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# Effect Of Agency Banking On Financial Performance Of Banking Institutions Listed At The Nairobi Securities Exchange (NSE).

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**Abstract** : Agency banking roll-out in Kenya was meant to address the low financial inclusion in Kenya. As per the 2016 National financial access survey, 17.4% Kenyans bankable population is still totally out of the financial services sphere. The main objective of this study was to examine the effect of agency banking on performance of listed banking institutions in Kenya. The study used census survey of the 11 commercial banks which have listed in Nairobi Securities Exchange out of the population of 43 commercial banks in Kenya. Secondary data was used for the study. The study adopted a descriptive research design, correlation analysis and inferential statistics to make conclusions based on p values. The data analysis was done using Excel and Statistical Package for Social Sciences (SPSS) software version 20. Multiple linear regression models was used in measuring each variable in the model and the results used in order to establish relationship between the dependent and independent variables. Each variable was used in order to establish relationship between the dependent and independent variables. It was established that agency banking has positive effect on financial effect on financial performance of listed banks for the year 2010 to 2015. The ANOVA results for regression coefficient indicate that the significance of the F is 0.003 which is less than 0.05. This implies that there is a positive significant relationship between the effect of agency banking and performance of listed banking institutions in Kenya and that the model is a good fit for the data.

**Key Words:** Service Accessibility, Market Share & Transaction Cost

## 1.3 General Objective of the Study

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

### 1.3.1 Specific Objectives

- i. To establish the effect of financial services accessibility through agency banking to

customers on financial performance of listed banking institutions in Kenya.

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

## 2.2 Theoretical Framework

This section seeks to review the interplay between financial performance, agency banking and listed financial institution. Theories of agency banking can be classified into five broad categories, agency theory, bank led theory, innovation theory, and market share theory.

### 2.2.1 Agency Theory

Agency Theory propounds that the firm consists of a contract between the principal, who are the owners of economic resources, and managers, who are charged with using and controlling those resources. This theory of agency was modeled by Jenses & Mecklang (1976), in their study of the structure of the firm. Agency theory addresses all that appertains to the contract between the principal and agent in areas of cooperation and delegations of duties and responsibilities. Jenses & Mecklang (1976) explains that an agency relationship is a contract, whether implicit or explicit, in which one or more persons engage another person to take action on their behalf.

Agency banking is a great innovation that transfers operational cost to a third party thereby increasing the convenience of the customers and cutting down costs for bank.

### 2.2.2 Innovation Theory

The financial institution has been one of the sectors that have adopted new technology to improve and gain 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. According to Makori J.G. (2003), the

number of banks opening brick and motor branches has decreased and this has been attributed to affordable banking and low service charge. In this study, innovation theory was used to show how new payments systems have transformed technology of banking and facilitated changes in the strategy and structure of financial institutions. In this study, innovation theory was used to show how modern payment systems have transformed the technology of banking and facilitated changes in the strategy and structure of financial services organizations. Design, implementation and dissemination of payments systems and costs have come down according to bank case studies. (Michael and Bloodgood 2010). Currently, agent banking is an integral part of modern banking in many countries and the market is still growing.

### 2.2.3 Bank Led Theory

This theory is relevant to this study as it focuses on how financial institutions deliver financial services through agency banking. 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 (telco / chain store) having experience and target market distinct from traditional banks, and

may be significantly cheaper than the bank-based alternatives. The bank-led model may be implemented by using correspondent (agency) arrangements. In this model, customer account relationship rests with the bank. Bank-led theory is important to the study because it allows branchless banking, and licensed financial institutions (typically a bank) 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. The bank develops financial products and services, but distributes them through retail agents who handle all or most customer interactions.

### 2.3 Conceptual Framework

A conceptual framework assists the reader to easily connect the relationship of the various variables in a study (Mugenda & Mugenda, 2003). This section discusses the conceptual framework on the effect of agency banking on financial performance of listed financial institutions in Kenya. It consists of independent variables (Financial Service accessibility, Market share, and transaction cost) and the dependent variable (Financial Performance).

