

**EFFECT OF AGENCY BANKING ON FINANCIAL PERFORMANCE  
OF COMMERCIAL BANKS LISTED AT THE NAIROBI SECURITIES  
EXCHANGE, KENYA**

**CHARLES M. KANYORE**

**A Research Project submitted to the School of Business at Department of  
Business Administration in partial fulfilment of the requirement for the award  
of the Degree of Master of Business Administration (Finance Option) of  
Technical University of Mombasa**

**2017**

## DECLARATION

This research project is my original work and has not been presented for award of a degree in any other University.

Signature .....

Date .....

**Charles M. Kanyore**

**MBA/5656/2014**

This research project has been submitted for examination with our approval as the University supervisors.

Signature .....

Date .....

**Dr. Abdulkadir Ali. B.**

**Technical University of Mombasa**

Signature .....

Date .....

**Dr. William Kingi**

**Technical University of Mombasa**

## **DEDICATION**

This project is dedicated to my family, wife Terry, my angelic children Prudence, Osteen, Precious brothers and sisters.

## **ACKNOWLEDGEMENT**

I am indebted to Dr. Abdulkadir Banafa and Dr. William Kingi for having guided and supervised my research project work. Their contribution and encouragement during the research proposal period made it possible for me to accomplish this task. I also thank The Almighty God for giving me the strength, good health and wisdom without which I would not have made it this far.

I also offer my sincere gratitude to my friends, colleagues, relatives for their continued support and encouragement. My appreciation goes too to the members of my family for their moral support and for being a pillar of my strength through this journey.

May God bless you all.

<b>TABLE OF CONTENTS</b>	
<b>DECLARATION</b> .....	<b>ii</b>
<b>DEDICATION</b> .....	<b>iii</b>
<b>ACKNOWLEDGEMENT</b> .....	<b>iv</b>
<b>LIST OF TABLES</b> .....	<b>viii</b>
<b>LIST OF FIGURES</b> .....	<b>ix</b>
<b>ACRONYMS</b> .....	<b>x</b>
<b>DEFINITION OF TERMS</b> .....	<b>xi</b>
<b>ABSTRACT</b> .....	<b>xiii</b>
<b>CHAPTER ONE</b> .....	<b>1</b>
<b>INTRODUCTION</b> .....	<b>1</b>
1.1 Background of the Study.....	1
1.2 Statement of the Problem.....	5
1.3 Objectives of the Study .....	7
1.3.1. General Objective .....	7
1.3.2 Specific Objective .....	7
1.4 Research Hypotheses .....	8
1.5 Significance of the Study .....	8
1.6 Scope of the Study .....	9
1.7 Limitations of the Study.....	9
<b>CHAPTER TWO</b> .....	<b>10</b>
<b>LITERATURE REVIEW</b> .....	<b>10</b>
2.1 Introduction.....	10
2.2 Theoretical Framework.....	10
2.2.1 Agency Theory .....	10
2.2.2 Innovation Theory .....	11
2.2.3 Bank Led Theory .....	12
2.2.4 Market Share Theory .....	12
2.3 Conceptual Framework.....	13
2.3.1 Financial Service Accessibility .....	14
2.3.2 Transactions Cost .....	15
2.3.3 Market Share .....	16

2.4 Financial Performance of Listed Commercial Banks .....	17
2.5 Empirical Review .....	18
2.6 Critique of Existing Literature Relevant to the Study.....	19
2.7 Summary .....	20
2.8 Research Gaps.....	21
<b>CHAPTER THREE .....</b>	<b>22</b>
<b>RESEARCH METHODOLOGY .....</b>	<b>22</b>
3.0 Introduction .....	22
3.1 Research Design.....	22
3.2 Target Population.....	22
3.3 Sampling Frame .....	22
3.4 Sample and Sampling Technique.....	23
3.5 Data collection Instruments .....	23
3.6 Data Collection Procedure .....	24
3.7 Data Processing and Analysis .....	24
3.8. Test for Significance of Regression on the Overall Model.....	26
<b>CHAPTER FOUR.....</b>	<b>27</b>
<b>RESEARCH FINDINGS AND DISCUSSION.....</b>	<b>27</b>
4.1 Introduction.....	27
4.2 Descriptive Statistics.....	27
4.4 Regression Analysis.....	30
4.5 Hypothesis Testing.....	33
4.6 Discussion of Findings.....	34
<b>CHAPTER FIVE.....</b>	<b>36</b>
<b>SUMMARY, CONCLUSION AND RECOMMENDATIONS.....</b>	<b>36</b>
5.1 Introduction.....	36
5.2 Summary of Findings.....	36
5.2.1 The effect of financial accessibility on financial performance of banking institutions listed at the NSE in Kenya.....	37
5.2.2 The effect of market share attributable to customer deposits on financial performance on listed commercial banks in Kenya.....	37
5.2.3 The effect of transactions cost attributable to value of transactions on financial performance on listed banking institutions in Kenya .....	38
5.3 Conclusions.....	38

5.4 Recommendations .....	39
5 .5 Suggestions for Further Research .....	39
<b>APPENDICIES.....</b>	<b>45</b>
Appendix 1: Observation Schedule On Number Of Bank Agents.....	45
Appendix 2: Observation schedule on Market share attributable deposits .....	46
Appendix 3: Observation Schedule On Transaction Cost Attributable To Value Of Transaction (Shs000 M).....	47
Appendix 4: Observation Schedule on Return on Assets .....	48
Appendix 5: Sample Frame: Commercial Banks Listed At the Nairobi Securities Exchange as at 31 <sup>st</sup> December, 2016.....	49

## LIST OF TABLES

Table 4.1 Descriptive Statistics.....	28
Table 4.2 Correlations Matrix Analysis of Financial Performance.....	29
Table 4.3 Regression Model.....	30
Table 4.4 Anova .....	31
Table 4.5 Regression Coefficients <sup>a</sup> .....	32



## LIST OF FIGURES

Figure 2.1 Conceptual Framework .....	14
---------------------------------------	----

## ACRONYMS

AFI	Association of Financial Inclusion
ATM	Automatic Teller Machine
CBK	Central Bank of Kenya
CGAP	Consultative Group to Assist the Poor
ICT	Information Communication Technology
MNO	Mobile Network Operator
NSE	Nairobi Securities Exchange
POS	Point of Sale
ROA	Return on Assets
SMS	Short Message Service
SPSS	Statistical package for Social and Sciences

## DEFINITION OF TERMS

<b>Agency Banking</b>	The concept of agency banking, according to (Invatory& Layman, 2006), refers to the services offered by retail or postal outlet contracted by financial institutions to process clients' transactions., The proprietor or a workerin the contracted retail outlet, and not a branch teller,is the one who carries out the transactions and facilitate the clients in depositing, withdrawing, and transferring funds, paying their bills, inquiring about account balances, or receiving government benefits or to make direct deposits from their employers.
<b>Financial Performance</b>	Financial performance refers tothe conclusions arising from financial analysis of a firm. This term is also a general an indicator of a firm's overall financial health over a given period of time, thus it can be used to compare industries or sectors in aggregation (Hales, 2005).
<b>Listed Commercial Banks</b>	Boldizzoni(2008) defines a commercial bank as a financial institution which accepts deposits, makes business loans, and offer basic investment products. A listed financial institution is a commercial bank that is registered in a country's stock exchange and must meet some stringent conditions to operate.
<b>Financial Service Accessibility</b>	It is the level at customers are able to obtain financial facilities and services both poor And Well To Do Customers Either From Formal And Informal Provider(CBK,2014).
<b>Market Share</b>	This consists of net assets, deposit capital, number of loan account and number of deposits(CBK,2014)
<b>Transaction Cost</b>	It Is The Cost At Which Financialservice Are Aailed To Customers (CBK,2014)

**Return on Assets**

It is a ratio of income against its total assets that indicate profitability of a bank. (Kharwish,2011)

**NSE**

It is a market where share and tradable securities are traded and also where firms are listed upon meeting specified requirements.

## **ABSTRACT**

According to the 2016 National Financial Access Survey, 17.4% Kenya's bankable population is still totally out of the financial services sphere. The main objective of the study was to examine the effect of agency banking on financial performance of listed banking institutions in Kenya. The study sought to identify the effect of financial services accessibility through agency banking to customers on financial performance of banking institutions listed in NSE. To determine the effect of market share through agency banking, to determine the effect between transaction cost through agency banking on financial performance. The study used survey of the 11 commercial banks which have listed in Nairobi Securities Exchange. Content analysis of data involved gathering data from NSE Handbook. The study adopted a survey research design, and inferential statistics. Excel and Statistical Package for Social Sciences (SPSS) software version 20 was used to analyze the data. Analysis of data involved both descriptive and inferential statistics. Descriptive statistics were in form of mean and standard deviation. Inferential analyses was in form of correlation, regression and analysis of variance Each variable in the model was measured using multiple linear regression models and the results were used to establish the relationship between the dependent and independent variables.. All regression coefficients were significant at 5 per cent level. This implies there is a positive significant relationship on the effect of agency banking and performance of listed banking institutions in Kenya and that the model is a good fit for the data. The study recommended that the listed commercial banks should recruit more agents so as to increase financial accessibility levels. The study also recommended that commercial banks should manage the agency gap carefully as it was noted to be an important determinant of financial performance.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

Since the beginning of the 21<sup>st</sup> Century, business environment at the global front has changed significantly, as more corporations continue to venture beyond national borders. Bold (2011) positsthat astiff competition among players has fuelled significant changes in the banking industry by encouraging financial institutions to find innovative and responsive ways of penetrating and dominating new markets at the global arena. Notably, innovation such as credit cards, mobile banking, children’s account, and online banking has enabled banks to attract different target groups; therefore, increase their market share locally, regionally, and globally. Agency banking has become the latest strategy for foreign banks to gain a competitive edge in a new market by serving the interests of the parent banks.

