

**CONTRIBUTIONS OF AGENCY BANKING ON FINANCIAL PERFORMANCE OF
COMMERCIAL BANKS IN KENYA**

NJAGI JOYCE WAWIRA

D53/OL/22118/2011

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS OF THE AWARD OF MASTER OF BUSINESS
ADMINISTRATION DEGREE OF KENYATTA UNIVERSITY**

OCTOBER 2013

DECLARATION

I declare that this is my original work and has never been presented to any other university for any academic credit purpose.

Signed: Date:

NJAGI JOYCE WAWIRA

D53/OL/22118/2011

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

Signed: Date:

Mr. J.M. Theuri

Lecturer

Department of Accounting and Finance

This project has been submitted for examination with my approval as the chairman of the department .

Signed: Date:

Mr. F. Ndede

Chairman

Department of Accounting and Finance

DEDICATION

I would like to dedicate my research project to family for their love and support during this study.

ACKNOWLEDGEMENT

I wish to acknowledge all the individuals who assisted in various ways towards completion of this research proposal. Many thanks go to my supervisor Mr. J.M. Theuri for giving me the required guidance all the way until I was through. My fellow classmates who assisted me in various ways cannot be forgotten since their contribution had a positive impact. I can't also forget the entire management of Kenyatta University for their cooperation towards providing library facilities where I accessed much information concerning this research study.

ABSTRACT

The revolution of information technology has influenced almost every facet of life, among them is the banking sector. Technological advancement has not only affected the way of living but has had an effect on the way people do their banking. The Kenya Bureau of Statistic Report (2011) indicates that more than 7 million adult rural Kenyans are either under-banked or unbanked. This is partly because of the high cost of maintaining the bank branches and the low nature of business transactions in rural Kenya - a situation which makes opening of new branches in the rural areas a less productive venture. Technology has therefore created greater opportunities to service providers to offer great flexibility to the customers. Agent banking involves a number of technologies in order for the financial institutions to keep track of the transactions done by the retail outlet. This study was guided by counsels of previous researches undertaken abroad in an effort to find out the contributions of agency banking on financial performance of the commercial banks in Kenya. This study adopted a descriptive survey. The population of the study was 9 Commercial Banks offering agency banking in Kenya. The study selected 4 senior managers from each bank thus forming a sample size of 36 respondents who was used in this study. Primary data was collected by administering a semi-structured questionnaire. To test the validity and reliability of the instrument that was used, pilot study was also conducted. Quantitative data collected was analyzed by the use of descriptive statistics using SPSS (Version 20) and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. Content analysis was used to test data that is qualitative in nature or aspect of the data collected from the open ended questions. The study found that the move by the central bank to regulate agency banking had a positive influence on the financial performance of commercial banks in Kenya. The study also found that low transaction cost through agency banking had a positive impact on the financial performance of commercial banks in Kenya. The study found that financial services accessibility by customers through banking agencies had a positive impact on financial performance of commercial banks in Kenya. The study found that increased market share had a positive effect on the financial performance of commercial banks with many banking institutions indicating that increased market share allowed a company to achieve greater scale in its operations which generally improved its profitability.

TABLE OF CONTENTS

DECLARATION.....	ii
DEDICATION.....	iii
ACKNOWLEDGEMENT.....	iv
ABSTRACT.....	v
TABLE OF CONTENTS	vi
LIST OF TABLES	ix
LIST OF FIGURES	x
LIST OF ABBREVIATIONS.....	xi
OPERATIONAL DEFINITION OF TERMS.....	xii
CHAPTER ONE	1
INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.1.1 Agency Banking	2
1.1.2 Financial Performance.....	4
1.1.3 Commercial Banks	5
1.2 Statement of the Problem	6
1.3 Objectives of the Study	7
1.3.1 Specific Objective.....	8
1.4 Research Questions	8
1.5 Significance of the Study	9
1.6 Scope of the Study.....	9
1.7 Limitations of the Study.....	9
CHAPTER TWO	11
LITERATURE REVIEW	11
2.1 Introduction	11
2.2 Theoretical Review	11
2.2.1 Bank-led Theory	11
2.2.2 Nonbank-led Theory.....	13
2.2.3 Bank-focused Theory	14
2.3 Empirical Review	15

2.3.1 Central Banks Regulation.....	15
2.3.2 Low Transaction Cost.....	17
2.3.3 Financial Service Accessibility	18
2.4.4 Size by Market Share.....	19
2.4 Research Gap.....	20
2.5 Conceptual Framework	21
CHAPTER THREE	23
RESEARCH METHODOLOGY	23
3.1 Introduction	23
3.2 Research Design.....	23
3.3 Target Population	23
3.4 Sampling Frame and Sample Size.....	24
3.5 Data Collection Procedure	24
3.6 Piloting	24
3.7 Data Analysis and Presentation.....	25
CHAPTER FOUR.....	27
DATA ANALYSIS AND INTERPRETATIONS.....	27
4.1 Introduction	27
4.2 Background Information	27
4.3 Central Bank Regulation and Financial performance	30
4.4 Low Costs Of Transaction and Financial Performance	32
4.5 Financial Services Accessibility and Financial Performance	35
4.6 Market Share and Financial Performance	37
4.7 Regression Analysis	40
CHAPTER FIVE	42
SUMMARY OF FINDINGS CONCLUSION AND RECOMMENDATIONS	42
5.1 Introduction	42
5.2 Summary of the findings	42
5.3 Conclusion.....	44
5.4 Recommendations	45

5.5 Areas For Further Research.....	45
REFERENCES.....	46
APPENDICES.....	53
Appendix I: Questionnaire	53
Appendix II: Commercial Banks Offering Agency Banking.....	59

LIST OF TABLES

Table 4.1: Extent to which Central Bank regulation affects the financial performance.....	30
Table 4.2: Effects of Central Bank regulation on financial performance of commercial banks	31
Table 4.3: Low transaction cost of agency banking	32
Table 4.4: Extent to which low transaction cost affects the financial performance of commercial banks	33
Table 4.5: Effects of low transaction cost on financial performance of commercial banks in Kenya	33
Table 4.6: Financial services accessibility through agency banking	35
Table 4.7: Extent to which financial services accessibility affects the financial performance.	35
Table 4.8: Effects of financial services accessibility on financial performance.....	36
Table 4.9: Market share	37
Table 4.10: Extent to which market share through agency banking affects the financial performance	38
Table 4.11: Statement relating to market share and financial performance of commercial banks	38
Table 4.12: Model Summary	40
Table 4.13: Coefficients.....	40

LIST OF FIGURES

Figure 2.1: Conceptual Framework	22
Figure 4.2: Classification of respondents by gender.....	27
Figure 4.3: Classification of respondents by their highest academic qualification	28
Figure 4.4: Classification of respondents by age	28
Figure 4.5: Classification of respondents by level of management	29
Figure 4.6: Central Bank regulation on agency banking	30

LIST OF ABBREVIATIONS

AML	Anti- Money Laundering
ASCAs	Accumulating Savings and Credit Associations
ATM	Automated Teller Machine
CBK	Central Bank of Kenya
CSR	Corporate Social Responsibility
E- Money	Electronic Money
ICT	Information Communication Technology
SMS	Short Message Service
USA	United State of America

OPERATIONAL DEFINITION OF TERMS

Agent: an entity that has been contracted by an institution and approved by the Central Bank to provide the services of the institution on behalf of the institution in the manner specified.

Agent banking: the provision of banking services by a third-party agent to customers on behalf of a licensed, prudentially-regulated financial institution, such as a bank or other deposit-taking institution.

Retail agents: networks of third-party outlets that handle financial transactions on behalf of a provider. They have a tradition in developed markets for example post offices, but emerged more recently in developing countries. Retail agents use existing distribution channels, and connect the provider with the client through the internet, POS devices, mobile phones, and electronic cards.

Outlet: an agent's place of business directly responsible to the Head Office, used for carrying out a commercial activity of the agent but does not include a mobile unit.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The revolution of information technology has influenced almost every facet of life, among them is the banking sector. The introduction of electronic banking has revolutionized and redefined the way banks were operating. As technology is now considered as the main contribution for the organizations' success and as their core competencies. So the banks, be it domestic or foreign are investing more on providing customers with the new technologies through mobile banking.

Technological advancement has not only affected the way of living but has had an effect on the way people do their banking. The last decade, has seen an incredible upsurge in mobile penetration in the developing world. However of great interest is that while the mobile phone offers several features including the possibility of mobile banking, almost half of the world populations have either failed to embrace mobile banking and financial services or they have been deprived of the same. Back in Kenya the scenario is no better. Astonishingly half of the Kenyan populations especially the rural folk do not have a clue on mobile banking. However, the outreach of the mobile banking sector has been found to vary across country (Ivatury & Mas, 2008).