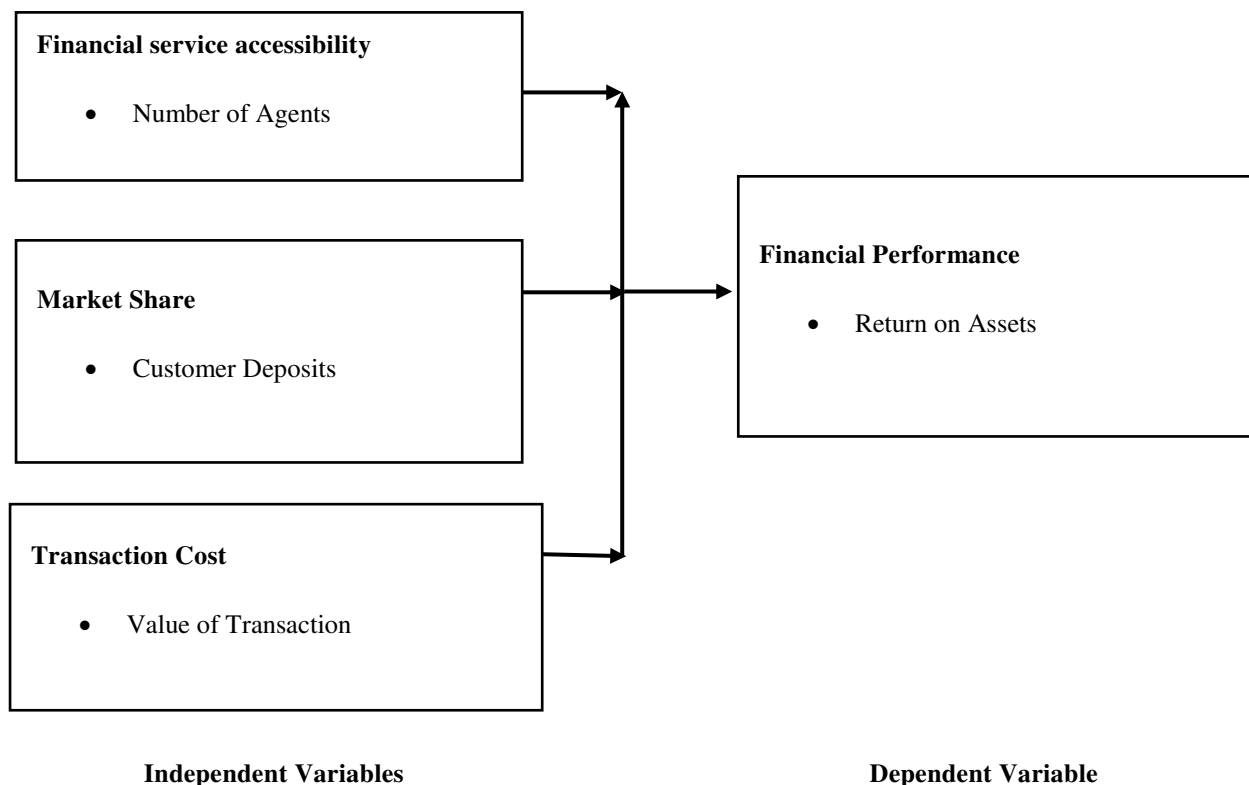


Figure 2.1 Conceptual Framework

## RESEARCH METHODOLOGY

### 3.1 Research Design

The research design employed was the descriptive survey research. It involved gathering quantitative data that describes events and then organizes, tabulates, depicts and describes the data collection. The goal of descriptive research is to describe data and characteristic 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, the study targeted eleven (11) banking institutions which formed the target population for the study. According to Mugenda and Mugenda, (2013), a target population should have observable characteristic to which the researcher intends to generalize the result of the study.

### 3.3 Sample 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 was collected by use of content analysis which was obtained from the annual financial statement reports of listed firms, Central Bank Supervisory Reports, magazine and articles related to the financial performance of listed firms.

### 3.4 Research 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 were recorded for subsequent analysis. Data was obtained from Nairobi Securities Exchange Handbook and respective banks websites. The data collected spanned a period of five years covering the period 2011 to 2015. The reason to restrict the period of the study to five years was because it constituted the latest data which was readily available for this period.

### 3.5 Data Collection Procedures

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. The data for all the variables in the study was extracted 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.

### 3.6 Data Processing and Analysis

Data collected was analyzed using descriptive statistics tables, of means, to present the data. The methodology entailed use of inferential statistics using statistical package for social sciences (SPSS) package. Multiple regression model was used for it allowed simultaneous investigation of the effect of two or more variables. The model was to establish the relationship between agency banking and the performance of the affected Banks financial performance using various key performance indicators.

## RESEARCH FINDINGS AND DISCUSSIONS

### 4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research objective and research methodology. The objective of the study was to establish the effect of agency banking on financial performance of listed commercial banks in Kenya among 11 commercial banks in Kenya for a period of 5 years from the year 2011 to 2015. The data was gathered exclusively from the secondary source CBK Supervision Reports, NSE Handbook through data mining and with use of time series data was regressed using multiple linear regressions.

### 4.2 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Return On Assets	55	-1.34	7.70	4.5718	1.70430
Customer Deposit	55	18671586.00	488300000.0	143734543.1	91124947.95
Value Of Transaction	55	.19	168.08	22.1007	39.41130
No Of Agents	55	45.000	15436.000	2688.34545	3762.930720
Valid N (listwise)	55				

The interpretation 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 Matrix**

**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	.436**	1		
	Sig. (2-tailed)	.001			
	N	55	55		
Value Of Transactions	Pearson correlation	.298*	.877**	1	
	Sig. (2-tailed)	.027	.000		
	N	55	55	55	
No Of Agents	Pearson correlation	.339*	.868**	.959**	1
	Sig. (2-tailed)	.011	.000	.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).

The study also found a positive correlation between ROA and value of transactions as 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.

**4.4 Analysis of Variance (ANOVA)**

Model		Sum of Squares	Df	Mean Square	F	Sig.
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

b. Predictors: (Constant), bank size, number of agents, cash withdrawals, cash 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 at 5% level of significance, 3 d.f,

51 d.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.

**4.5 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.

The findings also revealed a strong positive correlation coefficient between number of agents and financial performance through return on assets. 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. The findings also agreed with Podpiera (2008) argument 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.

## SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

### 5.2 Summary of Findings

#### 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 the number of agents had a positive effect on return on assets and 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.

#### 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 did 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 were a major determinant of financial performance of listed banking institutions.

#### 5.2.3 The effect of transactions cost on financial performance on listed banking institutions in Kenya

The study hypothesized that transactions cost attributable to value of transactions had 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

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 were of great importance in the 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 that customer deposits affected the financial level of banking institutions.

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

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 enlist 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.

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 recommended that banking institutions should bring down transactions cost as the cost of transactions leads to high values of transactions which was noted as a major determinant of financial performance.

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