EFFECT OF ADOPTION OF AGENCY BANKING ON BANK PERFORMANCE: A CASE OF SELECTED COMMERCIAL BANKS IN KENYA

By

EDWIN HENRY MUTURA MUNGAI

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AUGUST

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DECLARATION

This dissertation is a product of my own work and is not the result of anything done in collaboration. It has not been previously presented to any other institution. I agree that this dissertation may be available for reference and photocopying, at the discretion of St. Paul's University.

Signature…… Date…….

Edwin Henry Mutura Mungai

MBA/LMR/1972/15

I/we confirm that the work reported in this thesis was carried out by the student under my / our supervisor.

Signature …….. Date…….

Supervisor 1,

Dr. Job Omagwa,

Lecturer – Department of Accounting & Finance,

Kenyatta University.

Signature …….. Date…….

Supervisor 2,

Mary Githinji,

Lecturer – Department of Business & Communication,

St. Paul's University.

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ACRONYMS AND ABBREVIATIONS

ABC - Active Base Costing

A -Agent

ATM - Automatic Teller Machine

CAD - Cash Deposit

CAW - Cash Withdrawal

CBK - Central Bank of Kenya

DEA - Development Envelopment Analysis

DTM - Deposit Taking Microfinance Institutions

EFT - Electronic Fund Transfer

ICT - Information Communication Technology

MFC - Mortgage Finance Company

PI - Profitability Index

P - Principal

SACCO - Savings and credit cooperative

SMS - Short Message Services

SPSS – Scientific Package for Social Scientists

UK - United Kingdom

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OPERATIONAL TERMS

Agency Banking: it's the provision of banking services by a third party (agents) to customers on behalf of a licensed, prudentially – regulated financial institution, such as a bank or other deposit taking microfinance (DTM).

Bank Performance: it's the degree of accomplishment for banking financial objectives.

Bank Agent: an entity or business outlet contracted by a financial institution to offer services on its behalf to its client and customers it can be a shop, post office, shopping mall, and cafeteria and cyber café.

Commercial Banks: financial institutions that provide services such as accepting deposits, safety deposits, loans issuing and mortgage and basin investments.

Bank Regulation: government regulation which subjects banks to certain requirements and restrictions.

Security: ability of agency banking to assure safety to customers deposits and other valuables by use of cameras, security guards, safes and insurance.

Customer base: group of customers or clients who repeatedly purchase the goods or services of a firm or business. These customers are a main source of revenue for a company.

Performance: a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues.

Merchant: business person who trades in commodities produced by others, in order to earn a profit.

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ABSTRACT

Agency banking is a recent phenomenon that allows customers to conduct banking transactions with a mobile phone or point of sale. The main purpose of this study was to investigate the effects of adoption of agency banking on bank performance. Studies indicate that the effects of agency banking on the financial performance of commercial banks in Kenya is positive and that there is relationship between accessibility of banking services, low cost of service and customer and customer transactions as a result of agency banking. Kenyans are yet to appreciate agency banking services as compared to the use of mobile banking. The study was guided by the following objectives; to determine the effects of agency banking administrative challenges on bank performance; to determine the effect of agency banking reliability on bank performance and; to ascertain the effect of agency banking operational challenges on bank performance. The study focused on four selected commercial banks, that is, Kenya Commercial bank, Cooperative bank, Equity bank and Family bank. Probability statistical research design was used and the study used a sample size of 44 respondents. The study employed purposive sampling to obtain the sample population because the target population had the same characteristics. Data was collected by use of questionnaires. The findings of the study revealed that agency banking improve financial performance of commercial banks since it lowers operational costs and increases income. Agency banking also improves bank efficiency and reduces costs of provisioning implying that it leads to improved profitability. 65% of the respondents reported that agency banking improves bank performance. Profits are earned from the charges for agency banking payments, products and services increasing banks revenue and improve cash deposits. The study found out that agency banking saves time on bank transactions hence attracting more customers which at the end elevates the banks financial performance. However, many agents were not conversant with the performance measures which would enable them perform better and actually determine how they were performing. This could be because some agents were primary and secondary school graduates, this could also mean that Central Bank of Kenya did not offer training on different aspects of banking to the agents. The study therefore concluded that agency banking had a positive effect on the bank's financial performance. However, the effect is dependant of the reliability of the systems used, the skills of the agents, the infrastructure support, competition, requirements and guidelines for agency banking and network availability. Availability of resources was also found to have an impact on the financial performance. Any of this can affect the performance either positively or negatively. The study also concluded that CBK was yet to fully support the agents by offering training on various banking aspects and also impose friendlier guidelines and requirements which were found to be limiting by some agents. Based on the findings, the study made recommendations particularly directed to commercial banks management, academicians and policymakers. The study recommended that policy makers heighten awareness to the public through regular open day forums, media and exhibitions on the need and use of agency banking, and develop strategies that will capture new customers. Banks should also be allocating more resources to most especially minimize liquidity problems. The study finally suggested further research on the effects of adoption of agency banking on other upcoming agencies for other commercial banks and microfinance institutions.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Commercial banks are essential for each country's economy; no growth can be achieved unless savings are efficiently channeled into investment. The lack of a fully-fledged banking system has been identified as a major weakness of the centrally planned economies (Nefa, 2013). Banks have been delivering electronic services to consumers and businesses for years. Banks are early users of technology and core drivers of technological advancement: Electronic fund transfer (EFT), automated teller machine (ATM), cash deposits (CAD), cash withdrawals (CAW) and forex (Oyanda, 2015).

The increased global acceptance of the internet as a delivery channel for banking products and services provides new business opportunities for banks as well as for consumers. At the same time this new opportunities carry risks as well as benefits. Agency banking is some kind of traditional payment, enquiry of balances and information processing systems, differing only in that it utilizes a different delivery channel, that is, the internet that is very reliable as a means of communication. Decision to adopt agency banking is normally influenced by several factors. These include customer service centrism and competitive advantage, operational challenges, administrative challenges, transactional time, infrastructure, security of network, fees income, operating costs, competition, regulatory authorities and core capital all of which motivate banks to assess their electronic commerce strategies (Khrawish & Al-Sa'di, 2011).

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Commercial banking through agency banking has emerged as a strategic resource for achieving higher efficiency, control of operations and reduction of cost by replacing paper based and labor intensive methods with automated processes thus leading to higher productivity and profitability (Ngumi, 2013). To date, empirical evidence has provided little evidence regarding these potential changes. Nonetheless, recent empirical studies indicate that agency banking is not having independent effects on banking profitability, although these findings may change as the use of agents becomes more widespread (Hernando & Nieto, 2007).

According to Ngumi (2013), financial performance is explained as the degree of accomplishment for agency banking financial objectives. It's the procedure of measuring results of a firm's policy, procedures and operations in monetary terms. It's used to measure the overall financial achievements over a period of time, also used to compare similar firms across the same industry. Profitability of commercial banks heavily relies on income generating activities and expenses that arise. Osman, Serhat, and Yusuf (2013) studied agency banking on bank profitability in Turkey, researchers estimate agency banking on three common determinants of bank performance that is return on assets, return on equity and financial intermediation margin. Agency banking had a positive effect on performance of the banking process in Turkey in terms of returns to equity only with a lag of two years.

Comparing different agency banking models between 1995-2004 in Finland, Spain, Italy and the United Kingdom, Malhotra and Singh (2009) found out that agency banking were performing better in terms of average returns to assets or equity, which did not run higher than operational costs for the income generated. According to information drawn from banks in Italy, found out that agency banking institutions were performing better than non-agency banks. Risk variables

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associated with agency banking continued to be lower relative to non-agency banks. Asset liability variables revealed that on average banks in the agency group, were larger and had significant higher trading and investment activities and less dependent on retail deposits both demand and saving deposits relative to non-agency banks. Agency banking banks showed lower performance in the no interest category, significant and positive link between agency banking activities and banks' profitability and a negative but marginally significant association between adoption of agency banking and bank risk level particularly due to increased diversification.

Hernando and Nieto (2007) examined the performance of multichannel banks in Spain between 1994 and 2002. The study found higher profitability for multi-channel banks through increased commission income, increased brokerage fees and eventual reductions in staffing levels and concluded that agency banking channel was a complement to physical banking channels. In contrast to earlier studies, the multichannel banks in Spain relied more on typical banking business that is lending, deposit taking and security trading. Adoption of agency banking had a positive impact on banks profitability after one and a half years of adoption. It was explained by the lower overhead expenses and in particular, staff and information technology costs after the same period. Sharma (2011) investigated the impact of the introduction of agency banking on performance and risk profile of major credit unions in Australia. Similar to the results of Lee, Lee, and Kim (2007), the agency banking variable didn't show significant association with the performance as well as operation risk variable. Agency banking didn't prove to be a performance enhancing tool with credit unions in Australia; it neither reduced nor enhanced risk profiles.

Financial innovations are used by banks as strategic variables to outdo competitors and are essential means for banks to improve its performance and maintain effectiveness on the market

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(Berger, Demirgüç-Kunt, Levine, & Haubrich, 2004). This stimulates interest in studying the relationship between financial innovations and bank performance. In a competitive environment, a successful innovation creating a unique competitive position can give a bank a competitive advantage and lead to a superior financial performance (Muiruri & Ngari, 2014). This can only be maintained by ceaseless innovation and improvement of the product and process (Allen & Gale, 2004). Despite undeniable need for financial innovation in explaining banking performance, the impact of innovation on financial performance, is still misunderstood for two main reasons; lack of understanding about drivers of innovation and innovation's impact on financial performance.

1.1.1Agency Banking

Agency banking refers to contracting of a retail outlet whether corporate or a small market enterprise by a financial institution or mobile network operator to process bank client's transactions (Calleo, 2014). Sahut (2011) defines internet banking as systems that enable bank customers to access accounts and general information on bank products and services through a personal computer or an intelligent device or any other banking activity held on internet. Agency banking is different from a bank cashier or teller in that the owner conducts the transactions such as cash deposit, cash withdrawal, electronic fund transfers, and payment of bills, account balance enquiry and loan referrals. Agents operate in supermarkets, pharmacies, retails shops and convenience stores.

Mettenheim, Diniz, and Gonzalez (2013) indicate that the trend of agent banking is evident in many nations all over the globe, such as in Australia where post offices are used as bank agents, France use outlet stores, Brazil use lottery outlets to provide financial services, Kenya with

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mobile network banking, Nigeria and South Africa. Adoption means the process of accepting the initiation, implementation and use of a particular technological innovation, especially those that are regarded as new in an organization. Sahut (2011) reports that agency banking allows customers perform wide range of banking transactions electronically via phone. When first introduced, agency banking was used mainly as a deposit collection medium in which banks marketed their products and services. With development of asynchronous technologies and secured electronic transaction technologies, however, more banks have come forward to use agency banking as a transactional and information plat form. One stop shop and information unit that promises great benefits to both banks and consumers (Malhotra & Singh, 2009).

Agency banking services are crucial for long term survival of banks in the world of electronic commerce. The market for agency banking is forecast to grow sharply in the next few years, affecting the competitive advantage enjoyed by traditional branch banks (Tan & Teo, 2000). Indeed, it is also estimated that financial institutions that failed to respond to the need for agency banking services would likely lose more than 10 percent of their customers. Agency banking would help banks present a potentially low cost alternative to brick and mortar branch banking (Appiah-asamoah, 2014).