The growth in digital technologies andconsumers’ embrace of connectivity means financial institutions no longer need to open branches to attract or retain depositors. Consumers are turning to online and mobile applications for convenience and the ease of transacting, since they can access banking services at the convenience of their homes and workplaces without necessarily visiting the nearest physical branch of their favourite bank. Hence, agency banking is supported by busy work schedules and rapidly growing access to internet services. Like all other social entities, financial institutions are constantly expanding with technological innovations. For instance, bank customers were used to queuingto get financial services. Due to the multi-channel service outlets, they can perform it from anywhere at any time. Funds are transferred electronically between financial institutions and individual accounts or between individual accounts using e-banking system.

In Kenya, agency banking has continued to take shape thanks to increased competition, innovation, attractive banking policies, and enabling business environment. According to the Standard Investment Bank on the latest analysis on the financial sector, the country has seen the rise of bank agents by 52.6% in 2014 against previous year. The volume and value of transactions has been on the rise. Just like in other parts of the world, the role of agency banks in Kenya is limited to acting in the capacity of another bank. Therefore, such banks are cannot accept deposits or extend loan on their but act on behalf of their parent banks. In particular, agency banks operate by contracting retail outlets to process clients' transactions on their behalf. Instead of tasking the branch teller, agency banks allow the employee or owner of the retail outlet conducts the transaction. According to the CBK (2014), the agent should let their clients to withdraw, deposit, pay bills, transfer funds, or inquire about bank balance from their employer.

As agency banking continues to shape the Kenyan banking sector, the performance of banks and other local financial institution is critical. The overriding objective of commercial banks, especially those listed on the Nairobi Stock Exchange (NSE) is to make profit to sustain their operations and the earn returns for shareholders. Therefore, the performance of such banks is the extent to which they achieve their financial objectives within given periods. In other words, it the measurement of how the operations and policies of an organization are faring in monetary terms. In this case, the financial performance indicates the banks' financial stability over a given period, whether compared to other commercial banks or other financial institutions offering financial services in Kenya

The history of the agency banking can be traced bank to 1999 when Brazil became the first country to subscribe to agency baking. By 2000, agency banks had spread to 1,600 municipalities across Brazil. Therefore, the beginning of the 21<sup>st</sup> Century

marked a crucial turning point for agency banking, as the idea spread in other countries. A decade later, 170,000 agents across all Brazil's 5500 municipalities had already started offering services with 12 million active accounts (Kumar, Nair, Persons, & Urdapilleta, 2006). With an advanced financial sector, the United States is a competitive business environment due to the presence of well-established US-based banks that operate globally. Therefore, foreign banks used agency banks to penetrate the US market. With agency banks, foreign banks can engage in financial activities in the US by allowing American citizens to do business with them since the representatives at the agency can handle issues such as transfer of funds and currency exchange.

Since 2005, when the first agency bank was introduced in South Africa, banks in African countries are keen on reengineering their operations to accommodate agency banking (Mwangi, 2011). According to Mwangi (2011), Kenya and South Africa have been exceptionally keen on embracing and integrating agency banking on their respective banking systems. In brief, agency banking is branchless banking based on ICT allowing financial institutions to tender financial services outside the conventional bank premises (Mas, 2008; Mas and Siedek, 2008). According to Warii (2011), agency banking allows customers to conduct a limited type of financial transactions at third party outlets that include post offices, supermarkets, general and grocery stores, pharmacies, and gas stations and other businesses located in remote areas.

Kumar et al (2006) defined agency banking as a mutual partnership between banks and non-bank businesses such as commercial retail outlets, post offices, pharmacies, and lottery kiosks. The idea behind the partnership is to provide distribution outlets for financial services via such non-bank businesses. Brazil is considered the pioneer of agency banking since the country was the first to adopt the model in



1995. The country has established a full-grown system of agent banks which covers over 99% of the country's municipalities. Other countries in Latin America followed suit by introducing the agency banks gradually. For instance, Peru, Colombia, Ecuador, and Venezuela introduced agency banking in 2005, 2006, 2008, and 2009 respectively.

Elsewhere, countries have also embraced the agent banking model in a bid to expand their financial services and reach unbanked populations. According to AFI (2012), Kenya, South African, Uganda, Pakistan, Philippines, and India have embraced agency banking. Globalization has facilitated the integration of the economy with other world class economies, for example Singapore, thereby forming an economic global village. Advancement in information and technology, de-regulation, globalization of markets and stiff competition has ensured that banks are better educated, more inquisitive, sophisticated and decisive. This has resulted in a rapid change in the banking environment with the consequent serious implications and challenges regarding the survival and profitability of banks (CGAP, 2003). In Kenya, the financial sector has experienced a solid growth in the past few years as the industry continues to offer considerable profit opportunities to the major players.

Many countries have advocated agency banking as a major aspect of and contributor to financial deepening and inclusion. Financial inclusion is regarded as banking sector outreach. Under financial inclusion, banks avail financial services to all members of the society availed at a fair price, right place, form, and time without discrimination. Therefore, the primary objective of financial inclusion is to cater to the poor majority who are excluded in the use of formal financial services. As advocates of financial inclusion, Aduda and Kilunda (2012) argued that financial exclusion of a group makes it difficult for such a population to grow leading a stagnant national economic growth and increase poverty. Therefore, financial

inclusion acts as an economic stimulation that renders the entire majority of a country's population economically active. While Kenya has been on the forefront in expanding agency banking, it remains unclear how the implementation of the model affects the performance of commercial banks listed on the NSE. For instance, a study by Gakure and Ngumi (2013) revealed that bank innovations are associated with moderate influence on the profitability of Kenyan commercial banks. Therefore, the most critical question is whether agency banking is one of the innovations associated with better outcomes when it comes to the financial performance of commercial banks in Kenya.

## **1.2 Statement of the Problem**

Initially, the access to banking services by the unbanked population in Kenya was not easy due to their low incomes or informal means of earning their living. Instead, the Kenyan banking sector concentrated on the middle and high classes who were more endowed with more disposable income (NFI 2015). To access more customers, financial institutions began allowing other commercial outlets such as shops, pharmacies, post offices, and supermarkets to act in their capacity as formal banks.

Financial services provision in the developing countries has been hindered by the huge operation costs characteristic of traditional conventional banking methods. The costs incurred by the commercial banks serving low-income customers with small balances that are likely to make few transactions are huge. The huge costs are likely to hinder banks to open up brick and mortar bank branches where the customers can readily access financial services. Such challenges, therefore, makes it impossible for these customers to access financial services offered by the banks or customers having to travel long distance to access these services (Veniard, 2010).

According to Veniard (2010), the emergence of agent banking or 'cash merchants' concepts has been adopted by a number of bank as a means of availing banking

services. This has considerably changed the economics of banking for the unbanked, which is a viable commercial way of reducing fixed costs like rental and staff hiring and incentivizing the customers to use or access financial services readily which results into delivering additional revenue to the banks (Veniard, 2010). Since May 2010, agent banking has continued to revolutionize the banking industry in Kenya. Kenyan banks' profits have increased in the effort to reaching to the bank-less population. In the light of all this evolution the main objective that agent banking was set to achieve is yet to be fully realised. According Xinhua(2012)agency, banking has enabled to raise banks' profits and spread tentacles of financial services in Kenya. However, according to Xinhua (2012), Kenyan commercial banks are yet to decongest their banking halls since the majority of clients prefer physical transaction through bank tellers. Consequently, Kenyan banks continue to increase withdrawal cost at the banking halls as a way of driving customers to transact business at the agency outlets.

In yet another study, Kamau (2012) studied the correlation between bank's performance and agency banking activities they conducted. The results showed that active agency banking agents increased from 8,809 in 2010 to 9,748 in 2011. Interestingly, the agents had conducted 8.7 million transactions within a year valued at 43.6 billion Kenyan shillings. However, it is worth noting that Kamau (2012) employed secondary data. Therefore, a study involving primary data was necessary to shed more light on the impact of agency banking on the financial performance of commercial banks.

Aduda, Kiragu, and Ndwiga (2013) conducted a similar study by investigating how agent banking model affects the financial inclusion in the Kenyan banking sector. Their study revealed that customers with large transactions are not willing to transact with bank agents due to security risk. In a similar study, Kambua(2015)established

that number of agents of commercial banks led to an increase in the financial performance of banks. Also, there was positive relationship between the banks' Return on Equity (ROE) and the number of agents. A study carried out by Kambua (2015) concentrated on all the 43 commercial banks without isolating or classifying or making a distinction between listed and non-listed banking firms. The study was mainly a census survey and therefore this makes it important to develop the study further by looking specifically at only listed banking institutions who operate under different regulatory system namely Capital market Authority and Central Bank Regulations. The study failed to focus on the 1<sup>st</sup> Tier and 2<sup>nd</sup> Tier which are listed at NSE.