The Kenya Bureau of Statistic Report (2011) indicates that more than 7 million adult rural Kenyans are either under-banked or unbanked. This is partly because of the high cost of maintaining the bank branches and the low nature of business transactions in rural Kenya - a

situation which makes opening of new branches in the rural areas a less productive venture. At yet another level mobile technology has substantially penetrated rural Kenya and is likely to be on an upward trend in the near future. Banks and other financial institutions which have traditionally relied on physically established branches to provide banking services are now gearing towards the adoption of mobile banking services (MBS) as a form of branchless banking. This has the consequence of lowering cost of banking. Technology has therefore created greater opportunities to service providers to offer great flexibility to the customers. To this end banks are fast developing branchless banking such as ATM, internet and mobile banking among others (Laukkanen & Pasanen, 2007).

1.1.1 Agency Banking

Agency banking refers to contracting of a retail or postal outlet by a financial institution or a mobile network operator to process bank clients' transactions. It is different from a branch teller, since it is the owner or an employee of the retail outlet who conducts the transactions, ranging from: deposits, withdrawals, funds transfers, bill payments, account balance inquiry, receiving government benefits or direct deposits from employers. Banking agents may include: pharmacies, supermarkets, convenience stores, lottery outlets and post offices (CGAP, 2006). The trend of agent banking is evident in many nations all over the globe, such as in Australia where post offices are used as bank agents, France utilizing corner stores, Brazil making use of lottery outlets to provide financial services, Kenya pioneering the mobile financial services, Nigeria, South Africa and the Philippines (Siedek, 2008).

Retail outlets are forced to extend their limited sources of financing in a bid to meet the regulations so as to fulfill the legal requirements necessary to operate as banking agents. Such requirements usually involve having a specific level of capital investment to assure the regulators of the sustainability of the venture. Inability of the retail outlets to fulfill these requirements prevents the expansion of retail banking to areas of low income earners. Unless the tight regulations are eased, few retail outlets would be able to meet the standards required by the policy makers (Ivatury & Lyman, 2006). Financial institutions can only be allowed to work through retail outlets if the laws permit it. Regulators determine what kind of, if any, financial institutions are permitted to contract banking agents, what products can be offered at the retail outlets, how financial institutions have to handle financial transactions and all aspects regarding the operation of agency banking. Without the approval of the lawmakers, agent banking would not be operational. Lawmakers also provide guidelines and alterations of the policies regarding operation of agent banking from time to time, which necessitates the banking agents to change their operations to be in line with the prevailing laws of the land (Ivatury & Mas, 2008). Without the support of the regulatory authorities, agent banking would not be facilitated. For example, the Filipino government's commitment to extending financial services to unbanked low-income populations has immensely contributed to making the Philippines a world leader in branchless mobile banking services (Seltzer, 2010).

Agent banking involves a number of technologies in order for the financial institutions to keep track of the transactions done by the retail outlet. These technologies include: point-of-sale (POS) card readers, mobile phones, barcode scanners to scan bills for bill payment transactions, Personal Identification Number (PIN) pads, and personal computers (PCs) that connect with the financial institution's server using a personal dial-up or other data

connection. All these technologies require expertise and capital investment in acquiring the technological equipment which is a challenge to the retail outlets that have limited capital (Ivatury, 2006).

1.1.2 Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure firms' performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt (Mido, 2006).

Quantitative measures of firm performance include profitability measures such as gross margin, net margin for example return on sales, return on equity, economic value added, return on equity less cost of equity, return on capital employed; cash flow measures such as free cash flow over sales; and growth measures such as 1-, 3-, and 5-year historical revenue growth. Ideally, forward-looking measures such as expected profitability, cash flow and growth should be used to measure a firm's performance because the current operating conditions (such as number of hierarchical levels or organization form) will influence future performance (Kumar, 2003).

Management researchers prefer accounting variables as performance measures such as return on equity (ROE), return on investment (ROI), and return on assets (ROA), along with their

variability as measures of risk. Earlier studies typically measure accounting rates of return. These include: Return on Investment (ROI), return on capital (ROC), return on assets (ROA) and return on sales (ROS). The idea behind these measures is perhaps to evaluate managerial performance-how well is a firm's management using the assets to generate accounting returns per unit of investment, assets or sales. The problems with these measures are well known. Accounting returns include depreciation and inventory costs and affect the accurate reporting of earnings. Asset values are also recorded historically. Return on equity (ROE) is a frequently used variable in judging top management performance, and for making executive compensation decisions. ROE is defined as net income (income available to common stockholders) divided by stockholders equity. On the other hand, ROA is the most frequently used performance measure in previous studies. It is defined as net income (income available to common stockholders), divided by the book value of total assets (Donaldson & Preston, 1995).

1.1.3 Commercial Banks

Currently there are 44 licensed commercial banks in Kenya. Commercial banks account for much of the total deposit in the country. The banks that dominate the commercial banking sector in Kenya are: Barclays Bank of Kenya Ltd, Kenya Commercial Bank, Standard Chartered Bank, Equity bank Ltd, National Bank of Kenya and Cooperative Bank of Kenya Ltd. They have also opened many branches in most areas of the country. These banks engage in the general banking system although some smaller banks tend to be rather specialized in domestic trade and others in import and export finance facilities offered by Kenya Commercial Banks (www.centralbank.go.ke).

According to Kumar (2003) facilities offered by Kenya Commercial Banks include: Money telegraphic transfer by mail, Standing order payments, Foreign exchange transactions services, Issue of traveler's cheques, discounting of bills of exchange and promissory notes, providing documentary credit to overseas trade, providing credit status information to customers, Offering share brokerage services i.e. buying and selling of shares and stock on behalf of their customers, operation of safe deposits, operation of trust departments, dealing with confidential share purchases, offering business advisory services, acceptance of various deposits like fixed and regular deposits and providing loans and advances. All mainstream banks have introduced Mobile phone banking services in an effort to reach more customers at a relatively lower cost.

1.2 Statement of the Problem

Central Bank of Kenya (CBK) recognizes the financial inclusion challenges which the country faces. These include the cost of financial services and the distance to bank branches in remote areas. Part of their approach to addressing these challenges is to promote innovation through mobile financial services and to address the delivery channel costs through increased use of agent banking (Central Bank of Kenya, 2010a). Kenya has experience with both bank-based and nonbank-based agent banking models. In order to speed up the development of the agent banking in Kenya, the CBK made use of a knowledge exchange Programme supported by the Alliance for Financial Inclusion (AFI). In terms of branchless banking, Kenya is probably best known for its M-PESA mobile phone-based payment service. The 2010 agent banking guidelines allowed banks to start working in partnership with non-bank based models.

In Kenya agent banking has seen dramatic expansion in very many countries all over the world including Kenya. With agency banking, low-income people no longer need to use scarce time and financial resources to travel to distant bank branches. And since agency banking transactions cost far less to process than transactions at an automated teller machine (ATM) or branch, banks can make a profit handling even small money transfers and payments (Booz, 2003). The adoption of agency banking is mainly geared to improve on market share by attracting and retaining their customers, improving their financial performance and create variety of services. To this end, it is not clear whether the adoption has led to increase in market share and financial performance. This study therefore aimed at assessing the contribution of agency banking on financial performance of commercial banks in Kenya.

Despite the relevance of the agency banking in the commercial banks gaining competitiveness and enhancing financial performance, there has been limited research conducted locally specifically on the contribution of agency banking on commercial banks' financial performance. Most of the studies reviewed were done abroad and according to Aosa (1992), it's not right to import the wholesome results of a research without taking into account the contextual differences and hence the needs to carry out local research in order to understand better the problem. This study intends to be guided by counsels of previous researches undertaken abroad in an effort to find out the effect of agency banking on financial performance of the commercial banks in Kenya.

1.3 Objectives of the Study

The main objective of the study was to determine the contributions of agency banking on financial performance of commercial banks in Kenya

1.3.1 Specific Objective

- (i) To establish the effect of central bank regulation on financial performance of commercial banks in Kenya
- (ii) To determine the effect of low transaction cost through agency banking on financial performance of commercial banks in Kenya
- (iii) To establish the effect of financial services accessibility by customers on financial performance of commercial banks in Kenya
- (iv) To find out the effect of increased market share on the financial performance of commercial banks in Kenya

1.4 Research Questions

The study was guided by the following research questions

- (i) To what extent does central bank regulation affect the financial performance of commercial banks in Kenya?
- (ii) What are the effects of low transaction cost through agency banking on financial performance of commercial banks in Kenya?
- (iii) What are the effects of financial services accessibility by customers on financial performance of commercial banks in Kenya?
- (iv) What are the effects of increased market share on the financial performance of commercial banks in Kenya?

1.5 Significance of the Study

The findings of this study can be useful to the following groups: The study findings can help the government to know the extent to which Kenyan Banks have embraced agency banking more relevantly customers and enable them to come up with necessary policies and legislation in relation to agency banking services. The findings of this study can help other financial institutions to understand the effects of agency banking on commercial banks performance and enable them to make necessary strategies to improve on the number of customers adopting the services.

The findings of this study on other hand may come in handy for scholars. Those wishing to carry out further studies on this topic can use the study findings as the basis for further research. The findings can also be beneficial to scholars in the field of agency banking service to identify gaps that need to be expounded on. Those who have not embraced this concept can understand more about agency banking services and the benefits that can accrue as a result of this study and enable them make decisions concerning the adoption of agency banking services.

