the principal is unable to verify the agent's actions, the issue has definitely escalated. Moreover, the theory also assesses the problems that may pop up in the case where there are different views of risk between the agent and the principal.

As per the framework, the key factor that motivates the principal and the bank agent is self-interest. The assumptions deduced from self-interest cast shade on the agency theory on intrinsic conflicts. Agents are said to be driven by self-interested objectives that eventually lead to departure and

conflict with the set goals by the principal (Mercado-Mendez & Willey, 1995). Their key goal is mainly to direct their effort so as to fulfill and attain the object of the principal.

The only way to reduce agency loss by the bank's principal and its agent is through anticipation of the same result. Despite stringent rules that govern the operations of the banks, they still suffer similar types of agency costs. It is the agency theory that pinpoints the bondage that prevails between the agent and the principal.

Another way of reducing the loss is by the principal having prior knowledge of activities being carried out by the agent. Collectively, what the principal ought to know is whether the agent is indeed working on his/her interest (Mercado-Mendez & Willey, 1995). The agency theory indeed provides in-depth information on the need for the association between the agents and the banks.

Banks likewise have a responsibility over their agent's actions. It is also necessary to have supervisory and monitoring strategies, which is important to avoid losses that may occur due to the agent's activities. A few dishonest agents may disregard banking procedures, thus acting contrary to its main policies. There are some instances where the agents collaborate with fraudsters to engage in card skimming. This has led to more surveillance and supervision by the banks, which have resulted in high agent costs.

However, the heinous and corrupt practices can be tamed and immensely reduced if the agents are subjected to thorough screening during the recruitment so as to see to it that the bank's values and cultures are not corrupted. This framework is applicable to this research since both the commercial bank level and their agents are self-interested entities.

The bank, acting as the principal, is interested in minimizing operations costs and thus maximizing profit while expanding the network with the agents looking forward to generating profit for themselves through the franchise. Therefore, this theory supports both agency banking maintenance cost and agency banking network, which are variables in this study.

2.2.2 Innovations Diffusion Theory

There have been studies that have been carried out for the last three decades; the most common and well-known is the one advanced by (Rogers, 2003) called 'Diffusion of Innovations.' Various disciplines have widely used the work of (Rogers. 2003) in their frameworks. According to Dooley (1999) and Stuart (2000), the disciplines that incorporated 'Political Diffusion of Innovations' included science, technology, economics, communications, and education.

Rogers (2003) defined adoption as the adoption of innovation as the most suitable option available, and rejection was defined as one not to at all adopt an innovation. Further, diffusion was deduced simply as the process where certain channels are used to communicate innovation in a definite period among social system members.

Thus, there are only four key components of the diffusion of innovations: social system, innovation, time, and communications channel. Further, Rogers (2003) added more definition of innovation as simply as a practice, an idea, or even a project that is said to be new either by a unit of adoption or by an individual.

Though innovation has been there for a long time, if individuals see it as new, then it is said to be innovation in their view. Another common and cited hindrance to the adoption of innovations is uncertainty.

Another key facet of innovation is the communication channels. As defined by (Rogers, 2003), communication can be said to be a process whereby the participants involved form and share information among themselves so as to come to a mutual understanding. The communication process is said to happen via channels between sources. Further, he defined a source as simply an individual or an institution where the message originates from.

Diffusion was defined as that form of communication that incorporates key communication aspects that include two individuals, communication channels, units of adoption, or innovation. Mass media channels included TV, radio, and newspaper. The interpersonal channels are said to be composed of two-way communication between two or more individuals. Alternatively, diffusion is seen as a social process that is inclusive of interpersonal communication relationships (Rogers, 2003). The believed characteristics of an innovation are immense factors to consider in the adoption process.

According to a report made by (Rogers, 2003), about a 49- 87% variance in the rate of adoption of innovations can be emphasized by those characteristics. Moreover, the innovation-decision type, communication channels, social system, and change agents may affect the innovation adoption rate. The framework is applicable for the research given the intention of commercial banks to reach out to their customers using the most efficient method.

The intention of introducing agency banking, according to this theory, is also a platform for innovation and inventions that lessens the process of financial services accessibility, which eventually contributes to better financial performance.

2.3 Empirical Literature

This part reviews empirical literature as guided by the research variables, which are agency banking network, agency banking maintenance cost, financial accessibility, and financial performance.

2.3.1 Agency Banking Network and Financial Performance

Podpiera (2008) investigated whether the deteriorating efficiency of cost signaled the risk of failure of commercial banks. The research revelations were that, indeed, agency banking immensely boosts geographical coverage and competitiveness as this will benefit the prevailing customers in terms of convenience in accessing banking services.

The convenience is highly attributed to the bank's agents, and together with the new service, can greatly boost the bank's clientele base above the contemporary markets. Agency banking is seen as one that has increased the accessibility of financial services, especially in the rural areas where banks have been seen as a costly operating area.

Otieno (2016), on the other hand, investigates the factors that affected the Kenya Commercial Bank's capacity to adopt agency banking. Otieno (2016) approached the issue using two key methodologies –qualitative research and a case study design. Mean and deviation were implemented in descriptive analysis. The final findings were put in a table and a narrative form. Otieno determined that the implementation of agency banking was positively related to the need to reduce costs, expand, and adopt new strategies.

However, the findings of the research differ significantly from those of Wafula (2011), who used the case of Cooperative Bank, which opted to use SACCOs rather than implement agency banking to navigate any administrative challenges they may face. In March 2015, KCB partnered with

Safaricom to introduce the KCB-Mpesa account. KCB-Mpesa account provided its users with loan facilities with flexible repayment periods. That is, clients would be allowed to borrow an amount within their loan limit and repay it within the stipulated timeframe.

These loan facilities had low-interest rates of up to 2% depending on the amount borrowed. Nonetheless, customers that qualify must actively use Safaricom and M-pesa services for a significant time period (not less than six months). In addition, the facility is only available for customers that are not listed within the Credit Reference Bureau (CRB) (Standard Digital Reporter, 2015).Again, unlike Safaricom, which prohibits its agents from working with other money transfer services (Safaricom, 2012), banking agents do not have the same regulations.

In other words, as long as a banking agent distinguishes the operations of the different banks, it can work with more than one primary bank. This reduces the high turnover of banking agents who feel that working with one bank is inconveniencing since the profit margins are low. This increases the potential for more banks to venture into agency banking within existing platform hence increasing penetration while at the same time providing the customer with more banking products and services.

2.3.2 Agency banking maintenance cost and Financial Performance

Agency banking helps reduce the cost of operations that banks tend to incur, as a result, it is one of the leading motivator of its adoption. Kakamanu and Portanova (2006) who were trying to link the cost and implementation of agency banking fronted this proposition.

This is also supported by the findings of Girma and Gorg (2009) who studied firms in the UK who tried to analyze the wages of agents working for bank outlets to determine whether it helps save some costs for the actual bank. Banks have encountered that the sending of innovation has brought down their overhead; along these lines they have been urging purchasers to utilize channels, for example, ATMS, organization saving money and web agency banking (Ketkar et al. 2012).