The agency banking concept has emerged as a strategic resource for achieving higher efficiency amongst commercial banks, control of operations and reduction of cost by replacing paper based and labour intensive methods with automated processes thus leading to higher productivity and profitability (Kiragu & Ndwiga, 2006). However, empirical evidence has produced little evidence regarding these potential changes, indicating that agency banking is not having an independent effect on banking profitability, although these findings may change as the use of the

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internet becomes more widespread. The electronic revolution in banking basically centers on changes in the distribution channels of financial institutions. The presence of telecommunication industry in today's banks has expanded dramatically. Some estimates indicate that, since the 1980's about 49 percent of all new capital investment in organizations had been in information and technology (Clark, Fox, & Treakle, 2003).

1.1.2 Bank Performance

Bank performance is the degree of accomplishment for banking financial objectives, the banks accomplishment on customer satisfaction and retention, banks deposit, targets and new account opening, banks profit after tax and banks accessibility, flexibility and technological innovations and its applicability into the market as a competitive advantage defines a bank's competitive edge (Aburime, 2008). This is a banks fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract. Financial perspectives, customer perspectives, internal processes, learning and growth divide the bank into tire one bank or tire two banks (Karani, 2013).

Banks contribute to the operation, growth and diversification of an economy through intermediation and providing payment facilities as well as settlement. Banks bring borrowers and lenders into a money market with efficient allocation of resources through individuals as well as businesses. Government looks towards banks in addressing social economic needs of a country these include trade channeling resources between savers and borrowers, and various products to deal with risk and uncertainty (Foundation for Sustainable Development, 2009).

The banking sector in Kenya is governed by the companies 'act, the banking act, the regulator Central Bank of Kenya (CBK) act. Financial performances of banks have been, in general,

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increasing trend and these have mainly been attributed to proper management, formulation and implementation strategy.

1.1.3 Commercial Banking in Kenya

As at 31st December, 2015, the banking sector comprised of the CBK, as the regulatory authority, 43 banking institutions, 35 commercial banks and 1 mortgage finance company, 2 representative offices of foreign banks, 5 deposit taking microfinance institutions (DTM) and 126 forex bureaus. Thirty of the banking institutions are locally owned while 13 are foreign owned (CBK, 2015). Commercial banks are important to the economy and play strategic roles. Direct investments such as loans both long term and short term, provide maturity intermediation by creation of more option in the length of debt, risk reduction by diversification this being transferring more risky assets into less risky one, providing payment mechanisms other than CAW and CAD commercial banks clear cheques, EFT, debit card and credit card modes of payment, collecting and processing information in order to gauge risks of various investments and value them accordingly (Kiragu et al., 2006). Commercial banks have numerous outlets to serve customers globally, nationally and locally. Reducing turnaround time in transactions as well as safe keeping of money earned. To improve on service, commercial banks have opened up agencies that are agency banking, that are local businessmen and women to collect funds for them. The official start of applied technological advancement in the banking sector was in 1995, witnessed by the first electronic bank (Saropa, 2013).

Financial intermediation is the process by which individual savings are accumulated in financial institutions and in turn lend and invest. Financial intermediaries are made up of financial institutions such as commercial banks, insurance companies, pension funds and mutual funds.

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Commercial banks provide markets for short term finance and long term finance, provide securities that can be bought and sold, example, bills of exchange and promissory notes which can be easily be discounted and treasury bills which can be bought and sold by individuals and companies without difficulty. Commercial banks also provide finance to solve liquidity problems such as short term loans payable within six months (CBK, 2013).

1.2 Statement of the Problem

The commercial banking sector is important to the Kenyan economy due to its contribution to mobilization of resources and the fact that several other sectors of the economy depend much on the banking sector for sourcing of funds and as an investment option. Financial innovations are therefore,very essential in the commercial banking sector due to profit and wealth maximization. Kenyan customers are yet to appreciate agency banking services as compared to the use of mobile banking (Mosoti & Mwaura, 2014). Despite the significance of the sector to the kenyan economy, it remains unclear if adoption of agency banking in commercial banking sector has a significant effect on bank performance.

Argamo (2015) indicates that the effects of agency banking on the financial performance of commercial banks in Kenya, is that there is a positive and significant relationship between accessibility of banking services, low cost of service and customer transactions as a result of agency banking. Recommendations indicate the need for further studies on challenges facing adoption of agency banking in Kenya, though a number of studies have been done on banking sector in Agency Banking in Kenya. Irura and Munjiru (2013) studied challenges of implementing agency banking in Kakamega County, Kenya. The study found out that implementation could be explained by fraud, literacy level, technological issues and liquidity

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problems. The findings did not clearly establish whether liquidity, fraud, technological issues and literacy were the only hindrances to the implementation of agency banking in Kenya.

Agalla (2014) sought to establish challenges facing implementation of agency banking at Kenya Commercial Bank, Mombasa County with an objective of establishing whether risks associated with agency banking, policies and procedures governing agency banking, technological operations and awareness were hindrances to the implementation of agency banking. The study found out that resource allocation, ineffective technology and lack of staff training on relevant technology were the key challenges. Munyoki and Ngigi (2011) conducted a study on challenges of electronic banking adoption among the commercial banks in Kenya. Munyoki and Ngigi (2011) used descriptive research design and the study found out that banks had partially adopted electronic banking as a strategy and the issue of security was found to be the most critical factor influencing electronic banking adoption. Other factors documented by the same study were inadequate regulatory support, information and technology professionals and the quality of infrastructure. The recommendations included studying electronic banking based on a customer perspective.

It is in the light of the above background that this study sought to determine the effects of adoption of agency banking on bank performance amongst commercial banks in Kenya. The study focused on four best performing agents of commercial banks i.e. Kenya Commercial Bank, Family Bank, Equity Bank and Cooperative Bank. The four banks formed a good basis for this study since they have agencies country wide as well as branches and in addition, these banks have numerous customers spread across the country who despite their remote location, are in need of banking services hence their need for agency banking.

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1.3 Objectives of the study

The study was informed by general and specific objectives captured hereunder.

1.3.1 General Objective

The general objective of the study was to determine the effect of adoption of agency banking on bank performance of four selected commercial banks in Kenya.

1.3.2 Specific Objectives

The study sought to achieve the following specific objectives.

i. To determine the effect of agency banking administrative challenges on bank performance.

ii. To determine the effect of agency banking reliability on bank performance.

iii. To ascertain the effect of agency banking operational challenges on bank performance.

1.4 Research Questions

The study was guided by the following questions in view of the specific objectives:

i. How does agency banking administrative challenges affect the bank performance of commercial banks in Kenya?

ii. What is the effect of agency banking reliability on bank performance in commercial banks in Kenya?

iii. How does agency banking operational challenges affect bank performance in commercial banks in Kenya?

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1.5 Scope of the Study

The study focused on agency banking in view of four banks and their respective agency banking products namely: Family Bank (Pesa pap), Kenya Commercial Bank (K.C.B mtaani) and Cooperative Bank (Coop jirani). These banks have adopted agency banking and benefited from innovation on different levels for a period of about five years. Hence, the study covered a five year period (2010-2014).

1.6 Significance of the Study

The findings help management of commercial banks to understand how agency banking affects customer satisfaction and retention hence greater profitability. Therefore, the management would decide whether it is worthwhile to substitute traditional banking for agency banking or not. The study will be significant to the banking industry, especially to decision makers involved in implementation of electronic services delivery strategies for their banks. Being that there are limited studies that link agency banking with profitability, the outcome of this study is invaluable empirical study and also act as local reference on agency banking for future research. The study outcome will help academicians follow up on studies on effects of agency banking on individual bank performance and advance the research as technology advances. Researchers will empirically refer to this document to understand the genesis of agency banking and the challenges faced at that time and how to overcome them. Commercial Banks would be able to adopt this research in a bid to reduce operational cost as they venture into agency banking and how it affects customer service and retention of customers hence maximize profit and wealth. Findings provide information and advice on opportunities banks can use to expand on deposit collection as well as customer service.

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1.7 Limitations of the Study

The study suffered several limitations that are worth noting. Accessing some of the respondents was challenging due to busy schedules and authorization to meet them that would involve booking of dates and allowances. Accessing some agencies was also a challenge due to their location. To overcome this, the researcher sought help from two research assistants who were send to the different locations to help in administering the data collection process. Some respondents filled the questionnaires half way and this affected the research in that their responds were not included in the findings.

1.8 Organization of the study

Chapter One: Introduction

This chapter introduces the topic of the study by first setting the broad context of the research study, the statement of the problem, objectives, significance and limitations of the study.

Chapter Two: Literature Review

This chapter provides the theoretical review, related literature on agency banking, empirical review and conceptual framework.

Chapter Three: Research Methodology

The chapter states the research design employed by the study, the study population from which the sample size is extracted, data collection instruments, validity and reliability and finally the ethical consideration.

Chapter Four: Data Analysis, Presentation and interpretation

This chapter presents and analyses the data collected guided by the set objectives of the study.

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Chapter Five: Conclusion and Recommendation

This chapter provides conclusions of the study, gives recommendations and provides suggestions on areas for further study.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter reviews theoretical review on the challenges associated with agency banking and bank performance on selected commercial banks. It summarizes information from other studies covering both the theoretical and empirical reviews of the existing literature. The theoretical reviews elaborate the current body of knowledge on the research topic while the empirical reviews were used to develop conceptual framework which shows linkages between the study's variables.

2.2 Theoretical Review

The study was anchored on several theories. These include agency theory, intermediation theory and mobile banking business model.

2.2.1 Agency Theory

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

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creation, were Stephen Ross and Barry Mitnick in the early, 1970s. Research on agency theory has had several findings. Most notably, an agent is more likely to adopt the goals of the principal, and therefore behave in the interest of the principal, when the contract is outcome-based. Also, when the agent is aware of a mechanism in place that allows the principal to verify the behavior of the agent, he is more likely to comply with the goals of the principal (Jensen & Meckling, 1976).

According to Stephen Ross and Barry Mitnick (1973), Institutions forming around agency and evolve to deal with agency, in response to essential imperfection of agency relationships. Mitnick applied regulation extensively and introduced the study of delegation as the creation of agents in governments. Ross (1976) introduced the study of agency in terms of problems of compensation and contracting agency was seen as an incentive problem. Jensen and Meckling (1976) originated the institutional theory of agency and were the first to make explicit application of agency theory to secondary and social institutions. Basic assumption of agency theory is that principal interest may not align with those of the agents thus causing a conflict which need to be resolved.

Jensen and Meckling (2002) in their study of structure of the firm address all exchange involving effort and delegation of work and discretion. Under the terms of agency theory, a principal (P) passes on authority to an agent (A) to conduct transactions and make decisions on behalf of the principal in an effort to maximize P's utility preferences. Agency problems can arise if P or P and A have disparate skills in evaluating A's performance. P and A possess different sets of information relevant to the managerial decisions A must take a representative of P or P and A have different degrees of risk aversion. At core of agency problems is the fact that

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principals may not be able to monitor agents, either perfectly or costless, as to the agent's actions or the information behind those actions. Agency problems emerge because pacts between principals and agents are not free of charge. Managers, as agents of firm's shareholders, may not devote all their efforts towards managing the firm unless there is self-interest. In commercial banks ownership is diversified among individuals and institutional shareholders and individual stockholders are reducing. Agents will try finding out if the operating expenses could be reduced to maximize profit and wealth of the business. This will involve increase of till limits before sending the money to the bank, improving turnaround time for each customer as well as proper customer service as a bank representative (Jensen & Meckling,1976).