1.6 Scope of the Study

The study sought to determine the contributions of agency banking on financial performance of commercial banks in Kenya. The study focused on nine commercial banks offering agency banking in Kenya.

1.7 Limitations of the Study

Some of the respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about them or

the bank. Some respondents turned down the request to fill questionnaires. Bankers operate on tight schedules; some respondents were not able to complete the questionnaire in good time and this overstretched the data collection period. The researcher also encountered problems in eliciting information from the respondents as the information required was subject to areas of feelings, emotions, attitudes and perceptions, which cannot be accurately quantified and/or verified objectively.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents literature review comprising of the theoretical review of literature, empirical literature, conceptual and theoretical review and chapter ends with a gap to be filled.

2.2 Theoretical Review

Branchless banking represents a new distribution channel that allows financial institutions and other commercial actors to offer financial services outside traditional bank premises. A wide spectrum of branchless banking models is evolving (State Bank of Pakistan, 2011). Theories of branchless banking can be classified into three broad categories: Bank-focused theory, Bank-led and Nonbank-led theory.

2.2.1 Bank-led Theory

In the most basic version of the bank-led theory of branchless banking, a licensed financial institution (typically a bank) delivers financial services through a retail agent. That is, the bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction (Lyman, Ivatury and Staschen, 2006). The bank is the ultimate provider of financial services and is the institution in which customers maintain accounts. Retail agents have face-to-face interaction with customers and perform cash-in/cash-out functions, much as a branch-based teller would take deposits and process withdrawals (Owens, 2006).

In some countries, retail agents also handle all account opening procedures and, in some cases, even identify and service loan customers. Virtually any outlet that handles cash and is

located near customers could potentially serve as a retail agent. Whatever the establishment, each retail agent is outfitted to communicate electronically with the bank for which it is working. The equipment may be a mobile phone or an electronic point-of-sale (POS) terminal that reads cards.

Bank-led model offers a distinct alternative to conventional branch-based banking in that customer conducts financial transactions at a whole range of retail agents instead of at bank branches or through bank employees (Lyman, Ivatury and Staschen, 2006). This model promises the potential to substantially increase the financial services outreach by using a different delivery channel (retailers/ mobile phones), a different trade partner (Chain Store) having experience and target market distinct from traditional banks, and may be significantly cheaper than the bank based alternatives. In this model customer account relationship rests with the bank (Tomášková, 2010).

Agents Related Risks arise from substantial outsourcing of customer contact to retail agents. From a typical banking regulator's perspective, entrusting retail customer contact to the types of retail agents used in both the bank-led and nonbank-led models would seem riskier than these same functions in the hands of bank tellers in a conventional bank branch. These retail agents may operate in hard-to reach or dangerous areas and they lack physical security systems and specially trained personnel. The lack of expert training may seem a particular problem if retail agents' functions range beyond the cash-in/cash-out transactions of typical bank tellers to include a role in credit decisions (State Bank of Pakistan, 2011). Banking regulation typically recognizes multiple categories of risk that bank regulators and

supervisors seek to mitigate. Five of these risk categories-credit risk, operational risk, legal risk, liquidity risk, and reputation risk-take on special importance when customers use retail agents rather than bank branches to access banking services. The use of retail agents also potentially raises special concerns regarding consumer protection and compliance with rules for combating money laundering and financing of terrorism (Kumar, et al. 2006).

The bank lead theory is related to the study as it focus on how financial institution like bank deliver their financial services through a retail agent, where the bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction . For example; Family bank of Kenya distributes it financial product through it Pesa pap agent, where the agent have face-to-face interaction with customers and perform cash-in/cash-out functions, much as a branch-based teller would take deposits and process withdrawals .

2.2.2 Nonbank-led Theory

In this theory customers do not deal with a bank, nor do they maintain a bank account. Instead, customers deal with a nonbank firm either a mobile network operator or prepaid card issuer and retail agents serve as the point of customer contact. Customers exchange their cash for e-money stored in a virtual e-money account on the non-bank's server, which is not linked to a bank account in the individual's name (Kumar, et al. 2006). This model is riskier as the regulatory environment in which these nonbanks operate might not give much importance to issues related to customer identification, which may lead to significant Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT) risks. Bringing in a culture of Know Your Customer (KYC) to this segment is a major challenge. Further the

nonbanks are not much regulated in areas of transparent documentation and record keeping which is a prerequisite for a safe financial system. Regulators also lack experience in the realm. For these reasons, allowing nonbank-led model to operate is an unnecessarily big leap and an unjustifiably risky proposition. However, this model becomes viable after regulators have gained sufficient experience in mitigating agent related risks using bank led model and need to think about mitigating only e-money related risks (Kapoor, 2010).

According to Hogan, B. (1991) to mitigate the e-money risks (which are peculiar to Nonbank-led model), necessary changes in the existing regulations are required. It starts by bringing non-banks under financial regulatory net by giving these entities special status of some sort of quasi-bank/remittance agent etc. Grant of this status depends upon meeting pre-specified standards of transparency, financial strength and liquidity. There should be clear, well-defined limits on nature, type and volume of transactions that such entities can undertake. To avoid insolvency, these entities may be required to deposit their net e-banking surplus funds with scheduled banks meeting certain minimum rating criteria (State Bank of Pakistan, 2011). The Nonbank-led Theory is found relevant to the study as it explain how agent deals with customers on behalf of the bank.

2.2.3 Bank-focused Theory

The bank-focused theory emerges when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers. Examples range from use of automatic teller machines (ATMs) to internet banking or mobile phone banking to provide certain limited banking services to banks' customers. This model is additive in nature and may be seen as a modest extension of conventional branch-based banking. Although the bank-focused model offers advantages such as more control and branding visibility to the

financial institutions concerned, it is not without its challenges. Customers' primary concerns are to do with the quality of experience, security of identity and transactions, reliability and accessibility of service and extent of personalization allowed. Banks address these issues by providing a branchless banking service with an easy to use interface, made secure with the help of multi-factor authentication and other technology, capable of running uninterrupted 365 days a year (Kapoor, 2010).

The bank-focused theory emerges when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers. With the use of agent family bank achieves economies of scale by serving many customers at low cost, this is therefore related to the study as Family bank utilizes Pesa pap agents for low cost delivery of its financial services.

2.3 Empirical Review

2.3.1 Central Banks Regulation

According to a report by CGAP (2010), policymakers around the world seek to encourage the provision of financial services to the unbanked and under-banked poor, they implement regulatory frameworks that enable the spread of low-cost branchless banking while at the same time protect consumers against fraud. This is a difficult balance to strike, particularly when it comes to regulating agents, which typically play a crucial role in receiving and dispensing cash on behalf of the financial service provider (CGAP, 2010). World Bank report (2010) indicates that branchless banking is only allowed to be undertaken by licensed deposit-taking financial institutions (bank and non-bank) or their agents. Furthermore, all customers of financial institutions (FIs) undertaking branchless banking activities must be

uniquely identified. In each case customer account relationship must reside with some FI and each transaction must hit the actual customer account. All FIs and their agents must comply with the Anti-Money Laundering Act (2008) as well as the international standards set by the Financial Action Task Force (World Bank, 2010).

According to World Bank (2010), it is a regulatory requirement that adequate customer due diligence, on the spirit of (KYC) be undertaken on all new accounts and on one-off cash transactions over designated thresholds. This requires identifying the customer and verifying the customer's identity: - Financial service providers to keep detailed transaction records for at least five years; Financial institutions to report suspicious transactions promptly to the AML/CFT authority (World Bank, 2010)

A study Conducted by Bold (2011) in Brazil found that some countries restrict the location of agents, though such restrictions are sometimes eased when regulators recognize that the regulations create obstacles to financial inclusion. For example, due to concerns that agents could threaten bank branches, Brazilian regulation originally allowed agents only in municipalities that did not have bank branches (Bold, 2011). Bold (2011) also found that Indian regulators initially required agents to be located within 15 kilometers of a "base branch" of the appointing bank in rural areas, and within 5 kilometers in urban areas. This policy, intended to ensure adequate bank supervision of its agents, limited the use of agents by banks with only a few branches (Bold, 2011). Experience has shown that overly restrictive location requirements can complicate the business case for viable agent-based banking and ultimately work against financial inclusion goals. In addition, the real-time nature of most

agent services has enabled remote supervision, thereby obviating one of the central arguments for location restrictions (Tarazi and Breloff, 2011).

Tarazi and Breloff, (2011), revealed that regulations often impose some form of “fit and proper” requirements, mandating a form of agent due diligence that requires financial institutions to verify that would-be agents have good reputations, no criminal records, and no history of financial trouble or insolvency. While fit-and-proper criteria listed in regulation often are not problematic, providers and agents have occasionally argued that compliance with particular details can impose significant cost, particularly with respect to gathering documentation (Tarazi and Breloff, 2011). Central banks regulations on agency banking hamper the growth of agency banking, these regulations slows down the penetration of the agency banking which negatively affect the performance of commercial banks. Central Bank has stringent regulations on agency banking which slow down the growth of agency banking in Kenya thus affecting the performance of commercial banks in Kenya.