Since opening bank offices include immense interest in frameworks, gear, HR and security (Nir & Acharya, 2012), office agency banking could be preferable in developing markets. This is so on the grounds that organization saving money use nearby assets, framework, abilities and hardware. Office agency banking by ideals of its association to different divisions (e.g. telecom, saving money, and support) is required to observe arrangement of co-advancement endeavors from all suppliers.

The normal advancement could open wide enterprising open doors for business banks. It ought to in this manner be less expensive for money related organizations to relate with their customers by means of operators. Nevertheless, Kumar *et al* (2006) highlighted that the use of agents by banks carries a variety of risks. The use of bank branches with dedicated tellers is less risky as compared to agent outlets. Special attention should be paid to inherent risks such as operational risk.

There has been a special concern in relation to protection of the consumer and the strict compliance to the set rules to completely combat the money laundering menace and the finances directed to terror related activities, which ought to be a worry to the institutions. The time lag between collecting and depositing funds to the customer's bank creates the possibility of a credit risk. For example, there is no assurance as to whether the agent or customer intends to commit fraud leading to the loss of the agent or bank's assets.

Similarly, it creates the possibility of a data leak resulting from hacker attacks, lack of proper physical, electronic security and backup systems. This demonstrates that agency banking opens up the bank to operational risks. Simwaka, Munthali, Chiumia and Kabango (2012) investigated the impact of adoption of bank agency on bank's cost reduction found out that it enables the operators in the banking sector to cut down on the cost spent on office equipment.

The agents purchase the POS machines and mobile phones for themselves that are used to do transactions from the various outlets as they make commissions for themselves whereas the banks tend to use most of its funds to cater for the provision of staff furniture and computers used in every bank branch for the purposes of running the daily activities of the bank.

2.3.3 Financial Accessibility Associated with Financial Performance and Agency Banking

In a research on Kenya Bankers Association (KBA) cash deposit transactions are the majority of operator activities (40.9%) whereas withdrawals account for 36%. In the study, Karumba and Wafula (2019) demonstrates that clients pursue extra services through the agents including requesting credit, advance the handling and counseling of different banking items, as well as ATM transactions.

While these would offer a qualification from administrations offered by telecoms' versatile cash administrations, they need more mastery than specialists have, and greater oversight than they can receive. This inquiries the adequacy of the money related openness that organization saving money tries to upgrade. Once more, identifying operators who are fit for taking care of money exchanges proficiently has been a test for the foundations, with shoppers announcing that money is frequently rare even as security fears in outlets continue to mount (CBK Annual Report, 2012).

This could be ascribed to the truth that a number of the accessible outlets have been caught by cell phone organizations, who depend on the operators to quick track take-up of portable cash arrangements, for example, M-Pesa, Yu Cash, Airtel Money and Orange Money (CBK Annual Report, 2012).

As at 2011, over 30,000 outlets around the nation were enlisted as versatile cash exchange specialists, leaving manages an account with few organizations from which they can select the money rich tasks they have to take off office saving money show (Wafula, 2019). These could explain the partnerships between commercial banks and the mobile telecommunication companies.

Besides, agency banking has truly conveyed banks to the towns and this has accompanied it numerous focal points to the client, for example, ease of access; with many banking operators, such that you only need to cover short distances to get banking services. Therefore, the client only needs to identify the closest outlet depending on what they are referred to as locally, for example "KCB Mtaani" and "Co-op Kwajirani."

Agents are also flexible as compared to actual banks since they can operate for more hours, whereas the bank only works for a limited number of hours a day. This has turned out to be extremely advantageous particularly for individuals who are caught up with amid the day and furthermore improving money related availability particular to people living away from banks (Ndung'u, 2014).

2.3.4 Financial Performance

Kambua (2015) is one of the main studies that investigates how the performance of a bank is enhanced by agency banking. In this case, Kambua (2015) investigates how the budgetary execution of banks is enhanced by agency banking.

This was attempted by means of a spellbinding exploration plan that concentrated on 16 banks that had actualized organization saving money by at that point.

The examination used auxiliary information from general business productions, reports from and by money related organizations and CBK banks supervision reports. Yearly information was utilized for a time of three years somewhere in the range of 2012 and 2014. For thinking of ends and suggestions, both subjective and quantitative systems were used. As the number of outlets increase across the country, the financial performance of a bank expands proportionately.

This confirms the findings of studies that have found a positive connection between the number of agencies and money-related executions for the bank. It was additionally concluded from the examination discoveries that there exists positive connection in the midst of money stores, volume of stores, volume of pulls back and budgetary execution. Bank measure had a productive contact with money related execution of business banks on the grounds that as the quantity of operators builds the extent of the benefits increment consequently monetary execution.

2.4 Summary of literature review

Existing empirical studies on agency banking also have not adequately explored the implication of agency banking on financial performance so as to give comprehensive insights that can be generalized to the context of the Kenyan commercial banks.

The relationship between agency banking in the nation and the financial performance of commercial banks was examined in this study. As a result, the study evaluated the link by concentrating on how agency banking implementation affected these banks' performance.

Consequently, the study encompassed an evaluation of the maintenance expenses associated with agency banking, the impact of the agency banking network, and the financial accessibility advantages of agency banking.

2.5 Research gaps

Table 2. 1: Summary of Knowledge Gaps

Author/s	Topic	Methodology	Findings	Research Gap
Okinyi (2016)	Factors influencing the adoption of agency banking by KCB Bank Kenya Limited	The study adopted a case study design with a qualitative approach. The data was analyzed descriptively using mean and standard deviation. The findings were presented in table and narrative form.	The study established that cost reduction and the adoption of agency banking related positively. Implementation of expansion strategies and adoption of agent outlets also related positively. The study concluded that there was a constructive link between diversification strategy and adoption of agency banking.	The study did not consider cost maintenance, networking as well as accessibility of financial services as the predictors
Kambua (2015)	Influence of agency banking of financial performance of commercial banks in Kenya	Descriptive research design involving 16 banks that had adopted agency banking	An increase in the number of agents for the bank also enhanced the financial performance of the banks. Subsequently, a progressive link is established when the	This study did not consider the current variables

Author/s	Topic	Methodology	Findings	Research Gap
			sum total of agencies increase.	
Simwaka, Munthali, Chiumia and Kabango (2012)	Impact of adoption of bank agency on bank's cost reduction	Descriptive survey research design	Enables the operators in the banking sector to cut down on the cost spent on office equipment. The agents purchase the POS machines and mobile phones for themselves that are used to do transactions from the various outlets as they make commissions for themselves.	The study solely examined cost savings and ignored overall financial success as a result of agency banking.
Karumba and Wafula (2012)	Collateral lending: Are there any alternatives to the Kenyan banking industry	Descriptive survey research design	A majority of transactions are cash deposits (40.9) whereas withdrawals are only 36%. In addition, customers request for unavailable services at the agency outlets, including ATM cards, suggestions for a loan given the more intimate communication, loan processing, and guidance on the range of available bank goods	The study only sought to regular bank products that are replicated at agent level but did not address the current research questions on influence of agency banking

Author/s	Topic	Methodology	Findings	Research Gap
Ndirangu (2011)	Effect of agency banking on performance of commercial banks in Kenya	Cross-sectional survey using quantitative data	The study confirms that that the performance of commercial banks is positively affected by agency banking.	Used only quantitative data
Podpiera (2008)	Deteriorating cost efficiency in commercial banks signals in increasing risk of failure	descriptive survey research design	Agency banking improves the bank's geographical coverage and competitiveness so as this increases convenience in accessing the banking services for the prevailing customers and the potential customers.	We are yet to understand how this affects financial performance as it is not clearly shown. Again the study is carried outside Kenya in Czech Republic therefore cannot be generalized for Kenyan Banking Sector

2.6 Conceptual Framework

This section illustrates the relationship between the aspects of agency banking considered in this study and the financial performance. These forms the study's independent and the dependent variables (Figure 2.1).