2.2.2 Intermediation Theory

Hirshleifer (1971) proposed the intermediation theory by suggesting that one way individuals may benefit from private information about the future returns to securities would be to sell. Leland and Pyle (1977) argued that an intermediary can signal its informed status by investing its wealth in assets about which it has special knowledge. Diamond (1984) has argued that intermediaries overcome asymmetric information problem by acting as delegates monitors. Bhattacharya and Thakor (1993) have provided a survey on banking building on an earlier review of the banking literature, traditional views of the role and functions performed by intermediaries with the evolution of these institutions over the last decade. In an attempt to confront the literature with a view of the practice to see if the literature adequately addresses the reasons that these institutions exist in the financial markets and how they perform value added activity.

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Traditional Arrow Debreu model of resource allocation and household interact through markets and financial intermediaries play no role. When markets are perfect and complete the allocation of resources is Pareto client and there is no scope for intermediaries to improve welfare. Modigliani Miller theorem applied in this context assert that financial structure does not matter, households can construct portfolios which offset any position taken by an intermediary and intermediation cannot create value (Fama, 1980 ; McDonald, 2011;Maaka, 2013). A traditional criticism of this standard market based theory is that a large number of securities are needed for it to hold except in special cases. However, the development of continuous time techniques for option pricing models and the extension of these ideas to general equilibrium theory have negated this. Dynamic trading strategies allow markets to be effectively complete even though a limited number of securities exist. Such an extreme view that financial markets allow an efficient allocation and intermediaries have no roles to play is clearly at odds with what is observed in practice.

Development of intermediaries tends to lead the development of financial markets themselves (McKinnon, 1973). Banks have existed since ancient times, taking deposits from households and making loans to economic agents requiring capital. Banks have played a major role in the transformation of savings from the household sector into investment in real assets. Roles played by these intermediaries in the financial sector is found in the many and varied models in the area known as intermediation theory. These theories of intermediation have been built on the models of resource allocation based on perfect and complete markets by suggesting that it is frictions such as transaction costs and asymmetric information that are important in understanding intermediation (Gurley & Shaw, 1960). Customer confidence with the merchants will make

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banks accessibility in remotes areas be embraced and see if banks can expand to very remote areas.

2.2.3 Mobile Banking Business Model

Soares and Melon Soprano (2007) indicate that agency banks networks have dramatically increased banks outreach and proved attractive way for banks to reach the population that was bank less. Use of ICT reduces the cost and increases the reach of banking, making correspondents an attractive vehicle for the underserved low income population (Kumar, 2005). There are two approaches in ICT; branchless banking mobile phone networks and point of sale terminals (Prochaska & Brix, 2008).Agency banking models that operate like branchless banking are sprouting, no matter the business model. If agency banking is being used to attract low income population in often rural locations, the business model depends on banking agents. Banking agents is an important part of the branchless banking business model since customer care, service quality and cash management depend on them.

Chepkirui (2014) argues that the model differs primarily on the question that who establishes the relationship (account opening, deposit taking and lending) to the end customer, the bank or the non-bank. Another difference is that nature of agency agreement between bank and non-bank. Models of branchless banking can be classified into three broad categories- bank focuses, bank-led and non-bank led. The study looked at bank focused model as it is the only relevant study. Bank focused model emerges when a traditional bank uses nontraditional low cost delivery channels to provide banking services to its existing customers that is automated teller machines, internet banking or mobile banking to provide certain limited banking services to banks customers. This model is additive in nature and may be seen as a modest extension of

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convectional branch based banking. Points of sale and mobiles phones are not bulky to carry and it gives receipts at the end of a transaction. This helps with referrals in areas where banks are not their favorite (Watiri, 2013).

2.3 E-commerce and Agency Banking

Agency banking has a broad range of financial services outside convectional bank branches and involves agents. Agency banking in Latin America and Brazil are the most developed (Hussain, 2014). Developing countries are accepting agency banking as a means of banking the unbanked population. As per 2009 national financial access survey, 33% is not utilizing banking services. Inaccessibility is the main driver, travelling long to get the banking services. Agencies have reduced set up and delivery costs, CAD and CAW on a larger scale to customers who feel safer banking at their local merchants (Mas & Radcliffe, 2011).

In view of Mohamad, Building, and Ismail (2010), banks are focusing increasingly on their agency banking activities, and are globally expanding electronic banking activities exploring the use of wireless networks and venturing in new areas of electronic commerce. Banks offer agency banking to defend or expand market share and as a cost saving strategy to reduce paper work and personnel. Agency also provides banks with an opportunity to reach customers beyond existing boundaries. The most important advancement by the banking industry is agency banking. Financial markets have become more efficient, and consumers more able to choose from a number of offers that often come from other banks than banking ones (Cracknell, 2012). Official start of this applied technology on the banking sector was in 1995, which witnessed the first electronic bank (Nzioka, 2013).

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Hussain (2014) indicates that agency banking has gained importance in developing countries over the last decade. However extent to which agency banking can be used as a tool to deepen the financial sector remains unknown, also, true benefits of the agency banking model to customers, the banks and the banks agents also remains unstudied. Kenyan rural population has remained largely unbanked. Rural entrepreneurs' access to banking services in these areas has been hindered by the assumption that rural population have low incomes which are not sufficient to sustain banking operations, hence formal banks in Kenya have stepped back from offering banking services to rural areas. Kenya through the CBK in collaboration with mobile phones service providers came up with agency banking (Muriuki, 2013).

Banks contribute to the operation and growth of all economies in the world through various roles, including that of intermediation and provide settlement facilities. Banks operate faultlessly in order to build confidence and stability in the system. (De Nicolo & Lucchetta, 2010) Traditional roles of banks have that of intermediation that is, bringing together borrowers and lenders. Which can only be done successfully and for a period through credit monitoring and management, liquidity and risk because a bank is funded by depositors and hence it has an obligation to protect the funds (Allen & Gale, 2000).

Banks have developed ways to transfer funds through cheques books, real time gross settlement (RTGS) and now agency banking. Banking system ensures efficient allocation of resources in an economy through lending to businesses and individuals. The government depends on banks to meet the socio economic needs of citizens especially banking services. Regulation and management is mandatory (FSD, 2009). Agency banking model enhances financial services by empowering small market enterprises to operate as satellite outlets for banks. It contributes

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largely for financial inclusiveness for all in developing countries like Kenya hence developing keen interest in regulators and policy makers (Duncan & Wambani, 2014). Agency banking has yet to demonstrate pro poor, pro-growth impact for households, communities and national economics (Morawczynski & Pickens, 2009). Kenya has witnessed an accelerated expansion of many banking services since independence.

There is low transaction cost, longer opening hours, shorter lines than in branches, increased sales, differentiation from other businesses, reputation from affiliation, additional revenue from affiliation with well-known institutions, more customers hence better market share, interest and fee income, improved indirect branch productivity by reducing congestion are benefits agencies enjoy (Musau, 2013).

2.4 Bank Performance and Performance Measurement

Central bank of Kenya (CBK) is the main regulatory authority that regulates how money and financial markets are managed and run in the country. The principal objective of CBK is laid out in the Central Bank of Kenya amendment act of 1996 which is to (formulate and implement monetary policy directed to achieving and maintaining financial stability and general level of prices) (Kiura, 2014). In its role of formulating and perusing monetary policy CBK therefore tries to ensure that levels of credit obtained in the economy does not impose excessive strains on the available resources while at the same time it ensures that monetary policy provides a general environment in which savings can be accumulated to the maximum extended possible and utilized to support productive investment.

CBK recognizes the financial inclusion challenges which the country faces. These include the cost of financial services and the distance to bank branches in remote areas. Part of their

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approach to addressing these challenges is to promote innovation through mobile financial services and to address the delivery channel costs through increased use of agent banking (Central Bank of Kenya, 2010). Banks and other financial intermediaries have deteriorating asset portfolios, largely due to distorted credit management as the main source of crisis (Lipimile, 2008). Competitive environment, globalization, economic changes, regulation and privatization demand that commercial banks are run efficiently and effectively by continuously engaging in financial innovations. In Kenya emergence of new technologies, products, processes, markets and competitor banks places demand on any commercial bank to apply any skill necessary to remain competitive. The banking industry has been depicted (Muiruri & Ngari, 2014) as exhibiting little market orientation and fulfilling services with little regard to customer needs. Long lines, transactional errors, queuing, insecurity and network failure have been said to be the most frequent problems using banking services (Berger et al., 2004)

The Central Bank of Kenya uses a number of monetary instruments to achieve its goals in monetary policy objective guided by the following fundamentals: attain full employment of resource, achievement of price stability by regulating money supply through the tools of CBK such as discount rate, minimum reserve requirements and open markets operations, to attain economic growth which can be defined as a process where the real growth national product (GNP) per capita increases at a period of time (CBK, 2011). Monetary policy can contribute to the end by providing investment funds through cheaper credit and mobilize savings used for investments; such investments can generate funds which can be institutionalized and those investment funds are located to those sectors with highest rate of return (Ongore, 2013). To maintain equilibrium in the balance of payment, monetary policy can be used in such a way that credit is selectively directed to the export sector and away from the import sector at the same

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time capital inflow can be encouraged through appropriate strategies such as exchange controls example foreign currency reserves. Creation of sound banking and financial institutions to mobilize savings for capital formation, this can be done by providing and enabling environment through sound monetary and micro economic policies (Afzal, 2013)

Central Bank of Kenya has several instruments of monetary control which can be employed on various occasions: Minimum liquidity which is the liquid asset ratio proportion of total assets of the bank held in form of cash and liquid assets (Diamond, 2007). It affects bank lending infrastructure and the advantage that it affects all banks equally and has a powerful effect in controlling credit creation. A related instrument is the cash ratio where he Central Bank of Kenya strikes a higher or lower level of deposits receive by them in cash form that is commercial banks have to maintain a minimum cash balance against total deposit liabilities although the maximum subscribe balances may not exceed twenty percent of the total deposit liabilities. The purpose of this is to reduce the banks cash base and hence capacity to give loans and advances (CBK, 2011).

Open market operations is another instrument of monetary policy it refers to sale purchases of marketable securities conducted in the open market by the Central Bank of Kenya as an instrument to control over the monetary system (Berger et al., 2004). Open market operations target cash balances of commercial banks and non-bank financial institutions. Central Bank of Kenya sells its holding of government securities to commercial banks that is treasury bills (T-bills) in order to mop up excess reserves with commercial banks. On the other had when it anticipates liquidity decrease it injects additional liquidity by purchasing from existing stock for government securities (Ongore & Kusa, 2013).

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Selective credit control is a qualitative measure of credit control used to encourage those sectors of an economy activity considered essential and discourage those of lower quality. This policy affected by Central bank of Kenya (CBK) through issuing special directives regarding loans, advances and investments by commercial banks to approve loans for industrial development and limit lending for speculative purposes (Andries & Cuza, 2009). Interest rate policy used to encourage low interest rates to encourage investment and protecting the small borrower. Stability of the interest rates has been emphasized since it's regarded as an important factor in promoting development. Interest rate regime liberalized in 1991 which let the market forces of demand and supply to determine appropriate interest rate levels.

Exchange rates which are the price of a currency In terms of another. Exchange rate policy seeks to ensure balances of payment equilibrium and persistent differences, between foreign receipts and payments over a long period of time indicating that exchange rate and domestic policies are not compatible with development in the external sector. Financial intermediation is the process by which individual savings are accumulated in financial institutions and in turn lend and invest. Financial intermediaries are made up of financial institutions such as commercial banks, insurance companies, pension funds and mutual funds (Awuodo, 2013).