2.3.2 Low Transaction Cost

According to Arora and Ferrand, (2007), access to Finance is critical for sustainable economic growth and social development. Financial inclusion empowers low income people and marginalized sectors of society to actively participate in the economy, which leads to increasing employment and decreasing poverty levels (Arora and Ferrand, 2007). Apart from increasing access to those excluded from financial services and reducing reliance on informal financial sources such as Accumulating Savings and Credit Associations (ASCAs), Rotating Savings and Credit Associations (ROSCAs) and shylocks, agent banking has reduced the need for more staff and branches to reach customers (Arora and Ferrand, 2007).

Bean, (2009), states that agent banking has reduced cost and enhanced efficiency in the financial sector with a possibility and availing financial services at much lower cost to consumers (Bean, 2009). It has also increased the ease of banks' expansion hence outreach to far flung market pockets of bankable populations (Bold, 2011). Agent banking means commercial outlets like shops and supermarkets acting in some capacity on behalf of formal banks (Hogan, 1991).

2.3.3 Financial Service Accessibility

Arora and Ferrand, (2007), reveal that technology adoption especially, in banking systems has shown a great momentum and spread at an unbelievable pace across the world. Considering the importance of banking system's high presence and affordability, there is great potential of using this in agent banking for provision of banking services to unbanked community (Arora and Ferrand, 2007). However, technology systems have associated data and network security risks which make them susceptible for conducting financial transactions. Technology risks regarding information and data security based on applicable models of agent banking have been reported thus creating uncertainty to the clients (Owens, 2006).

Owens, (2006), states that financial institutions are required to plan and act for long term development and prosperity of their agents for them to reach the targeted customers at a set population. This requires close coordination/collaboration with agents; providing them opportunities to learn more, to become more efficient and; a fair pricing mechanism for the services provided by the agents (Arora and Ferrand, 2007). As the technology changes rapidly, banks have been greatly affected in its operation, whereby application of the technology ensures quick and effective services to the clients. However, banking agents do

not change their system as frequent often leading to system failure and the consequent delays in transaction execution (Lyman, *et al*, (2008). This leads to customer inconvenience and trust over the security/safety of transaction lodged with agent banks. Moreover, these constant systems failure makes transactions with banking agents vulnerable to fraud.

2.4.4 Size by Market Share

Market share is the percentage of an industry or market's total sales that is earned by a particular company over a specified time period. Market share often is associated with profitability and thus many firms seek to increase their sales relative to competitors. Market share is calculated by taking the company's sales over the period and dividing it by the total sales of the industry over the same period. This metric is used to give a general idea of the size of a company to its market and its competitors. Market share increases can allow a company to achieve greater scale in its operations and improve profitability. Companies are always looking to expand their share of the market, in addition to trying to grow the size of the total market by appealing to larger demographics, lowering prices, or through advertising. Investors look at market share increases and decreases carefully because they can be a sign of the relative competitiveness of the company's products or services. As the total market for a product or service grows, a company that is maintaining its market share is growing revenues at the same rate as the total market. A company that is growing its market share will be growing its revenues faster than its competitors. Additionally, market share is considered as a profitability determinant under the assumption that firms will obtain a bigger market share and increase their profitability due to their greater efficiency. A bigger market share also means more power to the bank in controlling the prices and services it offers to ties customers. Heggested and Mongo (1976) found that the greater the market share, the greater

is a bank's control over its prices and the services it offers. Heggsted (1977) and Mullineaux (1978), however, found that market share had an adverse relationship with profitability.

Short (1979) believed that some banks might sacrifice current profits by growing at a faster rate or expanding their market share with the intention of earning more profits in the future. He used the growth of assets rate as a proxy for measuring the effect of market share on profitability and found that growth of assets did not have a significant effect on profit. Smirlock (1985) not only believed that market share influenced profitability but that growth in the market created more opportunities for a bank and thus generated more profits. His findings indicated that growth had a significant positive relationship with profits.

According to the Central Bank Annual Supervision report (2006), employment on the banking sector rose by 23%. The report attributes this due to the expansion of the institutions branch network and expanded business volume. The human resource factor is measured by the number of employees in the institution as per the Central Bank of Kenya. Agency banking has led to increase in financial service penetration which has led to increase in market share for commercial banks using agency banking.

2.4 Research Gap

Access to Finance is critical for sustainable economic growth and social development. Financial inclusion empowers low income people and marginalized sectors of society to actively participate in the economy, which leads to increasing employment and decreasing poverty levels (Bold, 2011). Apart from increasing access to those excluded from financial services and reducing reliance on informal financial sources such as Accumulating Savings and Credit Associations (ASCAs), Rotating Savings and Credit Associations (ROSCAs) and

shylocks, agent banking has reduced the need for more staff and branches to reach customers (Arora and Ferrand, 2007). Agent banking has reduced cost and enhanced efficiency in the financial sector with a possibility and availing financial services at much lower cost to consumers (Bean, 2009). It has also increased the ease of banks' expansion hence outreach to far flung market pockets of bankable populations (Bold, 2011). Previous studies mainly in developed countries like U.S.A and Britain shows the essence of agent banking to an economy, despite this there has been no empirical study that has been undertaken in Kenya to establish the contributions of agency banking on financial performance of commercial banks in Kenya.

2.5 Conceptual Framework

Conceptual framework is a presentation of how the independent and dependent variables are related. It therefore, specifies the working definition of a variable and enables a simple explanation of the flow of theoretical framework used by the study (Mugenda and Mugenda, 2003). In this study, the independent variables will be Central Bank Regulation, low transaction cost, financial service accessibility and market share while the dependent variable will be financial performance of commercial banks.

Independent Variables

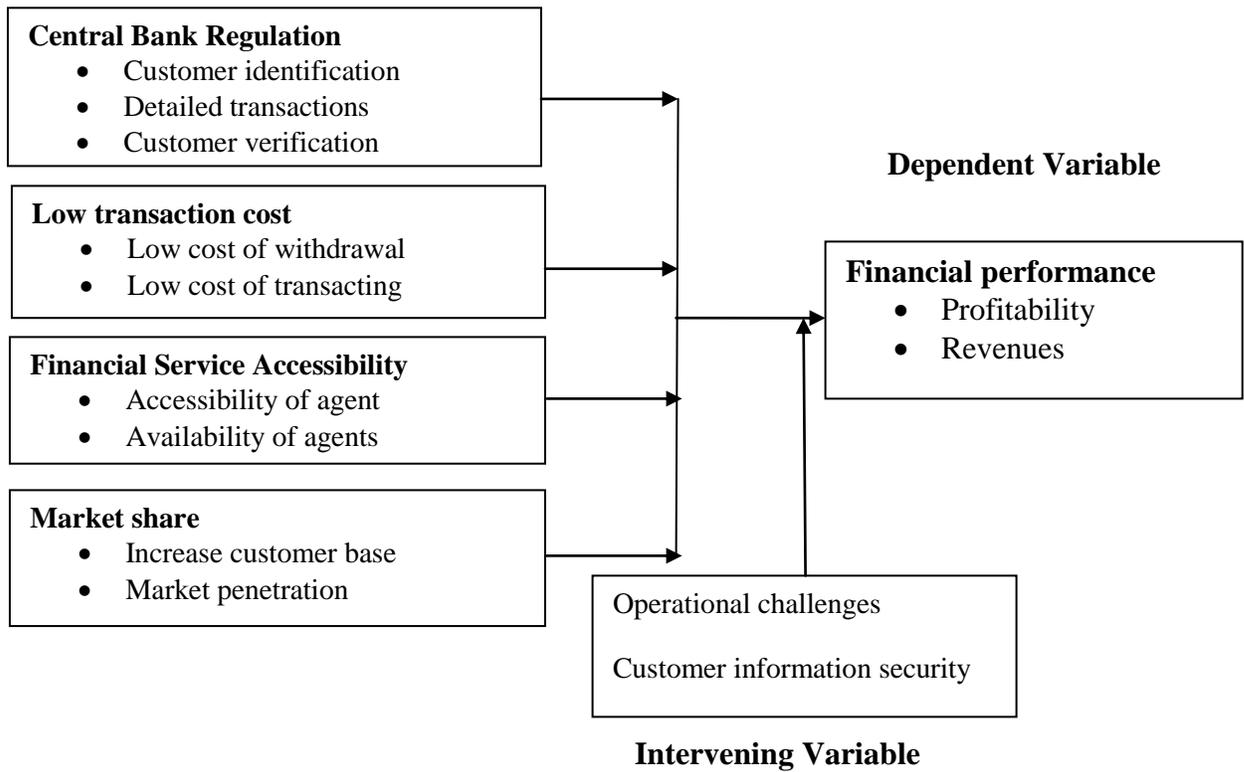


Figure 2.1: Conceptual Framework

Source, Research (2013)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology, which was used to carry out the study. It further describes the type and source of data, the target population and sampling methods and the techniques that was used to select the sample size. It also describes how data was collected and analyzed. The suitable methodology in this study gives the guidelines for information gathering and processing.