Independent Variables

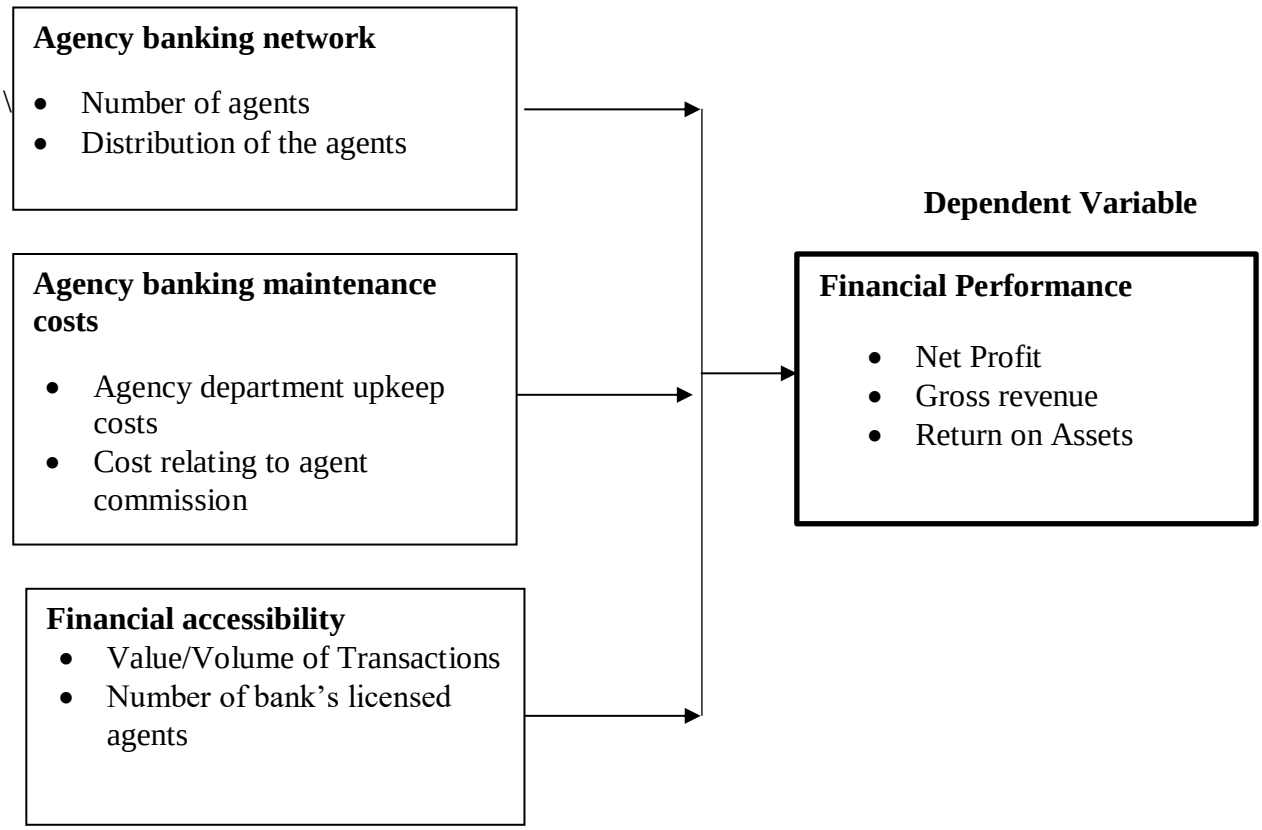


Figure 2. 1: Conceptual Framework

Source: (Researcher, 2020)

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

The data collection and analysis procedures were covered in this chapter along with the study methodology. It began by outlining the research design that will be applied. It then went on to detail the study's demographic, sampling strategy, sample size, data gathering tool, and data analysis procedures. Lastly, it described the ethical considerations that were to be observed during the study.

3.2 Research Design

This is the conceptual framework that specifies how research is to be carried out, according to Kothari (2004). It explains how data is gathered, measured, and analyzed to assess the viability of the researcher's hypothesis. Cooper and Schindler (2003) state that the proposed study design is contingent upon the pertinent research topics.

In this instance, the research employed a descriptive survey approach to gather data in order to describe the impact of this type of banking on the performance of several banks in Kenya. According to Salaria (2012), a descriptive research design focuses on the current occurrences, which is always related to beliefs, processes, connections, practices, or trends.

A descriptive design was applied for it can describe a current and ongoing situation effectively. It not only amasses and tabulates facts but also is inclusive of in-depth analysis, further interpretation, comparisons, identification of trends and relationships (Salaria, 2012). Therefore, it does not demand a researcher to introduce an intervention determine its effect, rather, it only observes what is taking place.

As a result, a researcher gains a better understanding of the issue at hand without having to interfere with it. This design helps formulate the solutions for the problem in question, which is why it was appropriate for the research purposes.

3.3 Target Population

A population is the totality of elements that the researcher hopes to make reference to in their study (Cooper and Schindler 2006). In this regard, the commercial banks with an active agent network were the target population.

Based on a CBK (2016) study, 18 commercial banks were actively operating agency banking in the country as at December 2016. This was however inclusive of Chase Bank (currently known as SBM Bank) that was put under receivership. Our population therefore were all the banks participating in agency banking which were 18 thereby using census as the whole population was considered.

3.4 Sampling Technique and Sample Size

The process of gathering information on a target group by examining a subset of the population is known as sampling (Kothari, 2004). In other words, a representative part of the population is studied intensively to determine the state of the entire population (Polit & Beck, 2004). Saunders, Lewis and Thornhill (2007) explained that sampling techniques involved the process used to collect the data of an entire population using a smaller population of a manageable size.

Purposive sampling was used to select banks with active agency banking. This technique required selecting elements of population that meet the requisite characteristics in addressing the research problem (Polit& Beck, 2004). In this regards the study selected all the 18 commercial banks with active agents as at December 2016 (CBK, 2016).

Banks are mostly in Tier I, Tier II and Tier III which will also be considered in the respondents. The study will use census on the 18 banks since the respondents are few and manageable.

3.5 Data Collection Instrument

In regards to data collection, secondary data was used alongside primary data. For primary data collection, a set of questionnaire was used (see Appendix I). According to Bulmer (2004), a questionnaire is an effective tool in social science used to collect information on the participants. In connection to the current issue under examination, it gathers information on social features, norms of behaviour or attitudes, present and previous behaviour, actions, and beliefs for action (Bulmer, 2004).Bulmer explained further that these questions must be articulated carefully and in a definite order to make it easier to make sense of it.