Despite the diverse studies on agency banking the aspect of how agency banking influence specifically listed banking firms has conspicuously been left out. This paucity and limited knowledge and how it influences listed banks creates a lacuna in knowledge among listed banking firms.

### **1.3 Objectives of the Study**

#### **1.3.1. General Objective**

The general objective of the study was to examine the effect of agency banking on financial performance of listed banking institutions in Kenya.

#### **1.3.2 Specific Objective**

- i. To identify the effect of financial services accessibility through agency banking to customers on financial performance of banking institutions listed in NSE
- ii. To establish the effect of market share through agency banking on the financial performance of listed banking institutions in Kenya

- iii. To determine the effect between transaction cost through agency banking on financial performance of listed banking institutions in Kenya

#### **1.4 Research Hypotheses**

The research hypotheses of the study are:-

**H01:** There is no relationship between financial accessibility through agency banking to the financial performance of the firm.

**H02:** There is no relationship between market share through agency banking with firms' financial performance.

**H03:** There is no relationship between transaction costs through agency banking on firm's financial performance.

#### **1.5 Significance of the Study**

This study sought to ascertain the effect of agency banking of listed financial institution in Kenya. In essence, the study was to provide information on whether the agent banking models lead to low transaction cost. The research findings will be of benefit to financial institutions in assessing whether the adoption leads to financial accessibility market share and transaction cost would lead to high value of transactions, and whether there is a tangible financial performance in adopting agency bank model. The study would also be helpful to academic researchers as the information would contribute to existing body of knowledge which will be resourceful in developing research papers and policies for the finance sector in the country.

### **1.6 Scope of the Study**

This study was restricted to the effect of agency banking on the performance of listed banking institutions in Kenya .The study focused primarily on the listed banking institutions which have adopted agency banking model.

### **1.7 Limitations of the Study**

The study focused primarily on secondary data which is not as comprehensive and detailed and lack validity. One of the limitations of this study was associated with the use of secondary data, where already collected information was used. Therefore, there was a possibility that some data were bank-dated. The data may also be more general and lack validity. To mitigate the problem the data was collected from NSE and Central Bank of Kenya which was highly credible as it undergoes rigorous sifting by accredited financial analysts and auditors who examine financial records with a keen eye .The data used was the most current running from 2011 to 2015.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

In brief, the chapter covered theories and empirical pieces of evidence in the existing body of knowledge to identify the gap in knowledge that is yet to be addressed and bridged. The previously conducted studies provided gave useful insights and understanding of other researchers found ad suggested concerning the integration of agency banking within the Kenyan banking sector.

#### **2.2 Theoretical Framework**

This subchapter sought to review the interchange between financial performance, agency banking, and listed financial institution. Theories of agency banking can be summarised under five broad categories namely agency theory, bank led theory, innovation theory, and market share theory.

##### **2.2.1 Agency Theory**

According to the Agency Theory, a firm consist of a contract between the owners of economic resources invested as a business entity and the managers tasked with controlling such resources. The Agency Theory is based on the basis that managers or agents possess the needed skills or information required in managing the firm. Since the principal or investors is not in a position to handle the work, the best approach Is to employ an expert who can handle the technicalities associated with controlling and managing such resources or organisations (Ivatury& Mas, 2008). The Agency Theory also assumes that the principal and agent are rational human beings who will use the contracting process to suit the interest of the owners by maximizing the value of their shareholderswealth. This means that agents are self-

seekers who are likely to work against the owners of the firm for example, allocating themselves huge perquisites (Ivatury & Mas, 2008).

A closer look at the history of the Agency Theory reveals that Jensen and Meckling (1976) modelled the theory to explain the structure of firms. The theory attempts to address all that appertains to the contract between the principal and agent in areas of cooperation and delegations of duties and responsibilities. Jensen and Meckling (1976) explained that an agency relationship as a contract, whether implicit or explicit. The use of agency banking, which is an alternative channel will reduce expenses and improve efficiency, which is pushing banks to more restructuring to strengthen the competition position strategy. Agency banking is a great innovation that transfers operational cost to a third party; thereby, increasing the convenience of the customers and cutting down cost for bank.

### **2.2.2 Innovation Theory**

Recently, markets around the globe have witnessed a remarkable increase in innovation, as firms continue to invest in Research and Development (R&D). With innovative ideas, products, and services, firms have increased their competitive edge in the highly competitive marketplace. In the banking sector, the ever-increasing disruptive technologies have facilitated the emergence of new forms of financial transactions and activity (Joseph et al, 2005).

The financial institution is among the sectors which have adopted new technology with the aim of improving and gaining competitive advantage. There is a trend of customers turning to online and mobile application. Agency banking is supported by busy work schedules and rapidly growing access to internet services. Makori (2003) says that the number of banks opening brick and mortar branches has decreased and this is ascribed to affordable banking and low service charge. Michael and



Bloodgood (2010) opined that the implementations of design as well as the dissemination of payments systems have improved dramatically. The spread of technology has resulted in a revolution in all sectors of the economy and the banking sector has not been an exception (Mbombua, 2013).

### **2.2.3 Bank led Theory**

Lyman, Ivatury and Staschen (2006) say that financial services and products are developed by banks but distributed through retail agents. According to Sunguti (2013), banks carry out due diligence on its agents and make certain that agents operate within the generally accepted rules and regulations so that the interest of the banks and those of the customers are safeguarded. The basic tenets of the bank led model arise where financial institutions deliver financial services through a retail agent. The Bank-Led Theory is relevant to this study since it provides the much-needed theoretical underpinnings to understand how banks deliver financial services through retail agents. The bank-led model can be applied by using correspondent (agency) arrangements, where the customers' account relationship rest with the banks. Therefore, bank-led theory is important in this study because it allows branchless banking, and licensed banks to deliver financial services through a retail agent. The theory is positively affecting the study since the branchless banks will still make profits through the agents.

### **2.2.4 Market Share Theory**

According to Kulzick (2002), most mature or advanced markets are characterised by a situation where 3 to 5 companies play a dominating role by controlling 70% or more market share. The remaining 30% is usually shared among smaller firms. Kulzick (2002) stated that the best strategy for dominating firms is to stay in their markets and focus on providing a wide range of products or services using the

Porter's low cost strategy. A higher market share is usually associated with the increased sales or number of transactions. Therefore, as the market share increases, the company' profitability will keep on increasing in equal measure as long as the profit margin remains constant. Kulzick (2002) claimed that organizations operate within their captured market and stay within it. However, competition allows an organisation to penetrate new market that is dominated by a rival firm. In banking, a bank may desire to follow such a path with the aim of increasing its market share through two main strategies. For example, the bank may choose to expand its market gradually and spreading its tentacles to new areas. Alternatively, banks can apply the expansion of specific niches allowing them to compete with fragmented competitors. This theory was found relevant since it explains how banks expand their market by running agency banking through use of third parties who operate their main business in conjunction with the agency business.

### **2.3 Conceptual Framework**

The price share theory, Bank Led Theory, Innovation Theory, and Agency Theory provide crucial insights concerning the relationship between the variables when examining the impact of agency banking on the performance of commercial banks. As Mugenda and Mugenda (2003) stated, a conceptual framework is critical in pointing how the independent and dependent variables are related. Therefore, this sub-chapter presents the conceptual framework for this study in line with the research objects and hypotheses outlined in Chapter One and empirically supported by the reviewed literature. It consists of independent variables (Financial Service accessibility, Market share, and transaction cost) and the dependent variable (Financial Performance). As demonstrated in Table 2.1, arrows were used to illustrate where and how the independent variables influence the banks' financial performance, which is dependent variable.