Commercial banks provide markets for short term finance and long term finance, provide securities that can be bought and sold example bills of exchange and promissory notes which can be easily be discounted and treasury bills which can be bought and sold by individuals and companies without difficulty (CBK, 2011). Commercial banks also provide finance to solve liquidity problems such as short term loans payable within six months.

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Kumar, Nair, Parsons, and Urdapilsleta (2006) indicate the change in financial performance on agency banking financial institutions in United States during 1999 to 2003. The results found that agency adoption improved profitability, through increased revenue and deposit service charges. Agency banking was also associated with movements of deposits from checking accounts to money market deposit accounts, increased use brokered deposits and higher wage rates for bank employees. It found little evidence of changes in loan portfolio. It can be argued that the intensity and experience in the usage of agencies increases, financial performance of agency banks.

Agency banking is a decentralized banking system accessible by phone and the central authority is the bank responsible under the regulation of the Central Bank of Kenya (CBK). The phone operates through independently functioning computer systems that are connected by communicating in a common protocol or language (Tan & Teo, 2000). With the emergence of the agency banking, two stages in the development of electronic commerce were identified; traditional and modern stages. In traditional stage, the networks were a means of moving data, in modern stage; the networks (internet being their synthesis) are markets (Egland et al., 1998). Although the financial service industry was the first to recognize the potential of agency banking as a means of interacting with customers, data compiled by web marketing association shows that banks are trailing behind other industries in innovations within internet channels (Berger, 2003).

Agency based applications have become vital in product marketing and distribution for many businesses (Tih & Ennis, 2007). Community banks in the United States were initially slow in adopting the agency banking technology; most commercial banks are now offering banking

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products and services through numerous agents they have recruited (Lee et al, 2005). Increasing demand for agency banking products and services (Nath & Paul, 2001), rising competition from large commercial banks and the potential for boosting profitability through improved customer centrism and reduced product marketing costs are primarily driving force behind this new technology adoption by commercial banks. Banking services are highly informative cautious and technology plays a major role at each stage of acquiring, processing and delivering information. Banks as early adopters of agency banking may gain competitive edge and achieve higher production efficiency.

Commercial banks, in Kenya, have the privilege of various delivery channels for their products and services. This includes the brick and mortar branch office networks, automated teller machines (ATM), mobile banking via telecommunication channel and internet banking (Market intelligence, 2003). In Kenya, interest in agency banking is particularly keen since a strong case can be made that banking, along with other financial services; provide a fertile environment for the development of electronic commerce. At its core, banking involves the collection, storage, transfer and processing of information on money and the agencies are incredibly powerful and efficient tool for handling the processes. Agencies have enabled customers to access information reporting through the web. Using their own customized selection criteria, customers can retrieve information easily and reliably, including real time settlements (Windham, 1996).

Mandrile (2010) argued that traditional branch based retails banking remains the most widespread method for conducting banking transactions in Kenya. However, agency banking technology is rapidly changing the way personal financial services are being designed and delivered. For several years, commercial banks in Kenya have tried to introduce agency banking

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based electronic banking system to improve their operations and reduce costs. (Lee et al., 2007) indicates that technology will therefore create greater opportunities to service providers to offer great flexibility to customers. To this end banks are fast branchless banking ATM, internet and mobile banking.

2.5 Empirical Review

Karimi (2011) studied that agency banking implementation among commercial banks in Kenya is difficult in enforcing agency banking on customer interaction because they are unaware of how it works. The findings show that there is need of regular training of agents on policy and procedures to avoid operational errors as well as breaches that eventually affect financial performance. Kariuki (2015) studied the extent of implementation of agency banking among commercial banks in Kenya. The study established that there is difficulty in enforcing appropriate oversight by the agent and customer interaction was inconsistent with overall banking regulatory framework. The findings revealed the need for regular training of agents on changes in operational processes and policies in order to eradicate occurrence of error and mistakes that obstruct penetration of agency banking in Kenya thus enhance banks' financial performance.

Kithuka (2012) studied factors influencing growth of agency banking in Kenya. The study used stratified and simple random sampling and found out that accessibility, cost, support and security factors had influenced adoption and growth of agency banking. The study showed that distance was a non-factor to customers and their transactions. Banking agents and the bank itself coordination influences the growth of agency banking in Kenya. The study recommends further research on customer satisfaction and how it influences the growth of agency banking in Kenya.

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Waithanji (2012) sought to determine the impact of agency banking as a financial deepening initiative in Kenya with an objective to show the impact of agency banking in its first year of operation in Kenya. Probability statistics was used to analyze the data. It was found out that there was a connection between agency banking and financial deepening. Though it could not be determined due to low number of banks that have implemented it and that the impact may become clearer once all banks adopt agency banking.

Mwangi (2012) established that cost effectiveness (infrastructure, human resource and security) associated with agency banking positively influenced the financial performance of the banks in Kenya hence concluding that liquidity availability in agency outlets affected the performance of commercial banks in Kenya which was in agreement with an earlier study done by Honoran (2007). However, the study recommended that the banks to restructure and reevaluate the criteria for selecting and settling on the agents to cater for the liquidity problem. She advocates for further study to be done on factors that influenced the growth of agency banking in Kenya.

Nefa (2013) studied agency banking as a competitive strategy of commercial strategy of commercial banks in Kisumu City, the study found out that 3 commercial banks that had engaged in agency banking operations had achieved expansion in geographic coverage, during peak periods like December holidays with festivities around Christmas and New Year it was noted the banking hall were not congested to the 2 that had not engaged in agency banking. Increase in customer numbers was experienced from the agents.

Watiri (2013) sought to establish the adoption of agency banking in Equity Bank Limited in its International operations. Study employed a case study research design and data collection using a questionnaire. The study found that the main factors influencing the adoption of agency banking

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among commercial banks in Kenya include: cost reduction, enhancement of customer experience and expanded presence by banks particularly in remote areas. The study therefore recommends that banks should adopt a risk based approach to the supervision and regulation of agency banking while putting sufficient security measures in place. The study suggested further research to investigate the factors which influence other agencies performance in other sectors apart from the banking sector and also another study on the same topic but in other banks to establish whether the findings can be generalized.

Kiragu, Ndwiga and Aduda (2013) studied the relationship between agency banking and performance of commercial banks in Kenya. The study used probability statistical design method using secondary data gathered from the commercial banks in Kenya that had adopted agency banking by the end of year 2012. The study concluded that there is a strong negative correlation between the two and that agency banking does not solely contribute to increased profitability in Kenya commercial banks as per secondary data reviewed. The study advocates for further studies to be done in economic impact of agency banking model performance in Kenya, and customer perception of agency banking in Kenya, and customer perception of agency banking in Kenya; factors affecting the financial performance of the agent banks; the role of the government or regulatory framework in supporting the adoption of agency banking and the impact of agency banking to the financial sector deepening or financial inclusion and other related studies.

Muthongo (2014) focused on effects of agency banking on financial performance of commercial banks in Kenya. The study found out that the agencies have not adopted all the services approved. Recommendations were further study be undertaken when more banks have adopted agency banking and have increased the number of services available. Ndungu and Njeru (2014)

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studied factors that influence adoption of agency banking in Kenya. Study concluded that customer centrism affects adoption of agency banking in Kenya with high service increases adoption and low service inhibits adoption while delivering services through extended hours of banking. It also notes that performance is affected by customer centrism. The study suggested further study to investigate agency loyalty to the principal banks in cases where agents serve more than one bank.

2.6 Summary of Literature Review

To determine the adoption of agency banking most banks have adopted the agency model to expand regionally. Studies recommend a study to be done on other agencies not the banking sector. Investigations on the factors that influence agency banking adoption among commercial banks in Kenya, banks had only adopted agency banking as a strategy with security was found to be the most critical factor influencing agency banking.

Evaluation on the role of agency banking in the performance of commercial banks in Kenya, liquidity availability affected greatly the performance of agency banking, there was need of proper policy and procedures, technological advancement and regulations put in place both by the agent and commercial bank to be able to become a competitive edge. Effects of agency banking on financial performance of Kenyan commercial banks there was a positive and significant relationship between accessibility of banking services as a result of agency banking and financial performance challenges facing adoption of agency banking by commercial banks in Kenya. The current study will determine challenges associated with agency banking and bank performance.

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2.7 Conceptual framework

A conceptual framework is a set of broad ideas and principles taken from relevant fields of inquiry and used to structure a subsequent presentation (Reidenbach & Moak, 1986). A variable is a measurable characteristic that assumes different values among subjects. An independent variable is a variable introduced to effect or determine a dependent variable. A dependent variable is a variable dependent on another. The independent variables of agency banking are: reliability (uptime of the agency banking), operational challenges, administrative challenges, confidentiality and security. Dependent variable: bank performance includes lead time (transaction time), profitability, loan book, and liquidity. Moderating variables include: competition, CBK and management.

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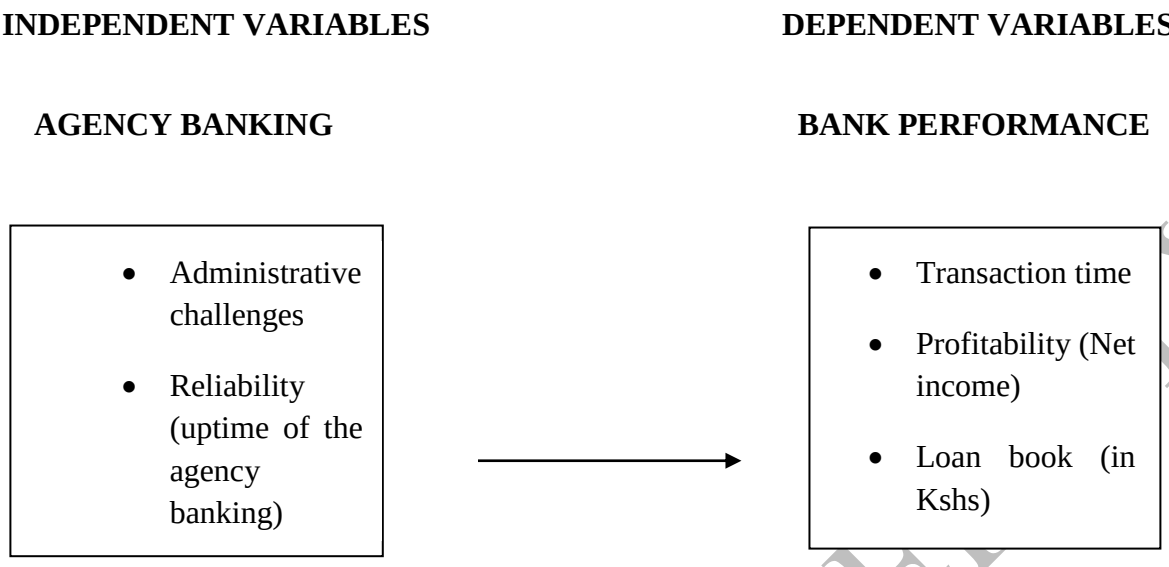


Figure 1: Conceptual framework

Source: researcher, 2016

If an institution's agency banking system is routinely out of service, it may be difficult for it to build and sustain a user base. With enhanced service support, financial institutions provide quality service to their customers. Operational challenges lack of collaboration, lack of granular information, poor planning for success, outdated systems and technology would prevent agency banking to be adopted by commercial banks and also slow down growth for existing agents. Administrative challenges like leave of absence, busy seasons and special projects, unexpected loss of an employee, increased workloads will hinder agent projects to advance. Lead time which is the time taken to complete on transaction should be under three minutes, this will reduce time wastage to customers hence the system should always be operational so that local transactions can go global. Infrastructure over complexity makes agencies not truly know the own operations and clients, regulators cannot hope to undertake their supervisory duties if data they receive does

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not reflect banks' true exposures, all business changes are impeded by system layout and cannot be adopted without significant cost, risk and disruption.