3.2 Research Design

This study adopted a descriptive survey. Descriptive survey research design is a scientific method which involved observing and describing the behavior of a subject without influencing it in any way (Bryman, 2001). It is designed to gain more information about variables within a particular field of study. Its purpose is to provide a picture of a situation as it naturally happens (Burns and Grove, 2007). The objectives are stated clearly and a clear definition of the population is given. The instruments for data collection were tested for validity and reliability which is necessary for descriptive studies (Kothari, 2004).

3.3 Target Population

Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined or set of people, services, elements, events, group of things or households that are being investigated generalize the results. The target population of the study was 9 Commercial Banks offering agency banking

in Kenya (Appendix II). The study being a census survey means that data was collected from all the 9 Commercial banks offering agency banking in Kenya.

3.4 Sampling Frame and Sample Size

A sampling frame is a complete list of all the members of the population that we wish to study (Kothari, 2004). Census was employed to select 4 senior managers from each bank thus forming a sample size of 36 respondents who were used in this study.

3.5 Data Collection Procedure

Data collection is the process of acquiring subjects and gathering information needed for a study; methods of collection can vary depending on the study design, (Kothari, 2004). Primary data will be collected for this study. Primary data was collected by administering a semi-structured questionnaire. This type of questionnaire used both closed and open-ended questions. Closed questions had predetermined answers and usually collect quantitative data while open-ended questions give the respondents free will to answer and usually collect qualitative data. The researcher used likert scale questionnaire to ensure collection of data from many respondents within a short time and respondents are free to give relevant information because they are assured of their anonymity (Mugenda and Mugenda, 2003). Secondary data on the other hand was collected through review of both empirical and theoretical data from books, journals, dissertations, magazines and the internet.

3.6 Piloting

To test the validity and reliability of the instrument that was used, pilot study was conducted.

Validity may be defined as the ability of a test to measure what it purports to measure.

According to Bali et al. (1988), reliability is defined as tendency for a test to measure what it

is supposed to measure consistently. The questionnaires were tried out. A sample size of eighteen was chosen to form the pilot study, in order to measure the validity and reliability of data collection instruments, (Kothari, 2006). A pilot study is a small scale preliminary study before the main research in order to measure the validity and reliability of data collection instruments, (Kothari, 2006).

3.7 Data Analysis and Presentation

Before processing the responses, the completed questionnaires were edited for completeness and consistency. Quantitative data collected was analyzed by the use of descriptive statistics such as mean , standard deviation , frequency and percentage and presented through frequency tables . The information was displayed by use of bar charts, graphs and pie charts and in prose-form. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS (Version 20) to communicate research findings.

Content analysis was used to test data that is qualitative in nature or aspect of the data collected from the open ended questions. This study was interested to determine the contributions of agency banking on financial performance of commercial banks in Kenya. The study also used ANOVA to test the level of significant of the variables on the dependent variable at 95% level of significance. In addition, the study conducted a multiple regression analysis.

The regression equation was :

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Whereby Y = Financial Performance, X_1 = Central Bank Regulation, X_2 = Low transaction Cost, X_3 = Financial Service Accessibility and X_4 = Market Share , while β_1 , β_2 , β_3 and X_4 are coefficients of determination and ε is the error term.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the field. The chapter presents the background information of the respondents, findings of the analysis based on the objectives of the study. Descriptive and inferential statistics have been used to discuss the findings of the study. The study targeted a sample size of 36 respondents from which 35 filled in and returned the questionnaires making a response rate of 97.2%. This response rate was satisfactory to make conclusions for the study.

4.2 Background Information

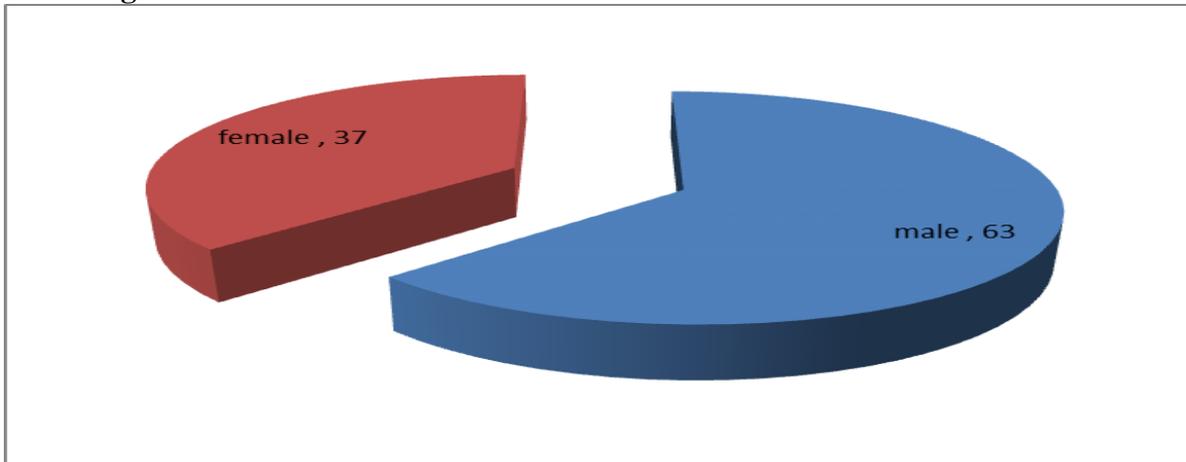


Figure 4.2: Classification of respondents by gender

The study sought to determine the gender of the respondent and therefore requested the respondent to indicate their gender. The study found that majority of the respondent as shown by 62.86% were male whereas 37.14% of the respondent were female, this is an indication that both genders were involved in this study and thus the finding of the study did not suffer from gender bias.

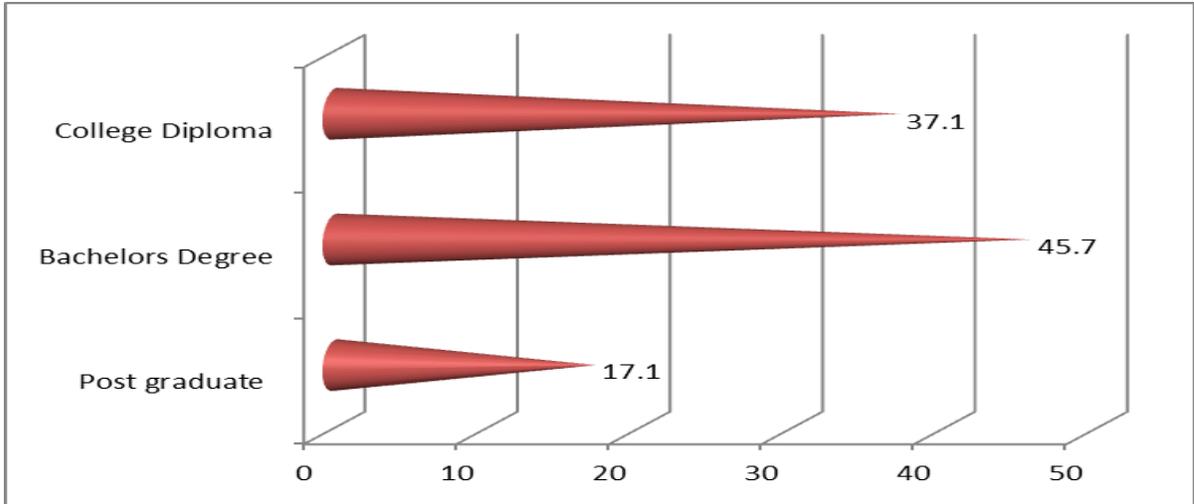


Figure 4.3: Classification of respondents by their highest academic qualification

The study requested the respondent to indicate their highest level of education. From the findings, 45.7% of the respondent indicated their highest level as bachelor’s degree, 37.1% of the respondent indicated their highest level of education as diploma certificate, whereas 17.1 % of the respondents indicated their highest level of education as post graduate, this is an indication that most of the respondents engaged in this study had bachelor’s degree as their highest levels of education.