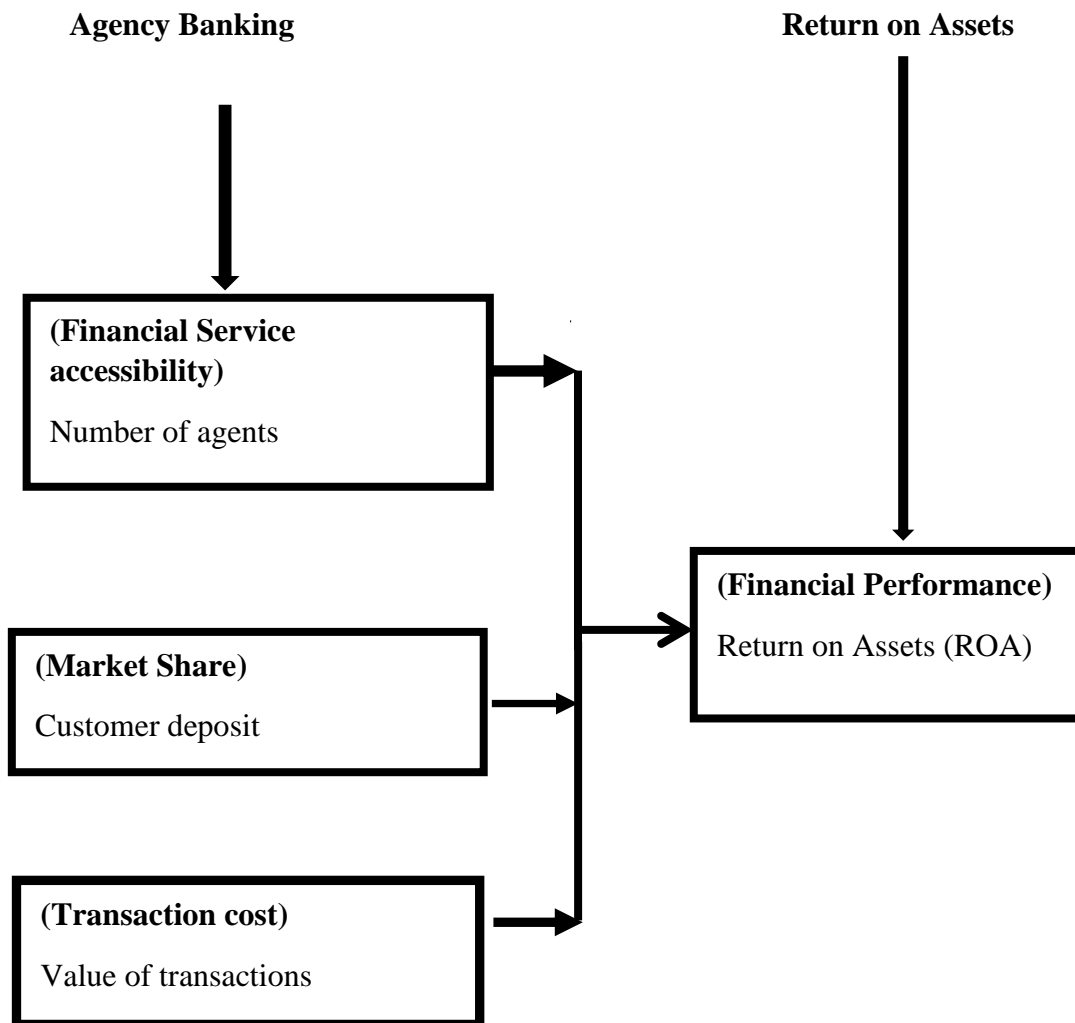


Figure 2.1 Conceptual Framework

### 2.3.1 Financial Service Accessibility

Accessibility to financial services is one of the independent variable, where the number agents can compared to the performance of the banks. According to Pandey (2011), a higher number of banking agents such as convenient stores and supermarkets is a clear indication that customers access the financial services at the convenience of their localities. Therefore, the reasoning behind this variable is personalisation of the service. Pandey (2011) also noted how agent assist in customer care services on behalf of banks since the banking is a highly interactive industry, where clients make enquiries on a wide range of issues. Therefore, the expectation is

that banks with more agents can increase customers' satisfaction, which is usually linked to better performance.

According to Ivantury and Timothy (2006), the benefits of agency banking to the clients could be in the following ways (1) lower transaction costs as the cost of delivering financial services is reduced, (2) increased access to finance through longer opening hours, and (3) shorter queues than in branches, especially when the number of agents is high. Other benefits include (4) increased revenue from commission and incentives to the financial institutions and (5) increased customer base. According to Bold (2011), agency banking has not only reduced the cost of banks' operations but also increased the efficiency of such banks by availing financial services at the convenience of the customers. Bold (2011) also noted that banks continue to expand to far flung pockets of bankable population.

Ndungu and Njeru (2014) stated that with agency banking it is cheaper to put up with low human resources and has low operation cost. On the same note, Mackay (2011) asserted how banks that have adopted the agent banking model use mobile phone applications that allows agents to transact on their behalf and send the data to a central processing centre for capture and reconciliation. According to Ivantury and Lyman (2006), the most attractive features of agency banking to the customers has been the convenient access to banking and the extended hours of work of the agencies. Other advantages of agency banking include: more accessible and comfort experience to the low income earners, especially those in working in the informal sectors.

### **2.3.2 Transactions Cost**

Cost minimization is most both important to bank and customers. The value of transactions is as a result of growing confidence in third party financial

providers. Ayana (2012) suggested that bank can save a significant portion of cost if they adopt agency banking and make use of technology so that administration cost can be cut down. The low income people may not have a lot of money to save but they have plenty of transactions to undertake; frequency small deposit building up to a saving objective, micro loan objective and bills to pay, remittances among family and friends supporting each other (Dungu & Wako, 2015).

It has been argued that agency banking minimizes fixed cost by leveraging existing retail outlets; therefore, eliminating the need for banks to set up more infrastructure such as brick and mortar branches to accommodate new customers (Munyao and Kilongo, 2015). Clario (2010) noted that the proximity to an agent bank outlet tends to increase the number of customers willing to transact and pay for services. The nearness to the agents serve as motivational tools for customers not near the banks make their payments at agents like payment of electricity bills, school fees and many other transactions (Munyao & Kilongo, 2015).

### **2.3.3 Market Share**

Kambua (2015) avers that market share will give a financial institution its size. This consists of net assets, deposit capital, number of loan account and number of deposits. According to Bindra (2007), customer service as the overall operation in terms of relative superiority or inferiority of the service delivered. Bindra (2007) also noted that customers will always recommend their friends and relatives to join their bank if they are satisfied with the services rendered. In doing so, the market share of the bank increases, as customer shift from other competitors that are offering poor services.

In 2011, the CBK Governor asserted that the customer would not incur more financial cost to transact at the banks' branches unless the service is not available at

the agent. This essentially shows that agent banking has the capacity to increase the number of customers joining the fray in order to enjoy services and operate a bank account that are in close proximity to where he is located. Mwando (2013) defined market share as the percentage of sales or services that a firm renders within a given period in relation to the total amount transacted within the industry. To expand their share of the market companies endeavour to appeal to larger demographics, they lower prices or they advertise. Investors are attracted by growing companies and are therefore interested in how companies grow relative to their competitor's products or services. A company with a growing market share will grow its revenue faster than its competitors since it has more power to control prices and other factors. Therefore, Smirlock (1985) believed that market share tend to influence the profitability and growth of a company within a particular market. His findings concluded that growth had a significant positive relationship with profits.

#### **2.4 Financial Performance of Listed Commercial Banks**

Financial performance is the summary drawn from financial analysis of a firm by examining parameters such as financial ratios. The financial analysis entails the interpretation of financial data collected from annual income statements and balance sheets along with other information which is useful in giving reliable and valid information. Financial analysis may be used both internally and externally to evaluate the value of the firm and potential of the firms in terms of investment return and credit worthiness of the borrowers (Hales, 2005). According to Liargovas and Skandalis (2008), the financial analyses provide a platform for the comparison of firms operating within the same industry. The key elements which are used to measure financial performance are profitability, liquidity, solvency, financial efficiency and repayment ability of a bank or a firm. In their study, Dess and Robinson (1984) revealed that the subjective perceptions of a firm had a

positive correlation with the overall performance. Kharwish (2011) is in agreement with Dess and Robinson (1984) as he states that Return on Assets (ROA) is major ratio, this is, a ratio of income against its total assets that indicates the profitability of a bank.

## **2.5 Empirical Review**

In brief, a critical review of the current literature shows that various forms of innovation have continued to positively influence the performance of commercial banks in Kenya and beyond. For instance, Kambua(2015) investigated the effect of the agent banking model on the performance of commercial banks. In the study, Kambua (2015) adopted a descriptive research design that involved 16 commercial banks that had already adopted the model. The findings showed that the relationship between agent banking model and banks' financial performance was not only positive but also strong.

In a slightly different study, Modinye (2010) investigated the dynamic of financial innovation in the Nigerian banking sector. The findings showed a distinction between product innovation and process innovation since each type of innovation leads to a different outcome as far as the financial performance of a bank is concerned. His argument is that that product innovation has an internal focus and is efficiency driven. According to Modinye (2010), the reason for the introduction of product innovation is to satisfy an external party or the market need. In yet another study, Kengele(2014) conducted a study on the effect of agency banking on the non-funded income for commercial banks operating in Kenya. The research employed a descriptive research design in which he studied commercial bank offering agency banking in Kenya. The study used non funded income as an independent variable and value of fees and commission income from agency banking, value of the

dividend and other income, value of fees and commissions from electronics internet and mobile banking as independent variables both measured in Kenyan Shillings. The study concluded that agency banking has a positive impact on the non-funded income for commercial banks in Kenya. Kingangai, Kigambo, Kihonge, and Kibachia (2016) conducted a study in Rwanda on the effect of agency on the effect of agency banking on financial performance on financial banking. They adopted a descriptive research design in a study which focused on a population of 4 commercial banks which operated agency banking. Acensus approach was used to select 15 senior managers from each of the banks thus forming a sample size of 60 respondents. The researcher employed primary and secondary data, where semi-structured questionnaires were used to collect primary data from the respondents. The findings revealed how the decision of the Central Bank of Rwanda to regulate agency banking positively influenced the performance of the banks that applied the model. Other variables like accessibility increased market share, low transaction cost had also a positive influence on financial performance of commercial banks in Rwanda. Mwando (2013) conducted a similar study in Kenya by adopting a survey method to access primary data. The study had a finding similar to that carried out by Kingangai et al. (2016) that the decision of the CBK to regulate the activities of agents had a positive impact on the performance of commercial banks that initiated the model in Kenya.