Security of network it should not be easily hacked or cracked to avoid frauds that would create losses and hence customers would lose money. Fees income should be done in clean books easily audited at any time to show clearly profits or losses incurred to be able for agents and bank counter attack any challenges that come about. Operating cost is the electronic processing dramatically reduces the cost per transaction. This encourages more agents to adopt the new technology and customers transact more with the agents. It will make financial sense to convert to a provider that offers an alternative pricing model. Competition is eminent high risk high return is the common law in business only being calculative is the only way to avoid losses. Merchants will open up agents for different banks in one setting and banks will convince agents to open up there outlet despite an existing agent in place.

CBK is the overall governing body it holds the right of admission for all agents since they have to hold CBK certificate. Management has to balance between the agent and the bank to maximize profit and wealth without putting the bank at risk as well as the agent, collecting over tills in time as well as providing adequate security, branding equipment and marketing the agent. Core capital this will fund all duties that agents will face including float to transact, after sales services for their clients and promotions during marketing.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methods that were used in the collection of data pertinent in answering the research question. The chapter is divided into research design the overall plan for research undertaking, study population sum of all bank agencies and relationship managers, sample size sampling design which is a plan to obtain a sample from a given population, data collection is the method of collecting primary data, secondary data and analyzing the data to verify the validity and reliability.

3.2 Research Design

Mugenda and Mugenda (2003) describe research design as a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because the inherently cannot be manipulated. Inferences about relationship between variables were made, from concomitant variables recorded from merchants who are the agents, relationship managers who are custodians of agents in the banks. The design helps the study in obtaining information concerning the current status of the effects of agency banking on individual banks performance: a case study of selected commercial banks. A case study method was used to collect in depth data to achieve the objectives of the study. The study used a probability statistical research design.

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3.3 Target Population

Target population is the entire set of units for which the survey data are to be used to make inferences. Target population defines those units for which the findings of the survey are meant to generalize (Janssen, Gould, Li, Brumby, & Cox, 2015). Target population for this study was four commercial banks in Kenya where 10 merchants in each bank as the agents and 4 relationship managers as representatives of the banks making a total of 44 respondents.

3.4 Sampling Design

A sample design is a definite plan for obtaining a sample from a given population. It refers to techniques a researcher adopts in choosing items in a sample according to (Kothari, 2004). Kothari, (2004) defines purposive sampling as a small sample with known characteristics to be studied intensively. A merchant is a business person who trades in commodities produced by others, in order to earn a profit. Purposive sampling was adopted for this study to identify the agents from the four commercial banks relevant to the study that is Natpesa, Pesa pap, KCB mtaani, Coop jirani. Commercial banks have a known characteristic, that is, they have accepted agency banking and began this venture as a competitive edge as well as profit and wealth maximization. Merchants were sampled through purposive sampling. The sample size which is the number of observations was 10 merchants each from the four banks and 4 relationship managers from the four banks that give a total of 44 respondents.

3.5 Data Collection Instrument

Questionnaires were used to collect primary data for the study. According to Kothari (2004) a questionnaire is a research instrument consisting of a series of questions and other prompts, printed or typed in a definite order on a form or set of forms for the purpose of gathering

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information from respondents. The questionnaires were a combination of open and likert scale questions.

3.6 Data Collection Procedure

The researcher collected data from the selected respondents after getting permission from St Paul's University Post graduate office, National council for Science, Technology and Innovation and the CEOs of the four targeted commercial banks. The researcher administered the questionnaires himself and informed the respondents about the purpose of the study, produced the introductory letter and booked appointments during which data would be obtained. Data was then collected using questionnaires. Secondary data on bank performance was obtained from financial statements and reports.

3.7 Validity and Reliability

The research instrument was tested for validity and reliability. Validity shows the degree and magnitude to which an instrument measures what it is supposed to measure (Kothari, 2004). Validity is the degree to which results obtained from the analysis of the data actually represent the phenomena. Validity of instruments is critical, acceptance levels depend on logical experience and professionalism of the researcher who has good understanding of quality control techniques (Oso & Onen, 2005). Kothari,(2004) states that pre-testing an instrument ensures it meets its standards. Hence, validity of the study instrument was tested using pretest.

Reliability on the other hand, is the ability of research instruments to consistently yield the same results when repeated measurements are recorded under constant conditions Sharma (1989). Reliability is used to focus on the degree to which empirical indicators are consistent. Cronbach

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alpha was used to test for reliability. Validity and reliability of research instruments ensure scientific usefulness of the findings arising from the study.

3.8 Data Analysis

According to Orotho (2005), data analysis is the categorizing, ordering, manipulating and summarizing of data to obtain answers to the research questions. Data was analyzed using probability statistical statistics; mean and standard deviation and multiple regression analysis (standard). The regression model is captured below;

$$Y_i = \beta_0+\beta_1x_1+\beta_2x_2+\beta_3x_3+ \varepsilon$$

Where:

Y_i – Bank performance (Transaction time, profitability, loan book and liquidity)

β_0 – Constant Term

β_1 – Beta

X_1-Administrative challenges

X_2- Reliability

X_3- Operational challenges

ε – Error term

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3.9 Preliminary Tests

3.9.1 Normality Test

A normality test is used to determine whether sample data has been drawn from a normally distributed population with some tolerance (Nornadiah & Wah, 2011). Test results for normality indicate whether you should reject or fail the null hypothesis that the data from agents and relationship mangers as bank representatives a normally distributed population with confidence level. Regression coefficient (β) is estimates of the effect of individual independent variables on the dependent variable. In testing for normality, visual inspection of data plotted dependent variable versus independent variable was utilized for purposes of this study.

3.9.2 Multicollineality

Multicollinearity is states of high inter correlation or inter associations among the independent variables. It is therefore a type of disturbance in the data and if present in the data the statistical inferences made about the data may not be reliable (Brooks, 2007). Tolerance measure is a measure of collinearity reported by most statistical programs such as SPSS (Scientific Package for Social Scientists). A small tolerance value indicates that the variable under consideration is almost a perfect linear combination of independent variables already in the equation and that it should not be added to the regression equation.

Strong correlation between independent variables indicate existence hence multicollinearity. It can be tested using correlation matrix, variance inflation factor and tolerance. Correlation matrix is when computing Pearson's bivariate correlation among all independent variables which should be less than 0.05. Tolerance measure the influence of one independent variable on all other

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independent variables. Tolerance is calculated with an initial linear regression analysis. Tolerance (T) = 1 – R^2 where T<0.01 there is multicollinearity in the data. Variance inflation factor of the linear regression is defined as variance inflation factor (VIF) = 1/T if VIF>10 there is multicollinearity. Adjusted R^2 explains much variance in Y accounted for, if the model had been derived from the population from which the sample was taken. Significance of R^2 can be tested using an F- ratio. F= (N-K-1) R^2 / k (1-R^2) (Kenneth & Kenney, 1981).

3.9.3 Homoscedasticity

Homoscedasticity refers to the assumption that the dependent variable exhibits similar amounts of variance across the range of values for an independent variable. The statistical method for evaluating homoscedasticity is the Levene statistic which SPSS computes test for homogeneity of variances (Hedayat, 2009). Levene's test assesses the statistical assumptions that variances of the population from which different samples are drawn are equal if the results show that p value of Levene's test is less than a significant level (0.05) the obtained differences in sample variances are likely to have occurred based on random sampling from a population with equal variances. In testing for homoscedasticity visual examination of a plot of the standardized residuals that is the error by regression standardized predicted value by use of scientific package for social scientist.

3.10 Ethical Consideration

Ethics is a method, procedure, or perspective for deciding how to act and for analyzing complex problems and issues (Resnik, 2005). The following are the ethical principles that the study addressed: honesty, in that the researcher strived for honesty in all scientific communications, data reporting, results, methods and procedure. The study did not falsify or misrepresent data.

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The researcher endeavored to avoid biasness in data analysis, data interpretation and personal interest that may affect the study objectives and ensured that different statistical tests were done to provide strong evidence of the effects. The study also strived to avoid careless mistakes and negligence. Careful and critical examination of the study was top priority to the researcher. The study kept good records of research activities such as data collection and research design.

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CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

The chapter presents the results from the study and gives the interpretation of the results to make meaning of them. It also discusses the findings by comparing and contrasting with other previously done studies. It documents the key findings as guided by each objective. Data was obtained from self-administered questionnaires which were completed by 40 respondents out of the total 44. The questionnaires comprised of three sections; the background information, Agency banking and finally bank performance.

4.2 Background Information

This chapter involves information that is basic among the bank agents and bank staff that enables us to know the background of the respondents to establish the effect on adoption of agency banking: a case of selected commercial banks. The response rate shows that the agency banking is preferred by both genders with men presenting 42.5% and female presenting 57.5%. This proves that female gender is preferred in working in agency more than men with 15.0% difference. The bank and merchant agents were young and as the age increases they become fewer and fewer. This shows that agency banking is being understood more by the young merchants and being ventured into and hence being adopted. This proves that agency don't get minors and aged to work in the agency business, most of them range between 26-33 years.

Education has continued to be important as literacy level enhances understanding of the agency as well as handling customers to make them come again and again. Agency banking is a source

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of employment for all literate persons. Education response rate shows more than a half of the respondents had secondary education and above.

Agency staff and the merchants agree that adoption of agency banking is necessary as a form of banking service delivery with 50.0% response rate. This shows that customer satisfaction is being met by the merchants. The response rate that agreed was more than half the population the rest thought otherwise. Banks staff and merchants transact as well and it shows that agencies benefits have been acknowledged by staff and merchants due to customer centrism the agency transacts several times a month. The response rate shows that customers transact more frequently in agency with less than one presented by 7.5% and highest number of transactions presented by 45.0%, 21-30 times. Visiting the banks to do transactions is normally characterized with long queues which take a lot of customers' time. This is not the case with agency banking and therefore the customer would definitely prefer it which in most cases is located near where they live. This not only saves the time of travelling to a town with a bank and queuing but also the expenses accompanied with it.

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4.3 Agency Banking

It's the provision of banking services by a third party (agents) to customers on behalf of a licensed, prudentially – regulated financial institution, such as a bank or other deposit taking microfinance (DTM).

TABLE 4.3.1 Extent of considering adopting agency banking

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	14	35.0	35.0	35.0
	Agree	20	50.0	50.0	85.0
	Neutral	5	12.5	12.5	97.5
	Strongly Disagree	1	2.5	2.5	100.0
	Total	40	100.0	100.0	

Banks normally do give requirements and guidelines on how to conduct agency banking business and transactions in which 97.5% agreed while 2.5 % believed otherwise. These guidelines ensure that clients adhere to the set rules and to always make sure they meet the set requirements. The guidelines and requirements are made available to the clients frequently. The respondents agreed that the requirements are easy to adhere to and are not limiting. There are no restrictions that can hinder the implementation of the agency program which can scare agents away thus having a negative effect on the individual bank performance. On the contrary, the guidelines do not enhance the implementation of agency banking program either. Time taken to open a new

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agency outlet is relatively less probably due to the increased demands for the banking services among many people who earlier did not use the services.

4.4 Bank Performance and Agency Banking Reliability

Bank performance it's the degree of accomplishment for banking financial objectives and agency banking reliability is the uptime of an agency.