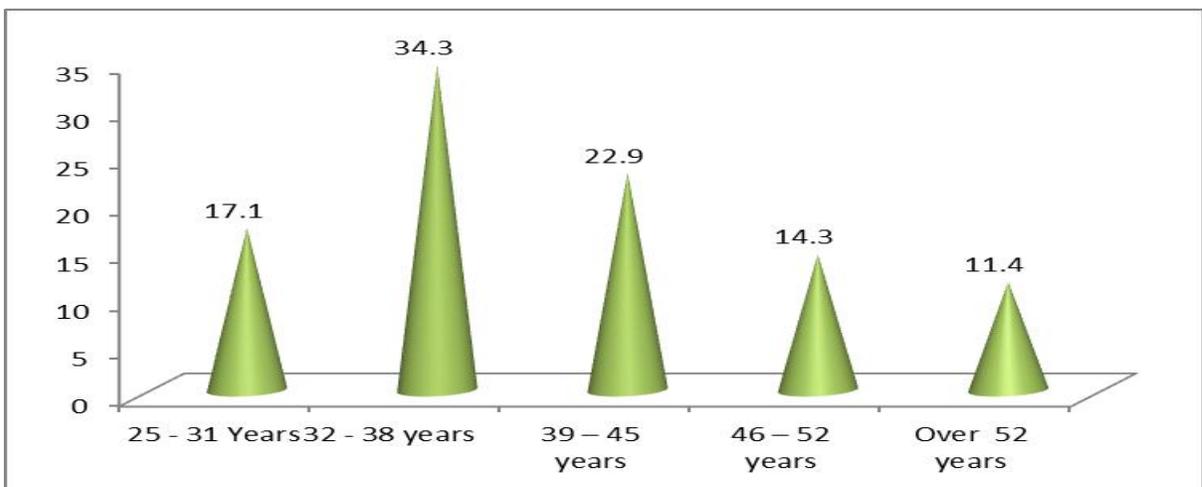


Figure 4.4: Classification of respondents by age

The study requested the respondent to indicate their age category, from the findings, it was found that most of the respondents as shown by 34.3 % of the respondents were aged between 32 to 38 years, 22.9% of the of the respondent were aged between 39 to 45 years, 17.1% were aged between 25 to 31 years, 14.3% of the respondents indicated that they were aged 46 to 52years, , and finally 11.4% of the respondents indicated that they were aged over 52 years , there was no one aged below 24 years .This is an indication that respondents were well distributed in terms of their age.

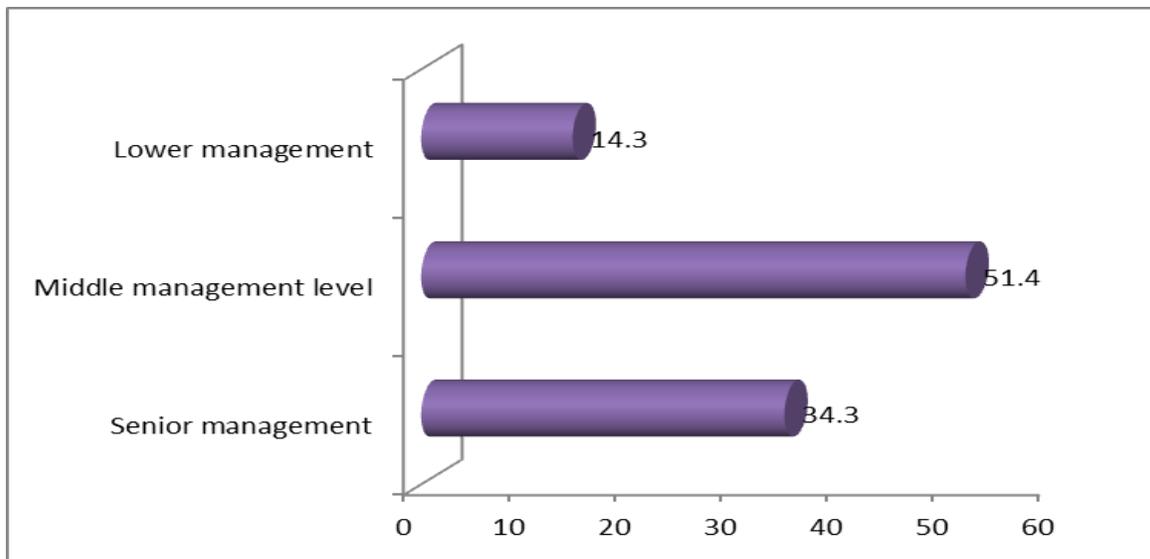


Figure 4.5: Classification of respondents by level of management

From the finding on the respondent position in the organization , the study found that majority of the respondents as shown by 51.4% indicated that they were at senior management level , 34.4% of the respondent indicated that they were at senior level management, whereas 14.3% of the respondent indicated that they were at lower management .

4.3 Central Bank Regulation and Financial performance

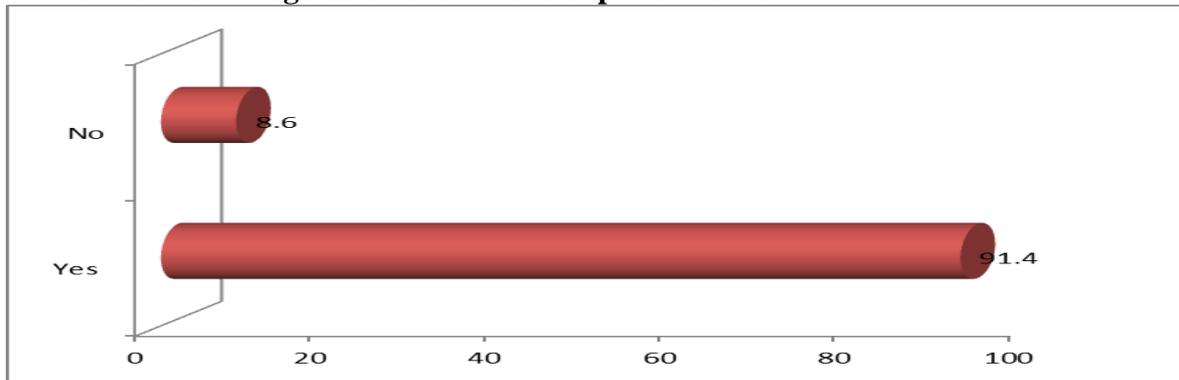


Figure 4.6: Central Bank regulation on agency banking

The study sought to investigate whether the Central Bank regulation on agency banking affects the financial performance of commercial banks in Kenya. From the findings 91.4% of the respondents were of the opinion that Central Bank regulation on agency banking affects the financial performance of commercial banks in Kenya whereas 8.6% of the respondents were of contrary opinion this implies that Central Bank regulation on agency banking indeed affects the financial performance of commercial banks in Kenya.

Table 4.1: Extent to which Central Bank regulation affects the financial performance

	Frequency	percentage
To a very great extent	9	25.7
To a great extent	14	40.0
To a moderate extent	5	14.3
To a little extent	4	11.4
To no extent	3	8.6
Total	35	100

The study sought to determine the extent to which Central Bank regulation on agency banking affects the financial performance of commercial banks in Kenya. From the findings

the study established that 40% of the respondents indicated to a great extent, 25.7% of the respondents indicated to a very great extent, 14.3% of the respondents indicated to a moderate extent, 11.4% of the respondents indicated to a little extent and finally 8.6% of the respondents indicated to no extent at all. This implies that Central Bank regulation on agency banking affects the financial performance of commercial banks in Kenya to a great extent.

Table 4.2: Effects of Central Bank regulation on financial performance of commercial banks

Statement	Strongly agree	Agree	Moderate	Disagree	Strongly disagree	Mean	Std deviation
Efficiently maintain confidence in the financial system	12	16	5	1	0	1.80	0.36
Promotion of public understanding of the financial system	9	16	6	4	0	2.14	0.36
Protect consumers of financial services and reduce financial crime	11	18	4	2	0	1.91	0.38
The government of Kenya should allow scope for different means of compliance so as not to unduly restrict market participants from launching new financial products and services	15	17	2	1	0	1.69	0.39
Kenyan government should hold banks liable for the conduct of their agents	10	18	4	2	1	2.03	0.37

The study sought to determine the level at which respondents agreed with the above statement relating to the effects of Central Bank regulation on agency banking. From the findings the study established that majority of the respondents agreed that the Government

of Kenya should allow scope for different means of compliance so as not to unduly restrict market participants from launching new financial products and services as shown by a mean of 1.69. CBK should efficiently maintain confidence in the financial system as shown by a mean of 1.80. It is the responsibility of CBK to protect consumers of financial services and reduce financial crime as shown by a mean of 1.91. The Kenyan government should hold banks liable for the conduct of their agents as shown by mean of 2.03 and finally that CBK's should promote public understanding of the financial system. The study further established that respondents were of the feeling that the regulation policies drawn by CBK did not accord all banking institutions a fair competition ground.

4.4 Low Costs Of Transaction and Financial Performance

Table 4.3: Low transaction cost of agency banking

Low transaction	Frequency	Percentage
Yes	26	74.3
No	9	25.7
Total	35	100

The study sought to determine whether low transaction cost of agency banking affects the financial performance of commercial banks in Kenya. From the findings the study established that, majority of the respondents agreed that low transaction cost of agency banking affects the financial performance of commercial banks in Kenya as shown by 74.3% whereas 25.7% of the respondents were of contrary opinion. This implies that low transaction cost of agency banking affects the financial performance of commercial banks in Kenya.