## **2.6 Critique of Existing Literature Relevant to the Study**

In Kenya, only 18 banks out of 43 licensed to operate in Kenya have adopted the agency banking model. Most of these banks are local banks, which indicate that main international banks in Kenya like Standard Chartered and Barclays have ventured into this model recently. Additionally, agency banking has been in



existence in the country for a period of five years only. Hence the amount of data available was not sufficient enough to fully gauge the success of the agency banking model Kenya (Aduda, Kiragu, & Ndwiga, 2013).

Commercial banks have not adopted all of the approved services which agencies to the commercial banks are licensed to engage in. By so doing the banks may be missing out in realizing the full benefits of the agency banking model. Additionally, Central Bank of Kenya should consider expanding these services to include services such as application for loans and advances. The studies did not include all the variables which can be attributed to assessing the effect of agency banking on financial performance. Further research could be done to identify the omitted variables as this will improve the model used in the studies (Kambua 2015).

## **2.7 Summary**

This chapter has highlighted past and recent research findings as well as the theories surrounding agency banking and banks' financial performance. In summary, the industry-specific studies have clearly showed that agency banking is a promising innovation that can potentially solve the challenges that commercial banks face and give them a competitive edge. Concerning the theories, four theories discussed which include non-bank, bank focus and agency theory and market share theory are important in understanding the relationship between the Agent banking model and a bank's financial performance. The past studies have shown that the performance of financial institutions is mainly affected by infrastructure and security. Agency banking model has greatly reduced operational and maintenance cost. Larger populations have greater access to financial services due to increased agency banking and this has subsequently led to increased competition resulting in better products and services.

## **2.8 Research Gaps**

From the afore mentioned study reviewed, it is evident that agent banking model leads to several benefits such as cost-saving and increased accessibility to banking services for the unbanked. However, how this model banking works in Kenya is lacking. The gap that this study seeks to plug, therefore, is to evaluate the effect of agency banking in the financial performance of listed financial institutions in Kenya. Earlier studies were done on fewer banks more so the indigenous banks leaving out multinational banks which had apathy towards adoption of agency banking. The study sought to get data from 11 listed banking institutions doing agency banking so that better result may be obtained that is also inclusive as more and more banks continue to adopt the model.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter describes the methodology that was followed in undertaking the study aimed at achieving the study objectives. The chapter covers the research design, the

study target population, type of data to be collected, sampling frame, sample and sampling techniques, data collection instrument, data collection procedure, and the data analysis and presentation. Kothari (2004) states that research methodology have the objective of showing the various pathways that are generally used by a researcher in studying a research problem along with the logic behind them. Mugenda and Mugenda (2008) describe a research methodology as the procedure that is followed in conducting a study.

#### **3.1 Research Design**

The research design employed was the survey design. It involved gathering quantitative data that describes events and then organizes, tabulates, depicts and describes the data collection. To describe data and characteristic research is the goal of descriptive research. It is an accurate method of collecting information that demonstrates relationships.

#### **3.2 Target Population**

According to the Nairobi Securities Exchange, as at 2015, there was (11) banking institutions which formed the target population for the study.

#### **3.3 Sampling Frame**

Data was collected from listed banks at Nairobi Securities Exchange. It is from this sample frame a sample was drawn. The study utilized secondary data, collected by

use of content analysis which was obtained from the annual financial statement reports of listed firms, Central Bank Supervisory Reports, NSE hand book , magazines and articles related to the financial performance of listed firms at the Nairobi Securities Exchange (Appendix V)

### **3.4 Sample and Sampling Technique**

According to Mugenda and Mugenda (2013), when the target population is too small, it's advisable to take a whole population. The study utilized survey method and hence all the 11 listed banking institutions was used as units of study. Purposive sampling was used to get appropriateness of the population and the required sample because, as Mugenda (2003) says, it is a technique that allows a researcher to use cases that have the required information with respect to the objective. The 11 listed banking institutions was appropriate for the study. The sampled banks was selected because they have readily available information and have higher levels of information disclosure especially from listed and government owned banks on the variables as it is published Annual CBK supervision reports. They also constitute the majority of banks in the First tier and Second tier in the list of high performers. These banks also account for a significant size of over 80% of the Kenyan banking industry in terms of composite market share i.e. index of net assets, total deposits, shareholders' funds, and number of deposit account.

### **3.5 Data collection Instruments**

Data for the variables was collected from financial statements using a record survey sheet. Using record survey sheet, important figures from statements of comprehensive income and financial position was recorded for subsequent analysis. Data was obtained from Nairobi Securities Exchange Handbook and CBK Annual supervisory Reports. The data collected spanned for a period of five consecutive years covering the period 2011 to 2015. The reason to restrict the period of the study to

five years is because it constituted the latest data which was readily available for this period.

### **3.6 Data Collection Procedure**

Secondary data was collected from published annual reports and websites of the selected Companies. The secondary data provided a reliable source of the information needed by researcher to investigate the phenomenon and sought efficient ways for problem solving situations (Uma, 2003). The study utilized time series data which is historical in nature. The data for all the variables in the study was from published CBK Bank Supervision Annual Reports and financial statements of the listed financial institutions in the NSE covering the years 2011 to December 2015. This was done by use of desk research techniques by perusing NSE website and secondly extracting data from CBK Bank Supervision Annual Reports.

### **3.7 Data Processing and Analysis**

The data which was collected was analysed using descriptive statistics. Tables of means and standard deviation were used to present the data. The methodology involved the use of inferential statistics using statistical package for social sciences (SPSS) package and Excel. Time series data consisted of observations which are considered to be random variables that can be described by some stochastic processes. In order to work on time series data, the data is required to be stationary. A stationary process has statistical properties (mean, variance and covariance) that do not change over time. Therefore, it was important that one should first test a time series to see if it is stationary or not (Brockwell & Davis, 1996). If we want to analyse the relationship two or more time series variables, we assumed some sort of stability over time. According to IBM (2010), linear multiple regression is useful in situations where there are more than two independent variables and/or dependent

variables. Multiple regression model which allows simultaneous investigation of the effect of two or more variables was used. The model was to establish the relationship between agency banking and the financial performance of the banks which employ it using various key performance indicators. The algebraic expression of the multivariate analytic model applied was as below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where;

Y = Financial performance, value of independent variable measured by ROA (return of assets)

The following are the components of model; viz:

$\beta_0$  = Regression constant,

$\beta_1$  to  $\beta_3$  = Regression coefficient of independent variables,

$X_1$  = financial service accessibility attributable to number of agents

$X_2$  = transaction cost effect attributable to the value of transactions

$X_3$  = market share effect attributable to customer deposits

$\epsilon$  = coefficient of error/error term.

The performance measure adopted is ROA. The ROA is an important metric and signal of the bank's profitability since it gives a summary picture of how well the banks are doing. It measures the strength of an organization's management to produce income by making use of company assets at their hand. Multiple regressions are an extension of simple linear regression. This was used to predict the value of a variable based on the value of two or more other variables. The dependent variable was the variable to be predicted. The variables used to predict the value of the dependent variable was called the independent variables. To come up with the

regression model the dependent and independent variables were determined from the data collected.

### **3.8. Test for Significance of Regression on the Overall Model**

The analysis of variance (ANOVA) was used to carry out the test for significance of regression in the case of multiple linear regression analysis. The test is used to check if there exists a linear statistical relationship between the dependent variable and at least one of the predictor variables. The level of significance of the variables on the dependent variable was at 95% level of significance. Correlation was used to establish the strength of the relationship between the independent variables and dependent variable.

## **CHAPTER FOUR**

### **RESEARCH FINDINGS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents analysis and findings of the study as set out in the research objective and research methodology. The chapter covers descriptive statistics, correlation analysis regression analysis, hypothesis testing and discussion of findings.

#### **4.2 Descriptive Statistics**

Descriptive statistics provides the means and standard deviations of the scores relating to each of the variables used. Means and standard deviations for all the variables were also calculated in order to get an idea about the direction of all the variables. It also presents the minimum and maximum values of the variables which help in getting a picture about the maximum and minimum values a variable can achieve. See table on page 28



**Table 4.1: Descriptive Statistics.**

	N	Minimum	Maximum	Mean	Std. Deviation
Return On Assets	55	-1.34	7.70	4.5718	1.70
Customer Deposit	55	18671586.00	488300000.0	143734543.1	91124947.95
Value Of Transaction	55	0.19	168.08	22.1	39.41
No. Of Agents	55	45.00	15436.00	2688.35	3762.93
Valid N (listwise)					

As it is displayed in table 4.1., the mean value of firms return on asset is 4.57 per cent of total assets, and it deviates 1.704 per cent. It means that value of profitability can deviate from mean to both sides by 1.704 per cent. Its minimum value is -1.34 per cent while the maximum is 7.70 per cent. Likewise, the descriptive statistics for the three measures of efficiency of return on assets namely, customer deposit, value of transactions, and number of agents are also presented in the same table. The average of customer deposits 14373454.31, value of transactions 22.1007, and number of agents 2688.34545. The interpretation of customer deposits is that there is a growth in all the 11 banks listed for the (N =55 ) observations made .The interpretation for value of transactions over the 55 observations is 22.1007 billion on average which was transacted through the agents. The interpretation for the number

of agents on average is 2688.34545 for the 55 number of observations made. The least and the maximum customer deposits for the 55 observations are 18671586.00 and 488300000.00 respectively.