This data collection was suited to the current research study since it can easily communicate intended message, as well as elicit the desired response from respondents (Kothari, 2004). There were three types of questions in the questionnaire: closed-ended, open-ended, and Likert-scale. While the close-ended questions yielded more organized replies, the open-ended questions allowed the respondents to express their opinions in their own words and understanding, which helped elicit more information from them.

In order to elicit more varied replies, it was helpful to reduce linked responses by using Likert questions that assessed distinct parts of the research. As a result, both quantitative and qualitative data were gathered via the questionnaire. Secondary data was gathered from pertinent journals.

For example, the study's banks' financial performance was obtained from their most recent annual reports. Similar to this, information on the quantity of agent outlets and transactions that they handle on behalf of the various banks could be found largely in the annual reports of CBK.

In this study the variables that was of great interest and concern was mainly (1) the agents' return on assets (ROA), which is a profitability measure, (2) the deposit and cash withdrawal transactions carried out by the registered agents, (3) Cost-to-income ratio, that measured the efficiency of the cost of delegating to agent outlets on the firm's income, and (4) the cost-to-revenue ratio, that measured how the need for human input in the commercial banks has declined since adopting agency banking. Variables of interest to this study include cash deposits and withdrawals done by the agent, Cost-to-income ratio, the staff cost-to-revenue ratio, and ROA.

3.6 Data Collection Procedure

Though the questionnaires were primarily used to gather data, the methods tend to vary significantly. Some of the most common methods include:

- Self-administered questionnaires (SAQs)
- Face-to-face interviews
- Or a Web-based computer-assisted self-interviewing (Web-CASI) (Roberts, 2007).

The use of these methods depended on the convenience or accessibility of respondents (Czaja & Blair, 2004). The study included a combination of approaches for gathering data, including in-person interviews and self-completion techniques.

The participants were free to decide the method they would prefer to be applied to collect data from them. Those who preferred the self-completion method were allowed but the researcher was readily available to offer any guidance that was required during the completion of the questionnaire. The same case applied for those who preferred the face-to-face interviewing method. The researcher interviewed them by asking them the questions in the questionnaire and writing down their responses in the questionnaire.

3.7 Data Analysis

As per Saunders et al. (2009), data analysis is understood as the sorting and making sense of raw data. The information investigated in this examination was quantitative information and subjective information in accordance with the idea of the inquiries in the poll. Quantitative information was examined through calculation of illustrative measurements of rates, implies, standard deviations and frequencies, for the different informational indexes identifying with various things in the survey.

Statistical data was analysed with the help of Statistical Program for Social Sciences (SPSS) and Microsoft Excel 2013. Findings was exhibited in bar diagrams, charts, pie outlines and in addition tables. Correlation analysis and analysis of variance (ANOVA) were also used in the inferential quantifiable inquiry, which examined relapses.

How the independent factors connect to the dependent variable was shown via regression analysis. Correlation analysis aided in identifying whether a relationship existed between the variables, whether positive or negative and how strong the relationship was. ANOVA on the other hand helped compare the equality of three or more means (Higgins, 2005).

Regression equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where Y represents commercial banks' financial performance

X_1 is agency-banking network

X_2 is agency banking maintenance cost

And X_3 is financial accessibility associated with agency banking.

The coefficients for X1, X2, and X3 are β1, β2, and β3, respectively. α represents the commercial banks' financial performance when X1, X2, and X3 are maintained constant, and e denotes the error term.

On the other hand, content analysis was used to analyse qualitative data. According to Hsieh and Shannon (2005), qualitative content analysis refers to the process of analysing qualitative data by systematically classifying the data in terms of patterns and themes emanating. In this sense, the themes that the qualitative data was arranged into matched the study's goals. As a result, analysed data was interpreted purposely to address the research problem and questions effectively.

3.8 Ethical Considerations

Several ethical issues were considered when conducting this research. First, the researcher did seek approval of the National Commission for Science, Technology and Innovation (NACOSTI) to carry out this study. Furthermore, authorization from the commercial institutions was requested to be able to interview the specific employees who were needed.

For confidentiality and privacy, the researcher saw to it that any personal specific information was kept confidential. Moreover, the researcher assured the respondents that there would be no leaking of their private information to any third party whatsoever. They were also assured that no information that can be used to identify them shall be revealed to third parties. They also received assurances that the information they provided would only be utilized for academic purposes.

For anonymity of the participants, the researcher assured them that their individual identity was not to be revealed at all. This was further enhanced by ensuring their names did not appear anywhere in the questionnaire or in any other material used in the exercise. Furthermore, no identifying information about them was revealed.

Lastly, no participant was forced to take part in the research. Instead, the researcher briefed them on the nature and the purpose of the exercise in simple in clear language that was well understood. Then, the researcher explained to them the procedure to be followed when collecting data and request for their voluntary participation. Those who declined to take part were not be compelled to do so.

CHAPTER FOUR
RESEARCH FINDINGS AND DISCUSSIONS

4.1 Background

Here, data analysis and research results are presented. The chapter also interprets outcomes as guided by the research objectives. Besides first presenting the response rate and demographic information, the chapter is organized into sections based on both diagnostic and inferential statistics. The findings are then categorized into both inferential, and descriptive statistics.

4.2 Rate of Response

Table 4. 1: Response rate

Branches for Banks with Agency Banking	**Sample Size**	**Responses**	**No Responses**	**Response Rate**
Tier I	24	19	5	79.2%
Tier II	50	41	9	82.0%
Tier III	29	21	8	72.4%
Total	**103**	**81**	**22**	**78.6%**

The researcher administered questionnaires to 103 bank branches in listed Kenyan Banks based on their tier. There were 81 (78.6%) people who correctly completed and submitted the surveys. Return rate for questionnaires administered to Tier I banks were 79.2%, Tier II were 82.0% and Tier III were 72.4%.

It is suggested that for quantitative data with a sample size of 200 elements or less, a response rate of at least 65% is advisable to ensure that the responses are sufficiently unbiased (Nulty, 2008). Consequently, it was determined that the study's overall response rate of 78.6% was sufficient to extrapolate its conclusions.

4.3 Diagnostic Tests

Diagnostic tests were based on normality tests, tests for multicollinearity and heteroscedasticity test as well as test for autocorrelation. These tests were done to determine the strength of internal consistence of study variables and that of items considered in each of the study variables.

4.3.1 Normality Test

To know if the sample data had been taken from a population that was regularly distributed, the normality test was employed. Given that parametric testing relies on the underlying assumption of normal data, this evaluation was crucial. The test was completed with the use of the Normal Q-Q plot, the One-Sample Kolmogrov-Smirnov, the Shapiro-Wilk, the test of skewness, and the kurtosis tests.