Table 4.4: Extent to which low transaction cost affects the financial performance of commercial banks

	Frequency	percentage
To a very great extent	8	22.9
To a great extent	16	45.7
To a moderate extent	6	17.1
To a little extent	2	5.7
To no extent	3	8.6
Total	35	100

The study sought to determine the extent to which low transaction cost of agency banking affects the financial performance of commercial banks in Kenya. From the findings the study established that 45.7% of the respondents indicated to a great extent, 22.9% of the respondents indicated to a very great extent, 17.1% of the respondents indicated to a moderate extent, 8.6% of the respondents indicated to a no extent and finally 5.7% of the respondents indicated to a little extent. This implies that low transaction cost of agency banking affects the financial performance of commercial banks in Kenya to a great extent.

Table 4.5: Effects of low transaction cost on financial performance of commercial banks in Kenya

Statement	Strongly agree	Agree	Moderate	Disagree	Strongly disagree	Mean	Std deviation
Cost involved in transacting in agency banking is low compared to banking hall	10	19	5	1	0	1.91	0.38

Time spent in agency banking is low compared to the normal banking	11	18	6	0	0	1.86	0.38
Cost involved in agency banking positively influence performance of commercial banks	14	17	4	0	0	1.71	0.39
Agents prior experience with the banks customers is positively related to both performance and survival	12	18	4	1	0	1.83	0.38

The study sought to determine the level at which respondents agreed or disagreed with the above statements relating on low transaction cost of agency banking and its effects on financial performance of commercial banks in Kenya. From the findings the study established that majority of the respondents agreed that costs involved in agency banking positively influence performance of commercial banks as shown by mean of 1.71. Agents prior experience with the banks customers is positively related to both performance and survival as shown by a mean of 1.83. Time spent in agency banking is low compared to the normal banking as shown by mean of 1.86 and finally that costs involved in transacting in agency banking is low compared to banking hall as shown by a mean of 1.91. All the cases were supported by low mean which implies that respondents were of the similar opinion. The study further established that favorable transaction costs within banking agencies compared to the main bank branches acted as a lock in strategy where majority of the customers preferred using local banking agencies thereby ensuring the sustainability of the local agency banking which contributed to improved performance.

4.5 Financial Services Accessibility and Financial Performance

Table 4.6: Financial services accessibility through agency banking

	Frequency	Percentage
Yes	28	80
No	7	20
Total	35	100

The study sought to determine whether financial services accessibility through agency banking affects the financial performance of commercial banks in Kenya. From the findings the study established that, majority of the respondents agreed that financial services accessibility through agency banking affects the financial performance of commercial banks in Kenya as shown by 80% where as 20% of the respondents were of contrary opinion. This implies that financial services accessibility through agency banking affects the financial performance of commercial banks in Kenya.

Table 4.7: Extent to which financial services accessibility affects the financial performance

	Frequency	percentage
To a very great extent	10	28.6
To a great extent	14	40.0
To a moderate extent	5	14.3
To a little extent	4	11.4
To no extent	2	5.7
Total	35	100

The study sought to determine the extent to which financial services accessibility through agency banking affects the financial performance of commercial banks in Kenya. From the findings the study established that 40% of the respondents indicated to a great extent, 28.6% of the respondents indicated to a very great extent, 14.3% of the respondents indicated to a

moderate extent, 11.4% of the respondents indicated to a little extent and finally 5.7% of the respondents indicated to a no extent at all. This implies that financial services accessibility through agency banking affects the financial performance of commercial banks in Kenya to a great extent.

Table 4.8: Effects of financial services accessibility on financial performance

Statement	Strongly agree	Agree	Moderate	Disagree	Strongly disagree	Mean	Std deviation
Agency banking adoption in banking systems has shown a great momentum and spread at an unbelievable pace across the world which has increased the accessibility of financial service	15	16	3	1	0	1.71	0.38
There is great potential of using this in agent banking for provision of banking services to unbanked community	10	17	5	2	1	2.06	0.37
Agency banking has led to accessibility of financial service to many customer in remote areas	12	19	2	2	0	1.83	0.39
Accessibility of banking service through agency banking has led to profitability of commercial banks	13	17	1	3	1	1.91	0.38

The study sought to determine the level at which respondents agreed or disagreed with the above statements relating on effects of financial services accessibility through agency banking on financial performance of commercial banks in Kenya. From the findings the study established that majority of the respondents agreed that; Agency banking adoption in

banking systems has shown a great momentum and spread at an unbelievable pace across the world which has increased the accessibility of financial service as shown by mean of 1.71. Agency banking has led to accessibility of financial service to many customers in remote areas as shown by mean of 1.83. Accessibility of banking service through agency banking has led to profitability of commercial banks as shown by mean of 1.91 and finally there is great potential of using this in agent banking for provision of banking services to unbanked community as shown by mean of 2.06. The study further established that agency banking made it easier for commercial bank to reach out to many potential clients without investing so much in opening branches hence it's a cost effective measure. It also increased the ease of expansion hence outreach to far flung market pockets of bankable populations. Further it also increased distribution channels to offer financial services hence improving overall performance of the organization.

4.6 Market Share and Financial Performance

Table 4.9: Market share

	Frequency	Percentage
Yes	30	85.7
No	5	14.3
Total	35	100

The study sought to determine whether market share through agency banking affects the financial performance of commercial banks in Kenya. From the findings the study established that, 85.7% of the respondents agreed that market share through agency affects the financial performance of commercial banks in Kenya whereas 14.3% of the respondents were of contrary opinion. This is an indication that market share through agency banking affects the financial performance of commercial banks in Kenya.

Table 4.10: Extent to which market share through agency banking affects the financial performance

	Frequency	percentage
To a very great extent	9	25.7
To a great extent	15	42.9
To a moderate extent	8	22.9
To a little extent	2	5.7
To no extent	1	2.9
Total	35	100

The study sought to determine the extent to which market share through agency banking affects the financial performance of commercial banks in Kenya. From the findings the study established that 42.9% of the respondents indicated to a great extent, 25.7% of the respondents indicated to a very great extent, 22.9% of the respondents indicated to a moderate extent, 5.7% of the respondents indicated to a little extent and finally 2.9% of the respondents indicated to a no extent at all. This implies that market share through agency banking affects the financial performance of commercial banks in Kenya to a great extent.

Table 4.11: Statement relating to market share and financial performance of commercial banks

Statement	Strongly agree	Agree	Moderate	Disagree	Strongly disagree	Mean	Std deviation
Market share often is associated with profitability and thus many firms seek to increase their sales relative to competitors	11	16	8	0	0	1.91	0.37

Market share increases can allow a company to achieve greater scale in its operations and improve profitability	13	18	4	0	0	1.74	0.39
Banks are always looking to expand their share of the market through agency banking	14	15	6	0	0	1.77	0.38
Banks that are increasing their market share through agency banking will be growing its revenues faster than its competitors.	12	17	6	0	0	1.83	0.38
A bigger market share also means more power to the bank in controlling the prices and services it offers to its customers	13	15	6	1	0	1.86	0.37
The greater the market share, the greater is a bank's control over its prices and the services it offers	14	16	5	0	0	1.74	0.38

The study sought to determine the level at which respondents agreed or disagreed with the above statements relating to market share and financial performance of commercial banks in Kenya. From the findings the study established that majority of the respondents agreed that; the greater the market share, the greater is a bank's control over its prices and the services it offers, market share increases can allow a company to achieve greater scale in its operations and improve profitability, as shown by mean of 1.74 in each case, banks are always looking to expand their share of the market through agency banking as shown by mean of 1.83, a bigger market share also means more power to the bank in controlling the prices and services it offers to its customers as shown by mean of 1.86 and finally that market share often is associated with profitability and thus many firms seek to increase their sales relative to competitors as shown by mean of 1.91.

4.7 Regression Analysis

Table 4.12: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.808(a)	.653	.633	.69440

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable, from the findings in the above table the value of adjusted R squared was 0.633 an indication that there was variation of 63.6% on the financial performance of commercial banks due to changes in central bank regulation, low transaction cost, financial service accessibility and market share at 95% confidence interval . This shows that 63.6% changes in financial performance could be accounted to changes in central bank regulation, low transaction cost , financial service accessibility and market share. R is the correlation coefficient which shows the relationship between the study variables. From the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.691.

Table 4.13: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Constant	.455	.231		1.973	.106
	Central Bank Regulation	.016	.009	.444	1.815	.009
	Low transaction cost	.182	.050	1.231	3.616	.036
	Financial service accessibility	.153	.017	1.075	3.159	.025
	Market Share	.204	.240	.230	.850	.028

From the data in the above table the established regression equation was

$$Y = 0.455 + 0.016 X_1 + 0.182 X_2 + 0.153 X_3 + 0.204 X_4$$

From the above regression equation it was revealed that holding central banks regulation, low transaction cost, financial service accessibility and market share to a constant zero, financial performance would be at 0.455. A unit increase in central banks regulation would lead to increase in financial performance by a factor of 0.016, a unit increase in low transaction cost would lead to increase in financial performance by a factor of 0.182, a unit increase in financial service accessibility would lead to increase in financial performance by a factor of 0.153 and unit increase in market share would lead to increase in financial performance by a factor of 0.204.