### 4.3 Correlation Analysis

**Table 4.2** Correlations Matrix Analysis of Financial Performance

		Return On Assets	Customer Deposit	Value Of Transactions	No Of Agents
Return On Assets	Pearson correlation	1			
	Sig. (2-tailed)				
	N	55			
Customer Deposit	Pearson correlation	0.436*	1		
	Sig. (2-tailed)	0.001			
	N	55	55		
Value Of Transactions	Pearson correlation	0.298*	0.877**	1	
	Sig. (2-tailed)	0.027	0.000		
	N	55	55	55	
No Of Agents	Pearson correlation	0.339*	.868**	0.959**	1
	Sig. (2-tailed)	0.011	0.000	0.000	
	N	55	55	55	55

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\*. Correlation is significant at the 0.05 level (2-tailed).

On the correlation of the study variables, the researcher conducted a Pearson correlation. From the findings on the correlation analysis between return on assets and various derivatives, the study found that there was a positive correlation coefficient between return on assets and number of agents as shown by correlation

factor of ( $r= 0.339;p=0.01<0.05$ ). The study also found a positive correlation between customer deposits and ROA, as shown by correlation coefficient of ( $r=0.436; p=0.001<0.05$ ). The study also found a positive correlation between value of transactions and ROAs shown by correlation coefficient of ( $r= 0.298; p=0.027<0.05$ ). Hence all the variables had a positive relationship with return on assets as a measure of financial performance. There was also significant relationship between the variables as the correlation of the variables was significant at 0.05. The findings is consistent with the findings of Kingangai, Kigambo, and Kihonge.

Kibachia (2016) who conducted a study in Rwanda on the effect of agency banking on financial performance of commercial banks which showed a strong positive relationship. Kambua(2015) on the same vein conducted a study on effect of agency banking on financial performance and found a positive relationship between financial performance and agency banking which is in tandem with the research.

#### 4.4 Regression Analysis

In this section the study presents the research findings on the relationship between various independent variables on the regression model and financial performance.

**Table 4.3**Regression Model

##### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error Of the Estimate	Durbin–Watson
1	0.484	0.234	0.189	1.5394	1.029

- a. Predictors: (Constant), number of agents, value of transactions, customer deposit

From the table 4.3 above, R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a positive relationship between the study variables as shown by R .484 at 5% significance level. This means that 48.4% variation of performance is explained/predicted by joint contribution of value of transactions, customer deposits and number of agents. Regression result show that multiple regression model had a coefficient of determination ( $R^2$ ) of about 0.234. Durbin–Watson statistic is within the thumb rule value of 1 to 2, thus from the table Durbin Watson statistics value was 1.029 indicating lack of serial correlation (autocorrelation). The 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 table above the value of adjusted R squared was 0.189 an indication that there was a variation of 18.9% on return on assets due to changes in value of transactions, number of agents, customer deposits at 95% confidence interval. This is an indication that 18.9% of the changes in return on assets could be accounted for by the independent variable

**Table 4.4 ANOVA**

<b>Model</b>		<b>Sum of Df</b>	<b>Mean</b>	<b>F</b>	<b>Sig.</b>	
		<b>Squares</b>	<b>Square</b>			
1	Regression	36.693	3	12.231	5.191	.003 <sup>b</sup>
	Residual	120.158	51	2.356		
	<b>Total</b>	<b>156.851</b>	<b>54</b>			

- a. Dependent Variable: ROA(Return on assets)
- b. Predictors: (Constant), number of agents, value of transactions, customer deposits

From the table above, the processed data, which is the population parameters, had a significance level of 0.05% which shows that the data is ideal for making a conclusion on the population’s parameter as the value of significance (p-value) is less than 5%. The Critical value at 5% level of significance, 3 d.f, 51d.f was 2.79 while F computed was 5.191(F0.05; 3,51=0.003) since F calculated is greater than the F critical ( p = 2.79), this shows that the overall model was significant at that level.

**Table 4.5**Regression Coefficients <sup>a</sup>

	<b>Unstandardized B</b>	<b>Std. Error</b>	<b>Standardize d Beta</b>	<b>t</b>	<b>sig.</b>
(Constant)	2.858	.529		5.40	1.738
Number of agents	1.314E-08	0.000	2.085	2.73	.0009
Customer deposits	-.003	.020	-3.505	-1.58	0.0119
Transaction value	0.000	0.00	0.740	0.93	0.0344

a. Dependent Variable: **ROA**

$$Y = 2.858 + 1.31453E-08X1 + -.003X2 + .000 X3$$

From the regression equation above it was found that holding number of agents, customer deposits, transaction value to a constant zero, return on assets would be 2.858. A unit increase in number of agents would lead to increase on return on assets by 1.31453 Exponent-08 (a number close to zero but not zero) units. A unit

increase in customer deposits would lead to increase in return on assets by -.003 units, a unit increase in value of transactions would lead to increase in return on assets by 0.000 units. Overall number of agents had the greatest effect on return on assets. At 5% level of significance and 95% level of confidence, Customer deposit had a 0.119 level of significance; number of agents had a 0.009 level of significance, value of transactions had a 0.344 level of significance. The most significant was number of agents with a p value of 0.009. The least significant was transaction value with a p value =0.344 less than critical value 0.05. All the variables were significant ( $p < 0.05$ )

#### **4.5 Hypothesis Testing**

**H<sub>01</sub>: There is no effect of financial accessibility through agency banking to the financial performance of the firm.**

The coefficient for financial service accessibility attributable to number of agents (0.00314) is significantly different from 0 because its p-value is 0.009, which is smaller than 0.05 we reject the null hypothesis at that level it is accepted that financial service accessibility attributable to number of agents has a positive and significant effect on financial performance.

**H<sub>02</sub>: There is no relationship between in market share through agency banking with firms' financial performance**

The coefficient for market share attributable to **customer deposit** (-0.003) is significantly different from 0 because its p-value is 0.0119, which is less than 0.05; so we reject the null hypothesis at that level and it is accepted that market share attributable to customer deposit has a positive and significant effect on financial performance.

**H03: There is no relationship between transaction costs through agency banking on firm's financial performance.**

The coefficient for transaction cost attributable to value of transactions (0.000) is statistically significantly different from 0 because its p-value 0.0344 is definitely less than 0.05 we reject null hypothesis at that level and it is accepted that transaction cost attributable to value of transactions has a positive and significant effect on financial performance.

#### **4.6 Discussion of Findings**

From the findings the study revealed that there was a strong positive correlation coefficient between financial performance through return on assets and number of agents. The findings agreed with the findings by Watiri (2013) who sought to establish the contribution of agency banking in financial performance of commercial banks in Kenya and found out that transaction cost through agency banking had a positive impact on the financial performance of banking institutions. From the findings, the study revealed that there was a strong positive correlation coefficient between financial performance through return on assets and number of agents. The findings agreed with the findings by Watiri (2013) in his study that found out that agency banking is continuously improving and growing and as it grows, the level of financial accessibility is also growing proportionately hence increasing profitability. The study further revealed that increasing the area covered by agents; market share within the country has had the effect of increasing customer deposit thus raising the levels of financial inclusion because a certain segment of the population would not visit the bank branches for various reasons.

The findings also agreed with Podpiera (2008) who argued that agent banking does improve the economics for these institutions compared with branches, especially for high-transaction, low-balance accounts that are common among poor users. The findings were contradicted by the findings of Pickens, (2010) who stated that agency banks have not contributed much to banks' revenue growth owing to customers' scepticism about its transactional security.

The findings also revealed a strong positive correlation coefficient between number of agents, customer deposits and financial performance through return on assets. This is because agency banking leads to an increased number of transactions facilitated by bank agents largely attributed to increases in transactions relating to payment of bills, mini statement requests, cash withdrawals and cash deposits which in turn improves profitability of commercial banks (CBK, 2014). The findings also revealed a strong positive correlation coefficient between number of agents and financial performance through return on assets. The findings were congruent with the findings by Diamond (2000) that when a bank has large size of capital, its liquidity position is good and it's capable to operate all through even in times of upheavals which in turn leads to higher profitability levels. The findings finally revealed that all the variables had a positive correlation with return on assets and a unit increase in each variable would lead to increase in return on assets as shown by the above studies



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

In this chapter the researcher contains the summaries of the findings, conclusions, recommendations and suggestions for further research. In each case the researcher briefly states the findings and the effect on financial performance..

#### **5.2 Summary of Findings**

The study pursued one general objective and three objectives, three hypothesis were aligned to. The objectives were: To examine the effect of agency banking on financial performance of listed commercial banks in Kenya ; identify the effect of financial services accessibility through agency banking to customers on financial performance of banking institutions listed in NSE; establish the effect of market share through agency banking on the financial performance of listed banking institutions in Kenya and to determine the effect between transaction cost through agency banking on financial performance of listed banking institutions in Kenya

The survey design was used where a sample of 11 listed commercial banks were studied, the research instruments used was content of analysis which involved gathering data from NSE Handbook. The findings of the study revealed that financial service accessibility, market share and transaction cost influenced financial performance in a positive manner.