Table 4. 2: Normality test

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistics	Df	Sig.	Statistic	df	Sig.
Agency banking network	0.347	81	0.159	0.931	81	0.298
Agency banking maintenance cost	0.294	81	1.442	0.835	81	0.267
Financial accessibility associated with agency banking	0.374	81	2.155	0.883	81	0.283
Financial performance	0.295	81	0.271	0.883	81	0.283

a. Lilliefors Significance Correction

A p-Value is used to assess the deviation between the observed distribution and a completely normal distribution. A distribution is considered substantially different from a normal distribution and may need further investigation if the p-Value is under0.05.

A figure of 0.05 from Table 4.2 shows that there is no discernible deviation from normalcy. The data for all variables taken into consideration in this study, as indicated in Table 4.2, was normally distributed, with p-Values for both the Shapiro-Wilk and Kolmogrov-Smirnov tests being larger than 0.05 for each variable.

Table 4. 3: Kurtosis and Skewness

	Skewness		Kurtosis	
	Statistics	Std. Errors	Statistics	Std. Errors
Agency banking network	-0.635	0.267	-0.418	0.529
Agency banking maintenance cost	-0.899	0.267	0.814	0.529
Financial accessibility	-1.114	0.267	0.958	0.529
Financial performance	-0.984	0.267	0.235	0.529

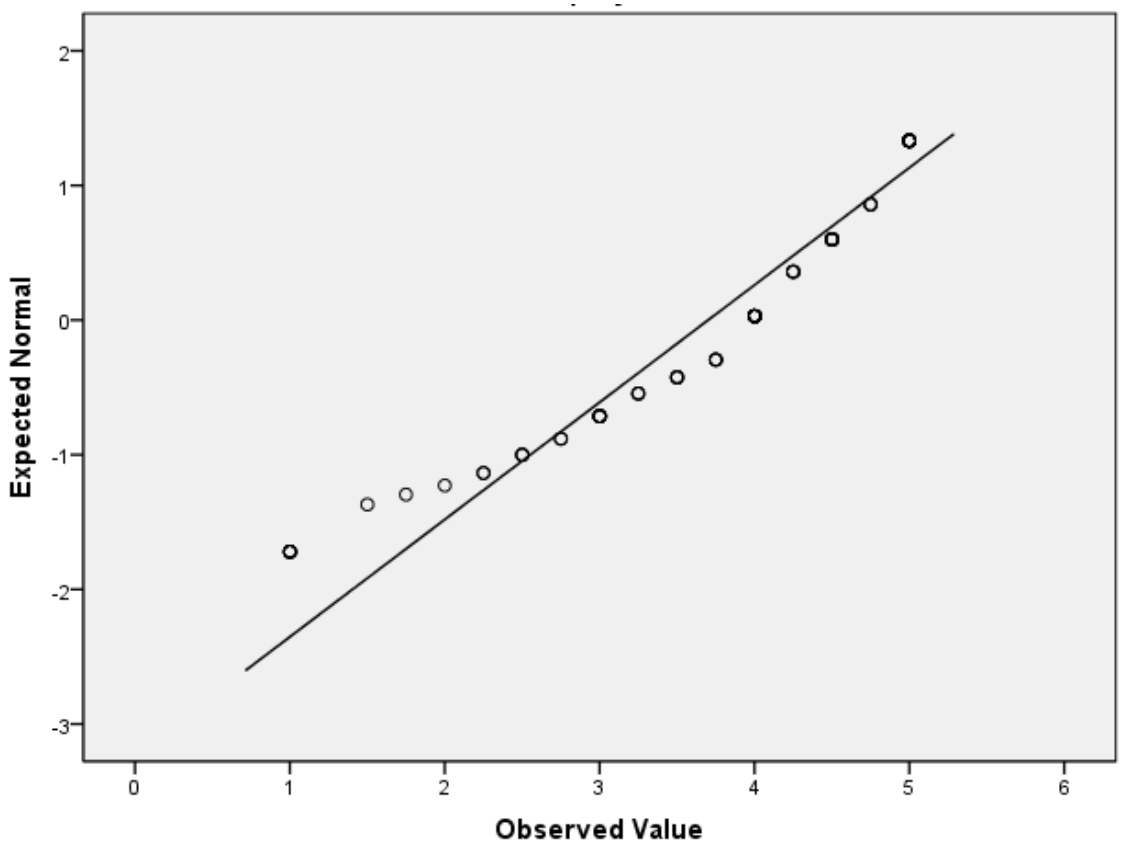
The measure of skewness in a variable's distribution determines the degree of symmetry. When a variable's values lean toward the left or right tail of the distribution, the distribution is said to be skewed. Kurtosis is a metric used to determine if a distribution has two peaks. As shown in Table 4.3, the highest skewness was witnessed on financial accessibility (-1.114) with the lowest being on agency banking network (-0.635). This implies that all variables had negatively skewed distribution.

A normal distribution pattern in the replies is indicated by a situation where both skewness and kurtosis take values of zero (a circumstance that researchers are exceedingly unlikely to experience) (Hair and colleagues, 2017). As a general rule of thumb, a distribution is considered to be severely skewed when the value of skewness exceeds +1 or decreases below -1.

When it comes to kurtosis, the basic rule is that a distribution is too leptokurtic or highly peaked if the value is greater than +1, and it is too flat or platykurtic if the value is less than -1.

Non-normal distributions are defined as those with skewness and/or kurtosis values higher than these suggested bounds. This therefore confirms that all the variables were drawn from a normally distributed population.

Figure 4. 2: Normal Q - Q plot (Financial Performance)



It was necessary to subject banks' financial performance for further normality test given that violation of normality is not a problem for the predictors but for the dependent variable. Further, distribution of (Y) depends on the predictors and therefore the assumptions for the model state that the errors are normal since it (Y) is the only random variable in the model other than the errors (Tabachinick and Fidell, 2007).

A typical Q-Q plot was used to assess this. The data points closely follow the diagonal line in the case of a normal distribution. Any departure from this line signifies data that is not typical. The data for the dependent variable showed a normal distribution, as seen in Figure 4.1. In short, a population with a normal distribution provided the sample data for this investigation. Since parametric testing is predicated on the assumption of normal data, this assessment was essential.

4.3.2 Tests for multicollinearity

Two significant metrics were examined to assess multicollinearity: tolerance and the Variance Inflation Factor (VIF). One measure of collinearity is tolerance, which is defined by SPSS as 1 minus the coefficient of determination (R^2). The variable in question is almost a linear combination of the independent variables previously included in the regression equation when tolerance takes a small value.

It is best to leave it out of the regression equation in such circumstances. In addition, the tolerance values of every variable in this linear connection are low, highlighting their strong linear correlation. The reciprocal of tolerance (1/Tolerance) is used to calculate the Variance Inflation Factor (VIF), which is always larger than or equal to 1.

No set VIF threshold has gained widespread acceptance to identify multicollinearity, but generally, VIF values exceeding 10 are often considered indicative of multicollinearity, prompting a need for further investigation.

Table 4. 4: Test for multicollinearity

Variable	Tolerance	VIF
Agency banking network	0.426	2.346
Agency banking maintenance cost	0.269	3.719
Financial accessibility associated with agency banking	0.486	2.058

a. Financial Performance: Dependent Variable:

As indicated in Table 4.4 VIF for agency banking network, agency banking maintenance cost, and financial accessibility associated with agency banking was 2.346, 3.719 and 2.058 respectively indicating little or no multicollinearity and thus all the independent variables have stable beta and should be included in the regression equation.