CHAPTER FIVE

SUMMARY OF FINDINGS CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

From the analysis and data collected, the following discussions, conclusion and recommendations were made. The responses were based on the objectives of the study. This study therefore seeks to establish the effect of central bank regulation on financial performance of commercial banks in Kenya, to determine the effect of low transaction cost through agency banking on financial performance of commercial banks in Kenya, to establish the effect of financial services accessibility by customers on financial performance of commercial banks in Kenya and to find out the effect of increased market share on the financial performance of commercial banks in Kenya .

5.2 Summary of the findings

From the analysis the study established that Central Bank regulation on agency banking indeed affects the financial performance of commercial banks in Kenya to a great extent. The study further revealed that, responders were of the wish that the Government of Kenya should allow scope for different means of compliance so as not to unduly restrict market participants from launching new financial products and services. CBK should efficiently maintain confidence in the financial system. It is the responsibility of CBK to protect consumers of financial services and reduce financial crime. The Kenyan government should hold banks liable for the conduct of their agents and finally that CBK should promote public understanding of the financial system.

The study sought further revealed that low transaction cost of agency banking affects the financial performance of commercial banks in Kenya top a great extent. It was revealed that; the costs involved in agency banking positively influence performance of commercial banks.

Agents prior experience with the banks customers is positively related to both performance and time spent in agency banking is low compared to the normal banking and also the cost involved in transacting in agency banking was low compared to banking hall. The study further revealed that favorable transaction cost within banking agencies compared to the main bank branches acted as a lock in strategy where majority of the customers preferred using local banking agencies thereby ensuring the sustainability of the local agency banking which contributed improved performance.

The study established that financial services accessibility through agency banking affects the financial performance of commercial banks in Kenya to a great extent. Further it was revealed that; agency banking adoption in banking systems has shown a great momentum and spread at an unbelievable pace across the world which has increased the accessibility of financial services, agency banking has led to accessibility of financial service to many customer in remote, accessibility of banking service through agency banking has led to profitability of commercial banks and finally that there is great potential of using agency banking for provision of banking services to unbanked community. The study further established that agency banking made it easier for commercial bank to reach out to many potential clients without investing so much in opening branches hence it's a cost effective measure. It also increased the ease of expansion hence outreach to far flung market pockets of bankable populations. Further it also increased distribution channels to offer financial services hence improving overall performance of the organization.

The study established that market share through agency banking affects the financial performance of commercial banks in Kenya to a great extent. The study further revealed that The greater the market share, the greater is a bank's control over its prices and the

services it offers. Market share increases can allow a company to achieve greater scale in its operations and improve profitability. Banks are always looking to expand their share of the market through agency banking. A bigger market share also means more power to the bank in controlling the prices and services it offers to its customers and finally that market share often is associated with profitability and thus many firms seek to increase their sales relative to competitors.

5.3 Conclusion

From the findings and summary the study concludes that the move by the central bank regulate agency banking had a high positive influence on the financial performance of commercial banks in Kenya. Central Bank regulation helped to promote efficiency and confidence in the financial system thus winning public trust.

The study also concludes that low transaction cost through agency banking had a positive impact on the financial performance of commercial banks in Kenya with many of the banking institution recording high amount of deposits and thus creation enough pool of for willing investors to borrow.

The study further concludes that financial services accessibility by customers through banking agencies had a positive impact on financial performance of commercial banks in Kenya with many of the banking institutions indicating that agency banking had made it easier for them to reach out to many potential clients without investing so much in opening branches hence it's a cost effective measure.

The study concludes that increased market share had a positive effect on the financial performance of commercial banks with many banking institutions indicating that increased

market share allowed a company to achieve greater scale in its operations which generally improved profitability.

5.4 Recommendations

From the summary and conclusions the study recommends that Central Bank should consider coming with a clear agency banking regulatory policy which creates a universal platform for all banking institutions. This will enhance fair market completion and thus barring financial institutions from customer exploitation. The study recommends that the financial institutions should continue offering low transaction rates within their local agency points. This will lure customers to adopt this as a culture thus ensuring the future sustainability of the agency banking system.

The study recommends that the banking institutions should considered intensifying the agency banking network which will ensure services accessibility by customers and thus improving financial performance.

Finally the study recommends that banking institutions should consider coming up with lock in strategies for the already captured market. This will award more power to the bank in controlling the prices and services it offers to its customers.

5.5 Areas For Further Research

The study sought to determine the contributions of agency banking on financial performance of commercial banks in Kenya. The study recommends that a study should be done on the challenges facing the adoption of agency banks by commercial banks in Kenya.

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APPENDICES

Appendix I: Questionnaire

Background Information

1. Indicate your gender

Male Female

2. What is your highest academic qualification?

Secondary school certificate College certificate

University degree Post graduate

3. Which is your age bracket?

18-24 years 25-31 years 32-38 years

39 – 45 Years 46-52 years above 52years

4. Which is your position in the this bank

Senior manager Middle level manger

Junior manager

Central Bank Regulation and Financial performance

5. Does Central Bank regulation on agency banking affect the financial performance of commercial banks in Kenya?

Yes No

6. To what extent does Central Bank regulation on agency banking affect the financial performance of commercial banks in Kenya?

To a very great extent

- To a great extent []
- To a moderate extent []
- To a little extent []
- To no extent []

7. What is your level of agreement on the following statement relating to the effects of Central Bank regulation on agency banking and their effects on financial performance of commercial banks in Kenya? Please tick appropriately.

	Strongly agree	Agree	Moderate	Disagree	Strongly disagree
Efficiently maintain confidence in the financial system					
Promotion of public understanding of the financial system					
Protect consumers of financial services and reduce financial crime					
The government of Kenya should allow scope for different means of compliance so as not to unduly restrict market participants from launching new financial products and services					
Kenyan government should hold banks liable for the conduct of their agents					

8. How does Central Bank regulation on agency banking affect the financial performance of commercial banks in Kenya?

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Low cost of transaction and financial performance

9. Does low transaction cost of agency banking affect the financial performance of commercial banks in Kenya?

Yes [] No []

10. To what extent does low transaction cost of agency banking affect the financial performance of commercial banks in Kenya?

To a very great extent []

To a great extent []

To a moderate extent []

To a little extent []

To no extent []

11. To what extent do you agree with the following statement relating to low transaction cost of agency banking and its effects on financial performance of commercial banks in Kenya?

	1	2	3	4	5
Cost involved in transacting in agency banking is low compared to banking hall					
Time spent in agency banking is low compared to the normal banking					
Cost involved in agency banking positively influence performance of commercial banks					
Agents prior experience with the banks customers is positively related to both performance and survival					

12. How else does low transaction cost of agency banking affect the financial performance of commercial banks in Kenya?

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Financial Services Accessibility and Financial Performance

13. Does financial services accessibility through agency banking affect the financial performance of commercial banks in Kenya?

Yes [] No []

14. To what extent does financial services accessibility through agency banking affect the financial performance of commercial banks in Kenya?

To a very great extent []

To a great extent []

To a moderate extent []

To a little extent []

To no extent []

15. What is your level of agreement on the following statement relating effects of financial services accessibility through agency banking on financial performance of commercial banks in Kenya?

	Strongly agree	Agree	Moderate	Disagree	Strongly disagree
Agency banking adoption in banking systems has shown a great momentum and spread at an unbelievable pace across the world which has increased the accessibility of financial service					

There is great potential of using this in agent banking for provision of banking services to unbanked community					
Agency banking has led to accessibility of financial service to many customer in remote areas					
Accessibility of banking service through agency banking has led to profitability of commercial banks					

16. How else does financial services accessibility through agency banking affect the financial performance of commercial banks in Kenya?

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Market share and financial performance

17. Does market share through agency affect the financial performance of commercial banks in Kenya?

Yes [] No []

18. To what extent does market share through agency affect the financial performance of commercial banks in Kenya?

To a very great extent []

To a great extent []

To a moderate extent []

To a little extent []

To no extent []

19. What is your level of agreement on the following statement relating to market share and financial performance of commercial banks in Kenya?

	Strongly agree	Agree	Moderate	Disagree	Strongly disagree
Market share often is associated with profitability and thus many firms seek to increase their sales relative to competitors					
Market share increases can allow a company to achieve greater scale in its operations and improve profitability					
Banks are always looking to expand their share of the market through agency banking					
Banks that are increasing their market share through agency banking will be growing its revenues faster than its competitors.					
A bigger market share also means more power to the bank in controlling the prices and services it offers to its customers					
The greater the market share, the greater is a bank's control over its prices and the services it offers					

20. How else does market share through agency banking affect the financial performance of commercial banks in Kenya?

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Thank For Your Participation

Appendix II: Commercial Banks Offering Agency Banking

1. Consolidated Bank of Kenya Ltd
2. Co-operative Bank of Kenya Ltd
3. Equity Bank Ltd
4. Chase Bank Kenya Ltd
5. Family Bank Ltd
6. Kenya Commercial Bank Ltd
7. Diamond Trust Bank Kenya Ltd
8. National Bank of Kenya
9. Post Bank