### **5.2.1 The effect of financial accessibility on financial performance of banking institutions listed at the NSE in Kenya**

The study hypothesized that financial accessibility does not have a significant effect on financial performance of commercial banks listed at the NSE in Kenya. It was found that financial accessibility attributable to number of agents have a positive effect on return on assets but the effect was significant. Hence the null hypothesis was rejected. With respect to this objective the study found that financial accessibility was paramount to the financial performance of banking institutions listed on the NSE, agents gap was an important determinant of financial performance of commercial banks listed on the NSE and also found that commercial banks that enlist agents perform better financially. The study also found that increase in the customer deposits for commercial banks would have a positive effect on financial performance of commercial banks and that banking institutions listed on the NSE keep a regular watch over their deposits to ensure safe custody of deposits. However, the results obtained from regression analysis indicated a p-value of .0344. The P-value was (  $0.0344 < 0.05$ ) it meaning that the effect of financial accessibility on return on assets of banking institutions listed at the NSE in Kenya was significant at 5% level. These findings imply that financial accessibility have a positive effect on financial performance and the effect is significant.

### **5.2.2 The effect of market share attributable to customer deposits on financial performance on listed commercial banks in Kenya**

The study hypothesized that market share does not have a significant effect on financial performance of banking institutions listed at the NSE in Kenya. It was found that market share had a positive effect on return on assets and the effect was significant. This resulted in the null hypothesis being rejected. With respect to this objective, the study found that the customers' deposits was a major determinant of

financial performance of listed banking institutions. The study found that increase in customer deposits affects the financial performance of commercial banks positively.

### **5.2.3 The effect of transactions cost attributable to value of transactions on financial performance on listed banking institutions in Kenya**

The study hypothesized that transactions cost attributable to value of transactions has no significant effect on the financial performance of banking institutions listed at the NSE in Kenya. It was found that transactions cost attributable to value of transactions had a positive effect on return on assets and the effect was significant. Thus the null hypothesis was rejected. The study found that high transactions cost attributable to value of transactions levels affect the financial performance of banking institutions listed at the NSE.

### **5.3 Conclusions**

This study sought to determine the effect of financial accessibility on the financial performance of banking institutions listed on the NSE. The study concluded that financial accessibility had a positive effect on financial performance of listed banking institutions and the effect was significant. Further it was concluded that customer deposits is of great importance in the financial performance of commercial banks listed on the NSE. The study also concluded that agent's gap is an important determinant of financial performance of commercial banks. The study also concluded that that an increase in the number of agents for banking institutions would positively affect financial performance.

The second objective of the study was to determine the effect of market share on financial performance of commercial banks listed on the NSE. The study concluded that market share had a positive and significant effect on the financial performance

of listed banking institutions. Further the study concluded following; the customer deposits affect the financial level of banking institutions

The third objective of the study was to determine the effect of transactions cost attributable to value of transactions on the financial performance of banking institutions listed at the NSE. The study concluded that transactions cost attributable to value of transactions had a positive effect on the financial performance of banking institutions listed at the NSE and the effect was significant.

#### **5.4 Recommendations**

Based on the first objective the study recommends that since financial accessibility had a positive effect on financial performance and was noted as being of paramount importance in the performance of commercial banks, the listed commercial banks should recruit more agents so as to increase financial accessibility levels. Also the study recommended that commercial banks should manage the agency gap carefully as it was noted to be an important determinant of financial performance. On the second objective the study recommended that listed commercial banks should increase customer deposit since market share was noted to have a positive and significant effect on financial performance

The study found that transaction cost had a positive effect on the financial performance of listed banking institutions. It therefore recommended that banking institutions should bring down transaction cost as the cost of transactions leads to high values and volume of transactions was noted a major determinant of financial performance.

#### **5.5 Suggestions for Further Research**

This study considered only three variables. Further research may evaluate the effect of other variables such information technology platforms used by banks and on the financial performance of commercial banks. Also this study measured financial

performance using return on assets which are subject to bias in measurement. Further research may evaluate the effect of agency banking on financial performance of micro finance institutions .This study focused only on the listed commercial banks in Kenya. Additional research may consider evaluating the effect of agency banking on the non-listed commercial banks, and savings and credit societies. Further additional research may evaluate the effect of agency banking on non – financial performance of listed banks in Kenya. In addition future research may evaluate the effect of agency bank regulation at county level on the financial performance of commercial banks in Kenya

## REFERENCES

- Aduda, J., Kiragu, P., & Ndwiga, J. (2013) The Relationship between Agency banking and Financial Performance of Commercial Banks in Kenya: *Journal of Finance and Investment Analysis*, vol. 2, no.4, 2013, 97-117
- Aduda, J., & Kalunda, E. (2012). Financial Inclusion and Financial Sector Stability With reference To Kenya :A Review of Literature. *Journal of Applied Finance & Banking*, Vol.2 (6), 95
- Barasa D. A., & Mugambi, F. M. (2013). The Role of Agency Banking in Enhancing Financial Sector Deepening in Emerging Markets: Lessons from the Kenyan Experience. *European Journal of Business and Management*. Vol.5 (21). pp26-34
- Best, J., & Khan, J. (2003). *Research in Education*. Boston: Allyn & Bacon.
- Bloodgood, J.M., & Michael, A.C. (2010). Adoption-innovation theory and knowledge use in organizations. *Management Decision*, Vol. 48 Issue: 8, pp.1159-1180
- Boldizzone, F. (2008). *Means and Ends: The Idea Of Capital In The West, 1500-1970*. New York: Palgrave Macmillan.
- Bold, C., (2011). Branchless Banking in South Africa. *Consultative Group To Assist The Poor (CGAP)*. June 28, 2011
- Central Bank of Kenya (CBK). (2010). *Guideline on Agent Banking*. Nairobi: Government of Kenya Printers, CBK/PG/15.
- CGAP (2010). Focus Note: Regulating Branchless Banking agents. [Online] from: [http://www.gsma.com/mobile\\_for\\_development/wpcontent/uploads/202/06/agent\\_networks\\_in\\_brazil\\_cgap\\_fgv1\\_7.pdf](http://www.gsma.com/mobile_for_development/wpcontent/uploads/202/06/agent_networks_in_brazil_cgap_fgv1_7.pdf) [15th Sep 2013]
- Cooper, D.R., & Schindler, P.S. (2003). *Business Research Methods*. Orlando: McGraw Hill
- Dess, G.G., & Robinson, R. (1984). *Measuring Organizational Performance in the absence Objective Measures*. The case of privately held firm and conglomerate business Unit
- Faruk, M. O., & Noman, S. M. S. (2013). The Financial Inclusion: A District Wise Study on Bangladesh. *International Journal of Economics, Finance and Management* Vol. 2(4).
- Gakure, R., & Ngumi, P. (2013). Do bank innovations influence profitability of commercial banks in Kenya? *Prime Journal of Social Science* Vol.2 (3), pp.237-248.
- Gardner, M.J., Mills, D.L., & Cooperman, E.S. (2000). *Managing Financial Institutions an assets liability approach (4th ed.)*. Malaysia: John Wiley & Sons
- Jensen, M.C., & Meckling, W.H. (1976). Theory of the firm: managerial behaviour, agency costs and ownership structure. *Journal of Financial Economics*, Vol. 3, pp. 305-360. ISSN: 0304-405X

- Johnson, S. (2012). Understanding Kenya's financial performance. Retrieved on 23<sup>rd</sup> Oct 2014 <http://www.macrothink.org/journal/index.php/jsr/.../2993>
- Israel, G.D. (2012,). Sampling. Retrieved on March 04, 2013, [www.ufl.edu](http://www.ufl.edu)
- Ivatury, Gautam, & Ignacio Mas. (2008). The Early Experience with Branchless Banking *Focus Note* 46. Washington, D.C.: CGAP
- Kambua, D. (2015). The effect of agency banking on financial performance of commercial banks in Kenya. *MBA Thesis* University of Nairobi
- Khrawish, H.A. (2011) Determinants of Commercial Banks Performance: Evidence From Jordan. *International Research Journal of Finance and Economics, University*, 5(5), 19-45.
- Kiragu, P. (2011). The Extent of Implementation of Agency Banking Among Commercial Banks in Kenya. *MBA Project*, University of Nairobi
- Kithuka, B.K. (2012). *Factors influencing growth of agency banking in Kenya: the case Of Equity bank, Kwale County, Kenya*. MA Thesis, University of Nairobi
- Kapoor, S. (2010). Succeeding In UK with the Bank-Focused Model of Mobile Banking. *Pinnacle Whiteboard*, Retrieved On June 21, 2013,
- Kengere, D. (2014). The effects of agency banking on the non-funded income of Commercial banks in Kenya. *Unpublished MSC Finance Project*, University of Nairobi
- King'ang'ai, P., Kigabo, T., K., & E Kibachia, E. (2016). Effect of agency banking on financial performance of commercial banks in Rwanda. A study of four commercial banks in Rwanda. *European Journal of Business and Social Sciences*, Vol. 5, No. 01, p.p. 181-201
- Kirika, N. (2013). Agency Banking Challenges Among Commercial Banks: A Case of Selected Commercial Banks in Kenya. *Unpublished MBA Project*, University of Nairobi.
- Kothari, C.R. (2001). *Research Methodology: Methods and Techniques*. New Delhi: Wishwa Prakashan.
- Kumar, A., Nair, A., Parsons, A., & Urdapilleta, E. (2006). Expanding Bank Outreach through Retail Partnerships: Correspondent Banking In Brazil. *World Bank Working Paper No. 85*
- Kumar, K., McKay, C., & Rotman, S. (2010). *Microfinance and Mobile Banking: The story So Far*. Focus Note 62. Washington, D. C: CGAP.
- Liargovas, P., & Skandalis, K. (2008). Factors Affecting Firms 'Financial Performance: The case of Greece. *Working Papers 0012*, University of Peloponnese, Department of Economics.
- Lozano, D.M., & Mandrile, M. (2010). A New Agent Model For Branchless Banking In Colombia. *International Development Law Organization*
- Lyman, T., Ivatury, G., & Staschen, S. (2006). Use of Agency Banking for Poor; Rewards, Risks and Regulation. *Focus Note 38*, Washington, D.C: CGAP
- Mary A.O., (2015) The effect of agency banking on the financial performance of commercial banks in Kenya, *Mba Thesis* University Of Nairobi.