4.3.3 Test for Homoscedasticity

In statistics, if every random variable in a series (or vector) has the same finite variance, then the sequence is said to be homoscedastic. Homogeneity of variance is another name for this idea. Heteroscedasticity is the concept that goes against the grain. The mathematical and computer processing of data is made simpler by the assumption of homoscedasticity.

Serious departures from homoscedasticity, on the other hand—when data is misinterpreted as homoscedastic when it is heteroscedastic—may cause the Pearson coefficient to overestimate the quality of fit. The Breusch-Pagan test, was used in this work to evaluate homoscedasticity.

Table 4. 5: Breusch - Pagan Test for Homoscedasticity

Breusch -Pagan Test Statistic	Degrees of Freedom	p-Value
0.722	1	0.856

The Breusch-Pagan test is designed with a null hypothesis assuming homoscedasticity, which is presented as follows:

Null Hypothesis (H0): The data (residuals) exhibit homoscedasticity.

Alternative Hypothesis (H1): The data display heteroscedasticity.

The decision rule is as follows:

If the p-Value is less than α, the null hypothesis is rejected.

If the p-Value exceeds α, we do not reject the null hypothesis.

Here, α represents the chosen level of significance.

In this study, the test for homoscedasticity produced a p-Value of 0.856 (as shown in Table 4.5). As a result, we do not reject the null hypothesis, leading to the conclusion that the data (residuals) indeed demonstrate homoscedasticity.

4.4 Inferential statistics on the relationship between agency banking and banks' financial performance

This segment cantered on the correlation coefficient, coefficient of determination (R-squared), analysis of variance (ANOVA), and regression coefficients. The section also presents test of hypothesis on the first four hypotheses.

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This segment cantered on the correlation coefficient, coefficient of determination (R-squared), analysis of variance (ANOVA), and regression coefficients. The section also presents test of hypothesis on the first four hypotheses.

4.4.1 Correlation coefficients

The section indicates the state and magnitude of the relationship between the variable considered in this study. The tests were2-tailed at 0.05 significant level.

Table 4. 6: Correlation coefficients

		Agency banking network	Agency banking maintenance cost	financial accessibility associated with agency . .	Financial performance
Agency banking network	Pearson Correlations	1.000	.743**	.520**	.708**
	Sig. (2-tailed)		0.000	0.000	0.000
	N	81	81	81	81
Agency banking maintenance cost	Pearson Correlation	.743**	1.000	.703**	.734**
	Sig. (2-tailed)	0.000		0.000	0.000
	N	81	81	81	81
Financial accessibility associated with agency banking	Pearson Correlation	.520**	.703**	1.000	.635**
	Sig. (2-tailed)	0.000	0.000		0.000
	N	81	81	81	81
Financial performance	Pearson Correlation	.708**	.734**	.635**	1.000
	Sig. (2-tailed)	0.000	0.000	0.000	
	N	81	81	81	81

*A 2-tailed alpha score of 0.01 indicates that the association is statistically significant

*Statistical significance is achieved at the 2-tailed alpha level of 0.05 for the correlation

As per Table 4.6, the highest correlation was between agency banking network and agency banking maintenance cost (0.743), and agency banking maintenance cost and financial performance (0.734) as well as the financial performance and agency banking network (0.708**). All these relationships were positive and significant at 0.01 levels.

Other relationship were found to be having an insignificant relationship at 0.05 level including agency banking network (p-Value=0.442>0.05), agency banking maintenance cost (p-Value=0.534>0.05), and financial accessibility associated with agency banking (p-Value=0.068>0.05).

4.4.2 Coefficient of determination

Table 4. 7: R2 for relationship between agency banking and banks' financial performance

				Change Statistic					
R	R-Square	Adjusted R-Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
.792a	0.626	0.607	0.719	0.626	31.866	3	77	0.000	1.721

a. Predictors: (Constant), financial accessibility associated with agency banking, Agency banking network, Agency banking maintenance cost

b. Dependent Variable: Financial performance

The R-Square value of 0.626 and the standard error of the estimate, 0.719, are shown in Table 4.7's results. This implies that agency banking has a major impact on banks' financial performance when taking the composite score into account.

The following were the hypotheses that the Durbin Watson test was used to test:

H0 = First-order autocorrelation is absent

H1 = First-order autocorrelation (with a one-time unit lag) is present.

According to a widely accepted rule, test statistic scores between 1.5 and 2.5 are regarded as quite normal, but numbers outside of this range may be cause for worry. Field (2009) goes on to say that numbers that are more than 3 or less than 1 are unquestionably cause for worry.

The Durbin Watson statistic for this study was determined to be 1.721, which is within the range of what is considered to be pretty typical. As a result, the residuals obtained from the regression analysis showed no signs of autocorrelation.

4.4.3 Analysis of Variance

Table 4. 8: ANOVA for relationship between agency banking and banks' financial performance

	Sum of Squares	Df	Mean Square	F	Sig.
Regressions	49.536	3	16.512	31.866	.000a
Residual	39.886	77	0.518		
Total	89.422	80			

a. Predictors: (Constant), financial accessibility associated with agency banking, agency banking network, agency banking maintenance cost

b. Financial Performance (Dependent Variable)

As indicated in Table 4.8, the calculated F-statistic (with degrees of freedom 4, 76) is 31.866, surpassing the critical F-value (with degrees of freedom 4, 76) at a 2-tailed test and a 95% confidence level, which is 2.485.

Additionally, the results reveal that the p-value is 0.000, which is less than the significance level of 0.05. This further confirms that agency banking has a positively and significantly influences banks' financial performance.

4.4.4 Regression coefficients

Table 4. 2: Regression coefficients relationship between agency banking and banks' financial performance

	Unstandardized Coefficient		Standardized Coefficient		
	B	Std. Error	Beta	t	Sig.
(Constant)	0.190	0.347		0.547	0.586
Agency banking network	0.381	0.113	0.361	3.359	0.001
Agency banking maintenance cost	0.314	0.147	0.289	2.136	0.036
Financial accessibility associated with agency banking	0.253	0.109	0.234	2.324	0.023

a. Financial performance (Dependent Variable)

Findings displayed in Table 4.9 show that when all agency banking variables (that is Agency banking network, Agency banking maintenance cost, and financial accessibility associated with agency banking) are held constant, banks' financial performance will halt at 0.190.

An increase in Agency banking network, Agency banking maintenance cost, and financial accessibility associated with agency banking by a single unit would lead to rise in banks' financial performance by 0.381, 0.314, and 0.253 units respectively.

Summary is as below:

$$\boldsymbol{Y = 0.190 + 0.381X_1 + 0.314X_2 + 0.253X_4}$$

Where X_1, X_2, and X_3 represents Agency banking network, Agency banking maintenance cost, and financial accessibility associated with agency banking respectively.