Table 4.4.1: frequency of use of agency banking services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than once	3	7.5	7.5	7.5
	1 – 10 times	12	30.0	30.0	37.5
	11 – 20 times	18	45.0	45.0	82.5
	21 – 30 times	5	12.5	12.5	95.0
	31 and above times	2	5.0	5.0	100.0
	Total	40	100.0	100.0	

Source: Research Data (2016)

The study sought to determine whether the agents had the right skills to carry out the agencies activities. Research rate shows that agents have the right skills. 42% indicate they have little skill which may affect the performance of the agency negatively. The right skills are very crucial in terms of attracting more clients and also attaining customer satisfaction which leads to increased profitability. The findings of extent the availability of resources affect implementation of agency banking. The response rates show more than half the agents strongly agree that availability of resources ensures smooth running of the agency banking.

The findings show that agency banking has fairly improved the lives and livelihood of customers. However, it is not the case for other customers. This is proved by more than have the

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respondents agree that agency banking improves the lives and livelihood of customers as well as the agents as a source of income. Agency banking has had different effects on customers on different banks. Some respondents agreed to the growth of customer base while a few were neutral and others disagreed as presented in the table below. This could be because different banks have different requirements and guidelines and the one with the easiest and fastest tend to attract more customers than the others with complicated guidelines.

Table 4.4.2: Growth in customer base

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	8	20.0	20.5	20.5
	Disagree	7	17.5	17.9	38.5
	neutral	7	17.5	17.9	56.4
	agree	6	15.0	15.4	71.8
	strongly agree	11	27.5	28.2	100.0
	Total	39	97.5	100.0	100.0
Missing	System	1	2.5		
Total		40	100.0		

Source: Research Data (2016)

Agency banking affects the sale of other bank products like insurance, account opening, mobile/internet banking and short /long term loans. Some respondents agreed to the sale of other products while a few were neutral and others disagreed as presented in the table below. This could be because different banks have different requirements and guidelines to sell their products outside the banking halls.

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Table 4.4.1 Sell of other products

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	6	15.0	15.0	15.0
	disagree	5	12.5	12.5	27.5
	Neutral	5	12.5	12.5	40.0
	Agree	3	7.5	7.5	47.5
	strongly agree	21	52.5	52.5	100.0
	Total	40	100.0	100.0	

Source: research data, 2016

4.5 Effect of Agency Banking Operational Challenges on bank performance

Most of the agents spent different times in the agency business. From the table below, majority of the respondents had over two years' experience which clearly shows that agency banking started five or more years ago.

Table 4.5 time spent as an agent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	>1 year	4	10.0	10.0	10.0
	2-3 years	22	55.0	55.0	65.0
	3-4 years	12	30.0	30.0	95.0
	4-5 years	1	2.5	2.5	97.5
	<=5 years	1	2.5	2.5	100.0
	Total	40	100.0	100.0	

Source: Research Data (2016)

The finding on whether the selected banks experienced network failures. The response rate shows that more than half the respondents agree that banks experience network failures. This however does not mean that there are no network failures in the banks but could mean that some banks experience failures throughout but not as frequently as others. Network failure in most agency outlet, the table below reveals that the commercial banks covered in the study experienced network failures. The network failures lasted for different periods per banks as is evidenced by different periods reported by the respondents.

Table 4.5.1 Period of network failure

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0-30 minutes	7	17.5	17.5	17.5
	31-60 mins	15	37.5	37.5	55.0
	61-90 mins	10	25.0	25.0	80.0
	91-121 mins	6	15.0	15.0	95.0
	122-152 mins	2	5.0	5.0	100.0
	Total	40	100.0	100.0	

Source: Research data, 2016

Research rates show that the information systems could not be relied on hence the banks should come up with a more reliable banking system. This was shown by more than half the respondents indicating of unsuccessful transactions and customer complains on lost transactions in the system that have to be followed up with head office.

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Table 4.5.2 Transaction time

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 mins	16	40.0	41.0	41.0
	6-10 mins	6	15.0	15.4	56.4
	11-15 mins	6	15.0	15.4	71.8
	16-20 mins	9	22.5	23.1	94.9
	21-25 mins	2	5.0	5.1	100.0
	Total	39	97.5	100.0	
Missing	System	1	2.5		
Total		40	100.0		

Source: Research Data (2016)

The study sought to find out if the existing network facilitated quick transactions in agency banking. This was geared towards determining if this had any effect on the bank performance. The table above reveals that the transactions are neither quick nor slow in general. One person did not say anything about this question. Almost the same number of respondents disagreed and agreed to the statement. This gives the agency a challenge to improve its systems in order to enable quick transactions. The prime purpose for agency banking is to facilitate fast and easy transactions and if this is not achieved, then the customers may shy away from its services. Finally, infrastructure support greatly affects the implementation of agency banking with more than half agreeing.

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4.6 Bank Performance

Majority of the respondents reported that they did not experience liquidity problems. A reasonable number of respondents however, reported that they experienced liquidity problems. The response rate showed that more than half of the respondents agreed they have no liquidity problem. This case is dependent on the individual bank. Response rate shows half of the respondents agreed to the statement while the other half disagreed. The assets needed to operate the agencies can therefore be said to be either adequate or inadequate depending on the individual bank.

Table 4.6.1 Liquidity problems

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	12	30.0	30.0	30.0
	Disagree	5	12.5	12.5	42.5
	Neutral	8	20.0	20.0	62.5
	Agree	5	12.5	12.5	75.0
	strongly agree	10	25.0	25.0	100.0
	Total	40	100.0	100.0	

Source: Research Data (2016)

The study tried to find out if there was any connection between the bank performance and the reputational risks involved in agency banking. Majority agreed to the fact that there was a reputational risk involved in agency banking. The Response rate strongly agrees presented by more than two thirds of the respondent.

Table 4.6.2 Return on Investment					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	not aware	12	30.0	30.0	30.0
	very little extent	8	20.0	20.0	50.0
	little extent	6	15.0	15.0	65.0
	some extent	6	15.0	15.0	80.0
	large extent	8	20.0	20.0	100.0
	Total	40	100.0	100.0	

Source: Research Data (2016)

Return on investment is the profit gained from the agency business. The response rates of 30% of the total respondents were not aware of any return from agency banking investment. 20% had very little information about ROI while 15% had little knowledge. 15% and 20% experienced returns in some extent and large extent respectively. Most of the respondents were not aware of CAMEL framework which presented more than half the respondents. The response rate shows that only a third of the respondents were not fully aware of customer perspectives and centrism while two thirds of the respondents had little and more information.

4.7 Preliminary Tests

Initial analysis to code, edit, tabulate and present data received for 40 respondents from the four commercial banks that is Equity Bank, Kenya Commercial Bank, Family Bank and cooperative Bank to commensurate the study findings and make meaning of the research.

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4.7.1 Normality test

Test results for normality indicate whether you should reject or fail the null hypothesis that the data from agents and relationship mangers as bank representatives a normally distributed population with confidence level.

Table 4.7.1 Normality test

Tests of Normality						
	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
Bank Performance	.113	40	.200*	.954	40	.101
*. This is a lower bound of the true significance.						
a. Lilliefors Significance Correction						

Source: Research data, 2016

Significance level value is 0.101 and for normal distribution p- value should be less than 0.05, this indicates that the bank performance data is normal hence significant.

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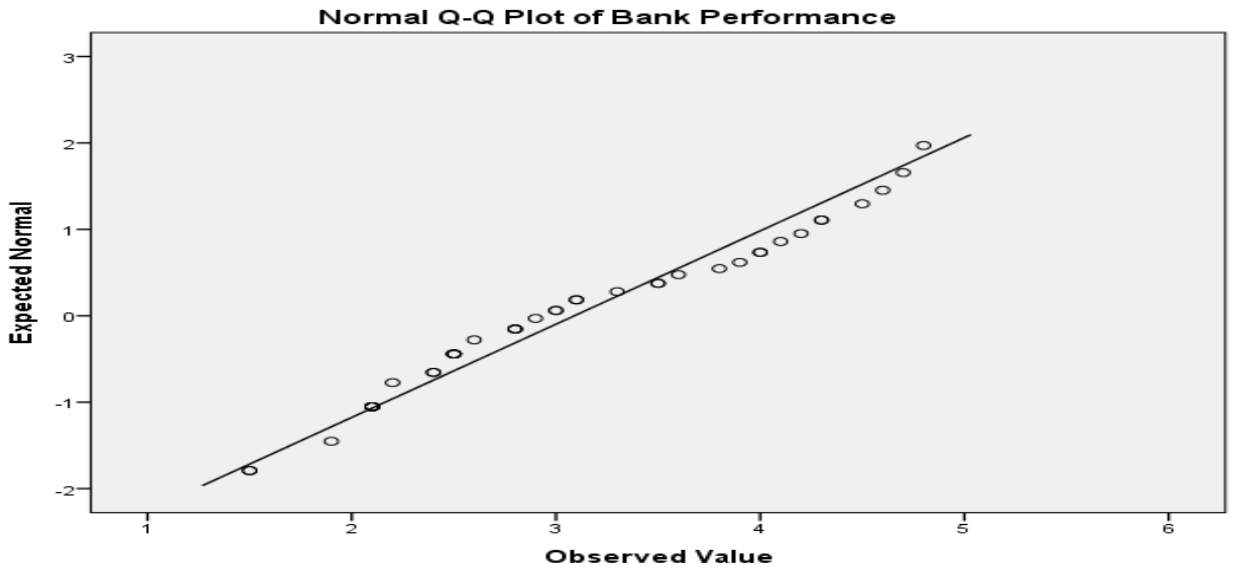


Figure 4.7.1: Normal Q-Q Plot

$The\ p-value$ Is (.101>0.05) indicating that the data plotted was from a normal distribution. The data was normal as also shown on the Q-Q plot.

4.7.2 Multicollinearity Test

Multicollinearity is states of high inter correlation or inter associations among the independent variables. Correlation checks for relationship among the predictor variable hence when there is more than one we check for multicollinearity meaning relationship among several variables.

Table 4.7.2 Multicollinearity Test

Coefficients[a]					
Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig.	Collinearity Statistics

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		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.955	.342		5.719	.000		
	Reliability	.106	.069	.268	1.530	.135	.826	1.211
	Operational challenges	-.058	.129	-.079	-.452	.654	.826	1.211
a. Dependent Variable: Administrative challenges								

Source: Research data, 2016

Table 4.7.2 illustrates Multicollinearity test is used for testing the correlation between the predictors. From the table above, the VIF was 1.211 meaning that there are no multicollinearity issues to be concerned about between administrative challenges and reliability & operational challenges.

Table 4.7.2.1 collinearity

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.029	1.079		-.027	.979		

	Operational challenges	.764	.270	.410	2.830	.007	.999	1.001
	Administrative challenges	.561	.367	.222	1.530	.135	.999	1.001
a. Dependent Variable: Reliability								

Source: Research data, 2016

Table 4.7.2.1 Again we find that there are not collinearity issues to deal with between reliability and operational challenges as well as administrative challenges since their VIF is 1.

4.7.3: Correlations

Correlation shows relationship among predictor variables.

Table 4.7.3: Pearson's correlation results

Correlations					
		Administrative challenges	Reliability	Operational challenges	Bank Performance
Administrative challenges	Pearson Correlation	1	.235	.033	.164
	Sig. (2-tailed)		.144	.841	.312
	N	40	40	40	40
Reliability	Pearson Correlation	.235	1	.417**	.771**
	Sig. (2-tailed)	.144		.007	.000

	N	40	40	40	40
Operational challenges	Pearson Correlation	.033	.417**	1	.525**
	Sig. (2-tailed)	.841	.007		.000
	N	40	40	40	40
Bank Performance	Pearson Correlation	.164	.771**	.525**	1
	Sig. (2-tailed)	.312	.000	.000	
	N	40	40	40	40
**. Correlation is significant at the 0.01 level (2-tailed).					