- Mas, I., & Siediek, H. (2008). *Banking through Networks of Retail Agents. Focus Note No. 47*, Washington, D.C: CGAP
- Mbobua, J.K., Jama, S., & Musiega, D. (2013). Challenges of Implementing Agency Banking: Survey of Selected Commercial Banks in Kakamega County. *The International Journal of Engineering and Science*. Vol. 2(9) pp. 41-45.
- Mugenda & Mugenda, (1999). *Research methods Quantitative and Qualitative Approaches*. United Nations Avenue, Gigiri: Acts Press Publishing
- Mwando, S. (2013). Contribution of Agency Banking on Financial Performance of Commercial Banks in Kenya. *Journal of Economics and Sustainable Development* www.iiste.org ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online) Vol.4, No.20, 2013
- Mwangi, R.W. (2011). An Evaluation of the Role of Agency Banking in the Performance of Commercial Bank in Kenya *MBA Project* University of Nairobi
- Nachmias, C., & Nachmias, D. (1996). *Research methods in the social sciences* (5ed.). New York: St. Martin's Press
- Ndungu, C. G., & Njeru, A. (2014). Assessment of Factors Influencing Adoption of Agency Banking in Kenya: The Case of Kajiado North Sub County. *International journal of business and commerce*, 3(8), 91-111.
- Nganga, S.I., & Mwachofi, M. M. (2013). Technology Adoption and the Banking Agency in Rural Kenya. *Journal of Sociological Research*. ISSN 1948-5468 2013, Vol. 4,
- Ombutora, E.K., & Mugambi, F. (2013). Role Of Agency Banking On The Performance Of Banking Agent Entrepreneurs: A Case Study Of Co-Operative Bank Co-Op Jirani In Kibera, Nairobi. *International Journal of Arts and Entrepreneurship*, 1(5), 243-256
- Ogula, P. A. (2005). *Research Methods*. Nairobi: CUEA Publications.
- Omumi, K. (2010) Branchless Banking and Use of Agents including Postal Corporation of Kenya. Retrieved on 11<sup>th</sup> March 2015: <http://aitec.usp.net>.
- Pandey, I. M. (2011). *Financial Management*. New Delhi: Vikas Publishing Pvt Ltd.
- Podpiera, J., (2008). *Emerging Banking Market Experience*. Journal of Financial Stability Working Paper No. 6, *Czech National Bank*
- Saunders, M., Lewis, P., & Thornhill, A. (2003). *Research Methods for Business Students* (3rd ed.). Essex: Pearson Education Limited.
- Sekaran, U. (2003). *Research methods for business: A skill buildings approach*. 4th Ed. New York: John & Willey
- Siedek, Hannah. (2008). "Banking Agents to Reach the Unbanked DRAFT." <http://acrimena.org/Files/Banking%20agents%20to%20reach%20the%20unbanked%20-%202007.pdf>
- Sunguti J. (2013) *An assessment of the factors influencing growth of agency banking in commercial banks in Kenya*, a research project submitted to University of Nairobi



- Veniard, C. (2010) November). How Agent Banking Changes the Economics of Small Accounts. Global Saving Forum,1-5.
- Watiri, S. J. (2013). Adoption of agency banking by equity bank Kenya limited in its international business operations, Doctoral *dissertation*, University of Nairobi.
- Xinhua. (2012,).Business. Retrieved January 24, 2013, from Capital FM: [www.capitalfm.co.ke](http://www.capitalfm.co.ke)
- Zikmund, W. (2003).*Business research methods*. 7<sup>th</sup> Edition. Thompson South-Western, Ohio

## APPENDICIES

### Appendix 1: Observation Schedule On Number Of Bank Agents

	2015	2014	2013	2012	2011
KCB Bank	15436	13635	8925	6211	3707
Co-operative Bank	10764	9506	6222	4330	2584
Equity Bank	10337	9128	5976	4158	2482
Standard Chartered Bank	742	657	431	301	178
Barclays Bank	736	651	393	298	176
Diamond Trust Bank	564	499	368	229	136
CFC Standard Bank	522	461	314	212	126
NICBank	477	422	248	194	115
I&M Bank	463	410	276	188	111
National Bank	363	321	265	147	87
Housing Finance	187	165	114	76	45

Source: CBK Annual Supervisory Reports(2015-2011)

**Appendix 2: Observation schedule on Market share attributable deposits**

	<b>2015</b>	<b>2014</b>		<b>2013</b>	<b>2012</b>	<b>2011</b>
KCB Bank	4.88	3.77		3.06	2.88	2.59
Co-operative Bank	2.64	2.18		1.75	1.63	1.45
Equity Bank	3.43	2.45		1.95	1.66	1.4
Standard Chartered Bank	1.73	1.54		1.55	1.14	1.22
Barclays Bank	1.8	1.65		1.51	1.38	1.24
Diamond Trust Bank	1.89	1.61		1.29	1.07	0.859
CFC Standard Bank	1.2	.968		.947	.749	.740
NICBank	1.14	1.00		.9156	.8338	.6629
I&M Bank	1.24	.992		.971	.877	.852
National Bank	1.08	1.05		.7799	.552	.567
Housing Finance	.433	.361		.265	.229	.186

**Source: CBK Annual Supervisory Reports(2015-2011)**

**Appendix 3: Observation Schedule On Transaction Cost Attributable To Value  
Of Transaction (Shs000 M)**

	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
KCB Bank	168.08	131.19	89.6	57.8	16.58
Co-operative Bank	117.18	91.46	62.45	36.69	11.57
Equity Bank	112.53	87.83	59.97	38.69	11.56
Standard Chartered Bank	8.09	6.32	4.39	2.82	0.78
Barclays Bank	8.02	6.26	4.35	2.79	0.78
Diamond Trust Bank	6.15	4.8	3.33	2.14	0.6
CFC Standard Bank	5.69	4.44	3.08	1.98	0.56
NICBank	5.2	4.06	2.82	1.81	0.51
I&M Bank	5.05	3.94	2.74	1.67	0.49
National Bank	3.95	3.09	2.14	1.38	0.38
Housing Finance	2.17	1.49	1.1	0.71	0.19

**Source: CBK Annual Supervisory Reports(2015-2011)**

#### Appendix 4: Observation Schedule on Return on Assets

It is measured by Return on Assets (ROA) given by Earnings after Profit divided by Total Assets.

	Financial year				
	2015	2014	2013	2012	2011
KCB Bank	5.01	5.93	5.5	5.2	4.98
Co-operative Bank	4.14	4.43	4.7	4.8	3.68
Equity Bank	6.56	7.26	7.7	7.4	6.84
Standard Chartered Bank	3.83	6.42	6.0	5.9	5.03
Barclays Bank	5.01	5.44	5.8	7.0	7.18
Diamond Trust Bank	3.69	4.47	4.9	4.9	4.19
CFC Standard Bank	3.56	4.31	4.1	3.5	2.23
NICBank	3.99	4.44	4.6	4.2	4.57
I&M Bank	5.66	5.64	5.5	5.2	5.80
National Bank	-1.34	1.90	1.90	1.70	3.56
Housing finance	2.52	2.12	2.6	2.2	3.10

Source: CBK Annual Supervisory Reports (2015-2011)

**Appendix 5: Sample Frame: Commercial Banks Listed At the Nairobi Securities**

**Exchange as at 31<sup>st</sup> December, 2016**

1. Barclays Bank Ltd
2. I&M Holdings Ltd
3. CFC Stanbic Holdings Ltd
4. Diamond Trust Bank Kenya Ltd
5. Housing Finance Co Ltd
6. Kenya Commercial Bank Ltd
7. National Bank of Kenya Ltd
8. NIC Bank Ltd
9. Standard Chartered Bank Ltd
10. Equity Bank Ltd
11. The Co-operative Bank of Kenya

**Source: NSE Handbook (2011-2013).**