4.6.5 Test of Hypotheses

$H0_1$: With a p-Value of 0.001, which is less than 0.05, and a computed t-value of 3.359, which is more than the crucial t-value of 1.990 at a 0.05 significance level for a two-tailed test, we reject the null hypothesis (H0). ***The study comes to the conclusion that the agency banking network has a significant impact on the commercial banks' financial performance in Kenya's listed commercial banks.***

$H0_2$: With a calculated t-value of 2.136, which surpasses the critical t-value of 1.990 at a 0.05 significance level for a two-tailed test, and a p-Value of 0.036, falling below 0.05, we do not accept the null hypothesis H02. ***Thus, the study concludes that the financial performance of commercial banks in listed commercial banks, is highly impacted by the maintenance costs of agency banking.***

$H0_3$: The null hypothesis H04 is rejected due to a computed t-value of 2.324, which is greater than the crucial t-value of 1.990 at a 0.05 significance level for a two-tailed test, and a p-Value of 0.023, which is less than 0.05. ***The study shows that the financial performance of listed commercial banks in Kenya, is considerably impacted by financial accessibility associated with agency banking.***

4.5 Discussion

The results demonstrate that commercial banks continuously seek to increase their agency banking market share. This increased capital savings improves the bank's capacity to manage client pricing and services. Additionally, capital savings sometimes translate into lower operational expenses, which boosts a company's competitiveness. The study also reveals that the financial performance of listen Kenyan commercial banks is significantly impacted by maintenance expenses in agency banking.

In particular, agency banking expenses have a favourable impact on the performance of commercial banks. Furthermore, agency banking takes less time than traditional banking, and agents' past expertise with bank clients favourably correlates with both performance metrics. Additionally, compared to physical banks, banking options, agency banking has cheaper transaction fees.

Moreover, the analysis suggested that banking agencies' favourable transaction costs functioned as a locking mechanism in comparison to primary bank branches. Because most clients preferred to use local banking agencies as a result of this strategy, local agency banking was able to remain viable and even improved slightly. The study findings agree with Calleo (2014) argument that low cost of service in commercial banks increases the number of transactions and hence improvement of financial performance.

The study found a significant correlation between the financial performance of listed Kenyan commercial banks and the availability of financial services through agency banking. It was also discovered that the use of agency banking in financial systems has spread very quickly around the world.

Financial services are now much more accessible and available to clients who live in rural places because to this expansion. Commercial banks' operational expenses have also decreased as a result of agency banking. Finally, it has enormous promise for giving under banked populations' access to financial services.

Furthermore, the research findings indicate that agency banking facilitates commercial banks' outreach to prospective customers by eliminating the necessity for substantial branch network expenditures. It is an economical method, makes growth easier, and expands the channels of distribution for providing financial services, all of which enhance the organization's overall performance.

The main motivation for using agency banking is to cut expenses related to operations. According to Kakumanu and Portanova (2006), agency banking is driven mostly by the need to reduce operating costs. Furthermore, Girma and Gorg (2009) showed a significant association between high pay and the pursuit of agency partnerships in a study of agency banking carried out by UK enterprises, highlighting the significance of cost-saving objectives.

Banks have encountered that the sending of innovation has brought down their overhead; along these lines they have been urging purchasers to utilize channels, for example, ATMS, organization saving money and web agency banking (Ketkar *et al.* 2012). Since opening bank offices include immense interest in frameworks, gear, HR and security (Nir & Acharya, 2012), office agency banking could be preferable in developing markets. This is so on the grounds that organization saving money use nearby assets, framework, abilities and hardware.

Agency banking by ideals of its association to different divisions for instance telecom, saving money, and support is required to observe arrangement of co-advancement endeavors from all suppliers. The normal advancement could open wide enterprising open doors for business banks. It ought to in this manner be less expensive for money related organizations to relate with their customers by means of operators.

The study found a strong and statistically significant association between the independent factors and the commercial banks' financial performance. The agency banking network, financial services accessibility, and agency banking maintenance cost were the three independent factors that were looked at; taken together, they explained 79.3% of the difference in the selected commercial banks' financial performance.

These results are consistent with research conducted in 2010 by Kithinji, who showed that agency banking has been essential to raising bank earnings and extending the accessibility of financial services in Kenya. Nevertheless, Kumar et al (2006) highlighted that there are various risk implications of use of agents by banks. It is riskier to entrust agents with retail clients than it is to use traditional bank tellers at a physical bank branch.

Special attention should be paid to inherent risks such as operational risk. There has been a special concern in relation to protection of the consumer and the strict compliance to the set rules to completely combat the money laundering menace and the finances directed to terror related activities which ought to be a worry to the institutions.

Credit risk is an issue, especially when there is a lag between receiving money from clients and putting it into the same bank. There is possibility of retail agents or customer committing fraud, loss of the bank's assets or assets owned by the retail agent, there may be a possibility of data leaking due to hacker attacks, lack of proper physical, electronic security and backup systems. All of which lead to operational risk.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Background

Here, results, conclusions and recommendations will be summarized and suggestions made for further research.

5.2 Results summary

The study shows that the highest correlation was between agency banking network and agency banking maintenance cost (0.743), and agency banking maintenance cost and financial performance (0.734) as well as the financial performance and agency banking network (0.708**). All these relationships were positive and significant at 0.01 levels. An R-Square of 0.626, coupled with a standard error of estimation of 0.719.

This suggests that using composite score, agency banking highly influences banks' financial performance. At the 2-tail test and 95% confidence level, F-Calculated (4, 76) = 31.866 is larger than F-Critical (4, 76) = 2.485. Additional findings indicate that p-value = 0.000 < 0.05. This further confirms that agency banking has a positively and significantly influences banks' financial performance.

The research also revealed that, if all variables of agency banking (that is Agency banking network, Agency banking maintenance cost, and financial accessibility associated with agency banking) are held constant, banks' financial performance remains at 0.190. Similarly, a rise in increase in Agency banking maintenance cost, Agency banking network, and financial accessibility associated with agency banking by a single unit would appreciate the banks' financial performance by 0.314, 0.381, and 0.253 units respectively.

5.3 Conclusion

This study clearly shows that agency banking has a very favourable impact on listed Kenya commercial banks' financial performance. It is clear that making financial services available to clients through banking institutions greatly improves the bottom line for commercial banks in Kenya.

Most financial institutions attest that agency banking has made it easier for them to access a wide range of prospective customers while reducing the requirement for large capital expenditures on new branches. For some institutions, this economical method has proven to be a strategic benefit.

The report also emphasizes the undeniable favourable impact of bank branch maintenance expenses through agency banking. A significant amount of deposits have been recorded by several financial institutions, resulting in a big cash pool that may be borrowed by potential investors. This has supported economic development in addition to strengthening these institutions' financial positions.

In conclusion, increased financial performance for commercial banks in Kenya is significantly influenced by the extensive accessibility of financial services through banking institutions. Due to its ability to access a large customer base and lower the overhead expenses related to branch expansion, agency banking is an economical approach that has a substantial positive impact on both banks and clients.

5.4 Recommendations

Clear Regulatory Policy whereby, it is recommended that the Central Bank create an extensive agency banking regulatory policy that is applicable to all financial institutions. In addition to promoting fair competition, this policy should protect the interests of customers and stop financial institutions from abusing their power.