Source: Research data, 2016

From the table above, all the predictors have a positive correlation with the bank performance with administrative challenges presenting a weak positive correlation with bank performance as well as having a statistically insignificant relationship at the 5% significance level(p = .164> .05). Both reliability and operational challenges presented a statistically significant relation with bank performance with ($p = .000$). We also find that the two variables have a strong positive correlation with bank performance.

4.7.3 Homoscedasticity

Variables in the sequence or vector having the same finite variance show homogeneity of variance. It enables exact estimation of predictor variables hence not overstating or understating goodness of fit in variables measured by Pearson's coefficient.

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Table 4.7.3 Homoscedasticity

Levene's Test of Equality of Error Variances[a]			
Dependent Variable: Bank Performance			
F	df1	df2	Sig.
.	39	0	.
Tests the null hypothesis that the error variance of the dependent variable is equal across groups.			
a. Design: Intercept + IV1 * IV2 * IV3			

Source: Research Data, 2016

In the table above, the p-value is zero which is less than 0.05 indicating the null hypothesis of equal variances will be rejected and it is concluded that there is a difference between the variance in the population.

Table 4.7.4: coefficients

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.207	.473		4.668	.000		

	Administrative challenges	-.094	.208	-.069	-.452	.654	.945	1.059
	Reliability	.233	.082	.434	2.830	.007	.945	1.059
a. Dependent Variable: Operational challenges								

Source: Research Data, 2016

Again pairing reliability and administrative challenges against operational challenges, we find there is a VIF of 1.059 which means that there are also no issues to do with multicollinearity.

4.8 Inferential Analysis

Trying to reach conclusions that extend beyond the immediate data collected to make discretion of the probability that an observed difference between the groups in sample population is dependable.

4.8.1 Multiple Regression Analysis

Table 4.8.1: Multiple regression results

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.803[a]	.645	.615	.57462
a. Predictors: (Constant), Operational challenges, Administrative challenges, Reliability				

Source: Research Data, 2016

Results from Table 4.8.1 show that the R-value was .803 indicating that there as a strong positive correlation between adoption of agency banking and bank performance of four selected

commercial banks in Kenya. The same result accounts for 64.5% the degree in variability in the response data and it is still a high value to give us a good fit in the regression model. R-squared is a statistical measure of how close the data are to the fitted regression line. It is also known as the coefficient of determination, or the coefficient of multiple determinations for multiple regressions.

4.8.2 ANOVA

Table 4.8.2: ANOVA results

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	21.589	3	7.196	21.795	.000[b]
	Residual	11.887	36	.330		
	Total	33.476	39			
a. Dependent Variable: Bank Performance						
b. Predictors: (Constant), Operational challenges, Administrative challenges, Reliability						

Source: Research data, 2016

This table indicates that the regression model predicts the dependent variable significantly well. The results from ANOVA table indicate that F-statistic was 21.795 with a p value of 0.000 which is less than the significance level of 0.05. This is an indicator that the model was statistically significant hence an indication that the adoption of agency banking has a significant effect on bank performance of the four selected commercial banks in Kenya. Overall operational

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challenges, administrative challenges and reliability have a significant effect on bank performance.

4.8.3 Coefficients

Is a multiplicative factor in some term of polynomial series.

Table 4.8.3: Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.249	.607		.410	.684	-.982	1.479
	Administrative challenges	-.003	.213	-.001	-.013	.990	-.434	.428
	Reliability	.549	.092	.669	5.934	.000	.361	.736
	Operational challenges	.376	.167	.246	2.247	.031	.037	.715

a. Dependent Variable: Bank Performance

Below is the regression model where we are going to fit the coefficients.

$$y_i = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \varepsilon$$

Where:

β_0 = Intercept

ε = Error term

$\beta_1 - \beta_3$ = the regression coefficients

y_i = Bank performance

x_1= Administrative challenges

x_2= Reliability

x_3= operational challenges

From Table 4.8.1, the regression model becomes:

$$y_i = 0.249 - 0.003x_1 + 0.549x_2 + 0.376x_3 + 0.607$$

From the regression function above, if all the predictors were to be held constant there would still be a positive performance of 0.249. An increase of administrative challenges would lead to negative performance of 0.003. Both reliability and operational challenges have proportional relationship in that once they are increased, the bank's performance will also increase. One unit increase in reliability causes 0.549 increase in bank performance all else held constant whereas one unit increase in operational challenges causes 0.376 increases in bank performance all else constant.

Administrative challenges at 0.990 are not significant meaning that administrative challenges do not have a significant effect on bank performance since the p-value significance level is 0.05 and the administrative challenges are p-value is higher by 0.94. Reliability with 0.000 significance and 0.031 operational challenges, affect bank performance.

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4.5 Summary of Key Findings and Discussion

The research established that Cooperative bank, Family bank, Kenya Commercial Bank and Equity Bank offered agency banking for withdrawals and deposit transactions, account opening and interbank transfers, customers pay their bills and remittance purposes to increase income and improve its financial performance.

Agency banking services as compared to the use of mobile banking are yet to be appreciated (Mosoti & Mwaura, 2014) they indicated that despite significance of the sector to the Kenyan economy, it remains unclear if adoption of agency banking in commercial banking sector has a significant effect on bank performance. From the regression analysis, the study revealed that there existed a positive relationship between effect on adoption of agency banking indicating that agency banking improve financial performance of commercial banks through encouraging lowering operating costs, increased income and reducing costs. Effects of agency banking on financial performance commercial banks in Kenya, according to (Argamo, 2015) indicates that there is appositive and significant relationship between accessibility of banking services, low cost of service and customer transactions as a result of agency banking.

The study revealed that the need to increase investment, diversify in the market, increase loans, increase market share and improving of savings, improving market penetration, increase competition from other banks, reduce credit risk, lower operating costs, attract more customers, increase deposits from customer centrism to influence use of agency banking in commercial banks. Irura and Munjiru (2013) studied challenges of implementing agency banking in Kakamega County, Kenya. The study found out that implementation could be explained by fraud literacy levels, technological issues and liquidity problem. The study findings show that staff

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cost were minimized, average transaction cost in the bank was reduced due to agency banking and that banking transactions increased bank savings. The study found that agency banking improves bank efficiency and reduces costs of provisioning implying that agency banking greatly enhances efficiency in bank operations improving bank profitability.

Agalla (2014) sought to establish challenges facing implementation of agency banking at Kenya Commercial Bank, Mombasa County with an objective of establishing whether risks associated with agency banking, policies and procedures governing agency banking, technological operations and awareness were hindrances to the implementation of agency banking. Munyoki and Ngigi (2011) conducted a study on challenges of electronic banking adoption among the commercial banks in Kenya the study found out that banks had partially adopted electronic banking as a strategy and the issue of security was found to be the most critical factor influencing electronic banking adoption. From the findings, agency banking reduced operation cost for the commercial banks to a very great extent, indicating that reduction in bank operations cost such as administration. The study revealed that commercial banks were charging customers for agency banking increasing banks income and interest improving banks financial performance hence reliability. The study established that usage of agency banking had influenced saving. Increased bank income and time saving in carrying out transactions improving banks returns and improved bank financial performance.

From the findings, the study revealed that banks charges on usage of agency banking increases banks' profits, reduces cost of provisioning increasing banks income and profits, reduces banks cost, increase bank sales and income improving profit margin. The study also found that the charges for agency banking payments, products and services increasing banks revenue, profits, cash deposits improves profitability. This indicated that agency banking slightly improves banks

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financial performance through increasing earning, saving time on bank transactions and reducing operation costs for the banks.

From the findings, the study revealed that banks incurred installation, administration and transaction costs, staff costs through salary and wages of employees supervising the agency banking when administering loan referrals. The study found that banks use agency banking in offering loans, earning more interest and increasing bank revenues. From the findings, the study revealed that agency banking has increased bank revenues by management efficiency, earn more interest from agency banking influence bank return on assets, that bank reduces transaction cost increasing bank return.

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CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides summary of the entire study guided by the objectives and the methodology stated earlier. The conclusions are drawn from the findings in view of the research questions and objectives. The chapter covers the limitations that were encountered in the course of the study and how the researcher went about from the previous chapter and also gives the conclusions and recommendations of the study based on the terms of reference of the survey on effects on adoption of agency banking: a case of selected commercial banks that is Kenya Commercial Bank, Equity Bank, Family Bank and Cooperative Bank.

5.2 Summary

The study employed descriptive research design in order to answer research questions: How does agency banking administrative challenges affect the bank performance of commercial banks in Kenya? What is the effect of agency banking reliability on bank performance in commercial banks in Kenya? How does agency banking operational challenges affect bank performance in commercial banks in Kenya? Drawn from the specific objectives, to determine the effect of agency banking administrative challenges on bank performance. To determine the effect of agency banking reliability on bank performance. To ascertain the effect of agency banking operational challenges on bank performance.

A sample size of 40 was selected using purposive sampling. Data from the sample selected was collected through the use of questionnaires. Reliability and validity of data collection tools was

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tested by cronbach test and pre-test respectively. Data was analyzed using probability statistics; mean standard deviation and multiple regression analysis. The p-values with a significance level 0.05. Administrative challenges at 0.990 are not significant meaning that administrative challenges do not affect bank performance. Reliability with 0.000 significance and 0.031 operational challenges, affect bank performance.

5.3 Conclusion

The study drew its conclusions based on the information that was obtained from the respondents. The study concluded that majority of the agent's lack the rights skills since some of them are secondary school graduates. There were also two agents who were primary school leavers. This shows that educational qualifications are not considered in agents. Agency banking has been adopted by many who use it over ten times a month.

The study came to a conclusion that the inception of an agency takes a lot of time which is caused by the laid down guidelines by the banks. The guidelines were not limiting many from being agents. Majority of the respondents reported that there were restrictions but they did not hinder the implementation of the agency program. Availability of resources affected the implementation of agency banking. Agency banking is a business just like any other which requires enough capital to start and run it. Without enough resources, human and financial, the business is bound to fail. Therefore, the reliability of the agency banking is dependent on the availability of resources. Agency banking has improved lives and livelihood of customers though the improvement is not much since not all agents can attest to this. From the findings, the study concluded that there has been an increase in customer base with the inception of agency banking. Customers no longer have to literary walk to the bank to conduct a transaction. The most famous

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and common ones attract more customers for example, KCB mtaani and Coop jirani. The agents wish they can be authorized to provide other services like selling of insurance.

Operational challenges affected the performance of the bank. Agency banking is an investment idea by the banks to maximize profit and also easy access of the banks services by the customers. Network failures affect the bank performance negatively since it leads to delayed transaction. This may make customers to shy away from these services of agency banking. Network failure is the main challenge of agency banking which last for more than one hour. The information systems of the agency banking are not reliable and the networks do not facilitate quick transactions. Poor infrastructure is a hindrance to agency banking implementation and therefore people in areas with poor infrastructure may not enjoy the benefits of agency banking.

The agency banking of some of the selected banks experience liquidity problems and did not have adequate capital. The available assets were also not enough probably due to inadequate capital. The bank performance is also determined by the reputation of its agency banking and can have a negative impact on the performance of the bank. However, the study concluded that there have been improved deposits with agency banking which has improved the bank performance. The agents are not aware of the various performance measurement systems.