Lower Maintenance Expenses where financial institutions have to keep providing its local agency points with reduced maintenance expenses. Banks may secure the long-term viability of the system by encouraging clients to make agency banking a regular habit by offering affordable services.

To guarantee a dependable and secure service for their clients, commercial banks are encouraged to completely adopt agency banking by utilizing cutting-edge technology to improve information security. In addition to fostering trust, this encourages more clients to use agency banking.

Commercial Banks are encouraged to engage more in advertising and promotional efforts for agency banking to make investments to improve client perception. This strategy has the potential to enhance client transactions, encourage savings, and raise the amount of money available for loans all of which lead to better financial performance.

To boost transaction volumes and grow their market presence and improve their financial performance, commercial banks should implement cutting-edge new technology.

It is advised that financial institutions create lock-in techniques for their current clientele. These tactics provide banks more authority over the services and prices they provide to their clients, making their operations more lucrative and predictable.

As a major factor in transaction value, which is a crucial indicator of financial performance, banks should work to reduce transaction costs which in turn will increase the overall transaction numbers.

5.5 Suggestions for Further Studies

Although the results discussed above are important for commercial banks, certain limitations with this study compromise the general validity and dependability of the findings. The relatively small sample size limited to listed commercial banks in Kenya is a key restriction. Increasing the sample size by including a wider range of countries would have strengthened the study's findings.

In addition, the study was limited by the questionnaire's low question count. Deeper insights and a wider range of viewpoints could have been explored by extending the questionnaire to include more questions.

Future studies can examine how laws and regulations encourage the use of agency banking and how this affects the growth and inclusiveness of the financial industry. This would clarify the more general effects of agency banking on the financial system.

The financial effects of agency banking on listed Kenyan commercial banks' performance were examined in the current study. It is advised that an investigation be carried out to look at the difficulties in Kenyan commercial banks had when introducing agency banking. This investigation could provide important information about how to enhance agency banking's uptake and integration within the banking industry.

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APPENDICES

APPENDIX A: RESEARCH QUESTIONNAIRE

Background:

The individual conducting this survey is Kitty Ann Gakii, a student at Kenyatta University's School of Business pursuing a Master of Business Administration. The three components of the questionnaire—**labeled A, B, and C**—are designed to gather factual data regarding the relationship between agency banking and commercial banks' financial performance. There are no right or wrong answers since the researcher values your opinions very much. You can be sure that the information you give will be kept private and used only for this study. We are really grateful for your involvement.

Section A: Agency Banking Network with regards to commercial banks financial performance

1. Which is your position in the this bank

   Senior manager [ ] Middle level manger [ ] Junior manager [ ]

2. Which is your age bracket?

   18-24 years [ ] 25-31 years [ ] 32-38 years [ ] 39 – 45 years [ ]

   46-52 years [ ] above 52years [ ]

3. How many agents are in your Branch?

a) Above 50 ( ) b) 41- 50 ( ) c) 31- 40 ( ) d) 21-30( )

e) below 20 ( )

4. How many agents are active on a day to day basis?

a) Above 50 ( ) b) 41- 50 ( ) c) 31- 40 ( ) d) 21-30 ( )

e) below 20 ( )

5. What are the criteria used to select the agents? Kindly Explain which one works best for you and why?

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……

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6. How long does it take to register an agent and start being operational?

i) More than three Months

ii) Three Months

iii) Two Months

iv) One Month

v) Under 1 Month

7. In terms of numbers, how are your agents' distributed?

   i) Rural Areas

      b) Above 50 ( ) b) 41- 50 ( ) c) 31- 40 ( ) d) 21-30 ( ) e) below 20 ( )

   ii) Urban Areas

      a) Above 50 ( ) b) 41- 50 ( ) c) 31- 40 ( ) d) 21-30 ( ) e) below 20 ( )

8. On a scale of 1-10, 10 being **highest** and 1 being **lowest**, how would you rate the uptake of Agency Banking by the society? ( )

Section B: Maintenance Cost with regards to commercial banks financial performance

1) On average, what are the costs of starting and maintaining an agent per month?

   a) Above Kshs. 100,000 ( )

   b) Kshs 90,000- 99,000 ( )

   c) Kshs 80,000- 89,000 ( )

   d) Kshs 70,000- 79,000 ( )

   e) Below Kshs 60,000 ( )

2) On what basis are agents paid commission?

   a) Deposits ( )

   b) Withdrawals ( )

   c) Account opening ( )

   d) All the above ( )

   e) None of the above ( )

Section C: Financial Accessibility with regards to commercial banks financial performance

1) On average, how many transactions do agents do in a day?

   i) Rural Areas

      a) Above 30 ( ) b) 25- 30 ( ) c) 20- 24 ( ) d) 15-19 ( )

      e) below 15( )

   ii) Urban Areas

      (a) Above 30 ( ) b) 25- 30 ( ) c) 20- 24 ( ) d) 15-19 ( )

      e) below 15( )

   ii) Next to Schools and Hospitals

      (a) Above 30 ( ) b) 25- 30 ( ) c) 20- 24 ( ) d) 15-19 ( )

      e) below 15( )

   iii) Markets

      a) Above 30 ( ) b) 25- 30 ( ) c) 20- 24 ( ) d) 15-19 ( )

      e) below 15( )

2. What are the average range of transactions done at an agents outlets?

   a) Above Kshs. 50,000

   b) Kshs 30,000- 39,000

   c) Kshs 20,000- 29,000

   d) Kshs 10,000- 19,000

   e) Below Kshs 10,000

3. Would you recommend banks without agency banking to take it up? If yes, why?

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……

……

4. Who regularizes the activities done by the Agents?

a) Central Bank of Kenya ( )

b) Commercial Banks ( )

c) All the above ( )

d) None of the above ( )

……

……

Thank For Your Participation

APPENDIX B: FINANCIAL DATA COLLECTION FORM

Questionnaire/Bank ……					**Index**
Item	**Year 2015**	**Year 2016**	**Year 2017**	**Year 2018**	**Year 2019**
Number of agents					
Agency department upkeep costs (Kshs)					
Commission paid to agents					
Value/Volume of agent transactions					
Number of bank's licensed agents					

Gross income earned from agency banking (Kshs)					
Net Profit					
Gross revenue					
Return on Assets					
Return on Investment					

APPENDIX C: COMMERCIAL BANKS OFFERING AGENCY BANKING

1) Equity Bank Ltd
2) Co-operative Bank of Kenya
3) Kenya Commercial Bank(Now KCB Bank Kenya)
4) Consolidated Bank of Kenya
5) Family Bank Ltd
6) Diamond Trust Bank Kenya
7) Barclays Bank(Now Absa)
8) Chase Bank Kenya(Now SBM bank)
9) Post Bank
10) Jamii Bora Bank
11) Transnational Bank
12) I & M Bank
13) Citi Bank
14) Eco Bank
15) Stanbic Bank
16) First Community Bank
17) National Bank
18) Standard Chattered(Now Stanchart)

Source*: CBK (2016)*