The study concluded that agency banking reduces operation costs in commercial banks. Agency banking reduces average transaction costs; increasing banks savings improve bank efficiency and reduce costs for provisioning improving banks profitability. The study concluded that agency banking minimizes operation costs such as administration improving banks profitability.

The study concluded that agency banking adopted by commercial banks increase banks income earned through interest earned from loans, savings reduce provisioning. Increase banks sales improving profit margin. The study concluded that the charges from agency banking bill

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payments, real time access to product and services increasing banks income, increase profits and internal cash reserves improve asset quality improving bank financial performance.

The study concluded that commercial banks adopted internet banking in order to reduce loan processing costs, reduce credit risk and increase interest. The study revealed that agency banking reduces non-performing loans and increase efficiency in loan processing enhancing commercial banks return on assets. From the regression analysis, the study concluded that agency banking improves commercial bank return on assets through encouraging lowering operating costs and increased income.

Performance evaluation is a key concern to commercial banks that aim to survive in the market. The main objective of the financial institutions is maximizing profits. Technology is the key contributor to the excelling superior bank performance. The profitability margin has escalated due to progression of the driving power of information technology that commercial banks have embraced. This is evidenced the findings of the study.

Customers no longer have to walk to a bank to withdraw, deposit or transfer money which has also contributed to the reduced workload. Customers can now withdraw or deposit through the use of agency banking. This has attracted more customers who prefer this than working to the banks which in most cases are normally far. In return, this has greatly enhanced efficiency in bank operations and increased bank profitability. It also reduces operation cost as the bank does not need many employees to handle the many customers; tellers.

5.4 Recommendations

The study recommends that commercial banks enhance and deploy more resources for use by agency banking agents to reduce administration cost, operation costs and increase income and

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improve asset quality, improving bank financial performance. Banking through agency banking has emerged as a strategic resource for achieving higher efficiency, control of operations and reduction of cost by replacing paper based and labor intensive methods with automated processes thus leading to higher productivity and profitability. Therefore, banking institutions should integrate the use of agency banking for exploring and finding new customers, enhancing speedy communication, developing new products, collecting and managing information, generating a wide range of product ideas from a wider range of resources, access documents and share technical information this can be done by the regulator Central Bank of Kenya.

The study recommends to policy makers that in order to help banks improve their operations, they need to heighten awareness to the public through regular open day forums, media and exhibitions on the need and uses of agency banking, develop strategies that will capture new customers. Public awareness initiatives will let the public know about the advantages of agency banking. The public becomes aware of how they can access banking facilities and services and go about their businesses from the comfort of their space. There is need to encourage the public and set up education initiatives especially directed to the rural people. The study recommends that commercial banks should adopt agency banking and encourage use of debit and credit cards to increase transactions.

The study recommends academicians to find out why administrative challenges are not significant to bank performance in that administrative challenges at 0.990 are not significant meaning that administrative challenges do not affect bank performance. Reliability with 0.000 significance and 0.031 operational challenges, affect bank performance.

The study recommends to researchers to find out what policy and procedures can be adopted by commercial banks , micro finance institutions and savings and credit cooperatives that would

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enable them adopt agency banking as the research has shown that it improves the livelihood of customers and merchants to cover all areas of the country and improve the economy as well.

5.5 Limitations of the Study

Accessing some of the respondents was challenging due to busy schedules and authorization to meet them that would involve booking of dates and allowances at an agreed fee we would meet briefly. Accessing some agencies was also a challenge due to their location that included geographical terrain and distance. We had to travel to the respondents. To overcome this, the researcher sought help from two research assistants who were send to the different locations to help in administering the data collection process. Some respondents filled the questionnaires half way and this affected the research in that their responds were not included in the findings.

5.6 Areas for further research

The study determined the effect on adoption of agency banking: a case of selected commercial banks in Kenya that included Cooperative bank, Family Bank, Equity Bank and Kenya Commercial Bank. The study further recommends that a further study should be carried out to establish effect on adoption of agency banking in upcoming agencies for other commercial banks as well as credit unions and microfinance institutions when policy and procedure allow them to venture into agency banking so as a broad analysis on impact of adoption of agency banking in banking industry can be provided and why administration challenges are not significant in the adoption of agency banking. The study suggests to the academicians to find out why administration challenges are not significant to bank performance as a way streamlining policies and procedures that govern the banking industry.

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APPENDICES

Appendix 1: Letter on Introduction

Date ……..

Dear Sir/ Madam,

REF: COLLECTION OF RESEARCH DATA

My name is Edwin H.M Mutura; I am a MBA student at St. Paul's University. I am carrying out a research on the **"effects of agency banking on bank performance: a case of selected commercial banks in Kenya."** I am in the process of gathering relevant data for this study. You have been identified as one of the collaborators and respondents in this study and kindly request for your assistance towards making this study a success.

I therefore kindly request you to take some time to respond to the attached questionnaire. I wish to assure you that your responses will be treated with confidentiality and will be used solely for the purpose of this study.

I thank you in advance for your time and responses.

Regards,

Edwin H. Mutura.

Student Reg no.: MBA/LMR/1972/15

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Appendix 2: Questionnaire

PART A: GENERAL INFORMATION

1. Kindly indicate your gender.

Male ( ) Female ( ).

2. Kindly indicate your age bracket.

18-25 years ( ) 26-33 years ( ) 34-41years ( ) 42-49years ( ) 50-57years ( ) 58 and above ( ).

3. State your highest level of education.

Primary ( ) Secondary ( ) College ( ) Undergraduate ( ) Post Graduate ( ).

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

Kindly tick the extent to which you agree or disagree with the statements on a scale 5 (Strongly Agree) to (Strongly Disagree)

Strongly Agree ( ) Agree ( ) Neutral ( ) Disagree ( ) Strongly Disagree ( ).

5. How frequently do you use agency banking services per month (for example, balance inquiry, fund transfer between accounts)?

Less than once ( ) 1 – 10 times ( ) 11 – 20 times ( ) 21 – 30 times ( ) 31 and above times ( ) .

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PART B: AGENCY BANKING

Section B1: Administrative challenges

6. Are you given requirements and guidelines by the bank and Central Bank of Kenya that you need to adhere when conducting agency banking business.

Yes ( ) No ( ).

If yes what does it entail ……..……

……

……

7. How often are you given requirements and guidelines by the bank and Central Bank of Kenya that you need to adhere when conducting agency banking business.

1-6 months ( ) 7-12months ( ) 13-18 months ( ) 19-24months ( ) 25-30months ( )

(Show level of agreement) Strongly Agree (5) Agree (4) Neutral (3) Disagree (2) Strongly Disagree (1).

		1	2	3	4	5
8.	The requirements by the bank largely limit one from being an agent					
9.	The restrictions from the bank and Central Bank of Kenya hinder implementation of the agency programme					

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10.	The laid down guidelines by the bank and Central Bank of Kenya enhance implementation of agency banking programme					

11. How long does it take to start an agency with the laid down guidelines by the bank and Central Bank of Kenya.

1-5months ( ) 6-10months ( ) 11-15months ( ) 16-20months ( ) 21-25months ( ).

Section B2: Reliability

(Show level of agreement) Strongly Agree (5) Agree (4) Neutral (3) Disagree (2) Strongly Disagree (1).

		1	2	3	4	5
12.	Do you have the right skills to carry out the agencies activities					
13.	To what extent does availability of resources affect implementation of agency banking programme					
14.	The lives and livelihood of customers have improved since adoption of agency banking					
15.	There is growth in customer base since inception of agency banking					
16.	Would you wish that agency banking model to sell other products					

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	like insurance policies					

Section B3: Operational challenges

17. For how long have you been an agent or supervising agencies?

Less than 1 year ( ) 2-3 years ( ) 3-4 years ( ) 4-5 years ( ) 5and above ( ).

18. For how long do you experience network failure?

0-30minutes ( ) 31-60minutes ( ) 61-90minutes ( ) 91-121minutes ( ) 122-152minutes ( ).

19. How long does a transaction take?

1-5minutes ( ) 6-10minutes ( ) 11-15minutes ( ) 16-20minutes ( ) 21-25minutes ( ).

(Show level of agreement) Strongly Agree (5) Agree (4) Neutral (3) Disagree (2) Strongly Disagree (1).

		1	2	3	4	5
20.	Do you experience network failure					
21.	Information systems are reliable					
22.	Existing network facilitates quick transactions					
23.	To what extent does infrastructure support affect implementation of agency banking					

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PART C: Bank Performance

Show level of agreement) Strongly Agree (5) Agree (4) Neutral (3) Disagree (2) Strongly Disagree (1).

		1	2	3	4	5
24.	Do you experience liquidity problems					
25.	Do you have adequate capital to efficiently operate agencies					
26.	Do you have adequate assets needed to operate the agencies					
27.	There is reputational risks involved in agency banking					
28.	There is improved deposits after adoption of agency banking					

Show level of agreement: To a large extent (5) To some extent (4) To little extent (3) Very little extent (2) Not aware (1).

Performance measurement sytems		1	2	3	4	5
Financial measures						
29.	Return on investment (ROI)					

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30.	CAMEL framework					
31.	Productivity measures					
32.	Any other					
Non-financial measures						
33.	Customer perspective and centrism					
34.	Internal business perspective					
35.	Learning and growth perspective					
36.	Any other					

Thank you.

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Appendix 3: Licensed Commercial Banks

1. ABC Bank Kenya
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank
6. CFC Stanbic Holdings
7. Chase Bank of Kenya
8. Citibank
9. Commercial Bank of Africa
10. Consolidated Bank of Kenya
11. Cooperative Bank of Kenya
12. Credit Bank
13. Development Bank of Kenya
14. Diamond Trust Bank Kenya Limited
15. Eco bank Kenya
16. Equatorial Commercial Bank
17. Equity Bank Limited

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18. Family Bank Limited

19. Guaranty Trust Bank Kenya

20. First Community Bank

21. Fidelity Bank

22. Giro Bank

23. Guardian Bank

24. Gulf African Bank

25. Habib Bank

26. Habib Zurich AG Bank

27. Housing Finance Company Kenya

28. I$M Bank

29. Jamii Bora Bank

30. K-rep Bank

31. Kenya Commercial Bank

32. Middle East Bank Kenya

33. National Bank

34. NIC Bank

35. Oriental Commercial Bank

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36. Paramount Universal Bank

37. Post Bank of Kenya

38. Prime Bank Kenya

39. Standard Chartered Bank

40. Trans National Bank

41. United Bank for Africa

42. Victoria Commercial Bank

43. Charter House Bank

Source: Bank Supervision Report (2016)

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Appendix 4: Commercial Banks in Kenya offering Agency Banking

1. Cooperative Bank of Kenya Limited
2. Consolidated Bank
3. Chase Bank Kenya Limited
4. Citibank
5. Diamond Trust Bank Kenya Limited
6. Equity Bank Limited
7. Family Bank
8. First Community
9. Jamii Bora Bank
10. Kenya Commercial Bank
11. National Bank of Kenya
12. NIC Bank
13. Post Bank

Source: Bank Supervision Report (2016)

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Appendix 5: Secondary Data Collection Template

		2010	2011	2012	2013	2014
Net profit margin	Net profit after tax					
	Sales					
	Net profit margin= net profit after tax / sales					
Value on loans	Average of monthly highest and lowest deposit					
Liquidity ratio	Current assets					
	Current liabilities					
	Current ratio= current assets/current liabilities.					

Performance	2010	2011	2012	213	2014
Net Profit					
Value on loans (Ksh)					

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Transaction Time					
Liquidity ratio					

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