An analysis of effect of agency banking on profitability of banks in Kenya: A case of Kenya commercial bank

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DECLARATION

I declare that this thesis is my original work and has not been presented in another University.

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ABSTRACT

Agency banking is touted as being the solution to the wide spread poverty in most developed countries. The goal of this study was to ascertain how agent banking affected Kenya's commercial banks' profitability. The specific objectives were to determine the effect of agency convenience, agency costs, agency access and agency regulations on commercial banks' profitability. Using a descriptive approach, the study targeted commercial banks based on the Nairobi CBD. A sample population of 30 out of 111 agents was arrived at. Questionnaires were used to collect the study's data and analysed using qualitative and quantitative data with the aid of SPSS. Tables and figures were used in presenting of the analysed data. This study concluded that cost, convenience, access as well as regulations have a positive effect on the profitability of the banks. The findings will help government, financial institutions, students and scholars alike to improve the life of the population at large.

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ABBREVIATIONS

ATM	Automated Teller Machine
CBK	Central Bank of Kenya
KCB	Kenya Commercial Bank
KWFT	Kenya Women Finance Trust
Banks	Financial Institutions
M-PESA	M for Mobile PESA – Swahili word to money
MSMES	Micro Small and Medium Term Enterprises
SACCOS	Savings Credit Cooperative Societies
MI	Market Intelligence
SPSS	Statistical package for social scientist
BBIS	Branchless Banking Institutions

CHAPTER ONE

INTRODUCTION

1.0 Background of the Study

Increased integrated systems, deregulation, stiff competition, risks, market volatilities, and advancements in technologies, are forcing banks to pursue financial innovations to promote financial inclusion through the provision of new innovations and by extension, achieve sustainable growth and profitability (Cherotich et al., 2015). Financial inclusion is a building block for poverty reduction, and access to financial services has become a core element of the rise of the digital economy. These are those financial products that are useful, affordable and increase access to financial services (Mutinda, et al., 2018). According to the Global Finder Database 2019, 1.2 billion adults have bank accounts, representing 69% of the global adult population.

In Kenya, the banking constitutes a major economic tool and component of Kenya's Vision 2030. Over the past two decades, the sector has undergone a lot of reforms that have stimulated increased innovations in not only products offered but also services. Specifically, changes in the financial field has led to increased innovativeness in attempt of increasing the customer base and giving the financial institutions an upper edge competitively (Muiruri & Ngari, 2014). The changes/reforms, also known as the three pillars focused on: efficiency, stability, and access.

Agency banking has the potential to take over from traditional banking as it is cheaper, convenient and less risky for both merchants and customers. In Kenya growth of agent banking has taken trend as was with the phenomenon Mpesa already 15% of all transaction at Equity bank are through their 6000 strong agent network, this is followed by Kenya Commercial bank

KCB) at 7% and growing, KCB has 12,000 agents currently (Kenya Commercial Bank [KCB] 2021). The increased recognition of the importance of agency banking is what necessitated and was the key focus of this study.

1.1 Agency Banking

Traditionally banks made use of bank-owned infrastructure provided by telecommunications providers to deliver points of sales and mobile phone banking services. The other methods of banking delivery like internet banking are still way out of lower market segment that has largely remained unbaked, use of technology or even presence of infrastructure as in case of internet banking is still a mirage for this group, agency banking to them.

Agency banking refers to the utilization of retail agents to reach unbanked and marginalized communities. A relatively novel concept, agent banking is when a conventional bank contracts an agent and provides them with banking information and communication technologies who in turn offers to the customers in the remote areas or those far from the main bank branches (Oira & Kibati, 2016). This enables the bank to provide financial services with increased speed, reliability and cost effectiveness over vast geographical locations. These agents are located in non-bank outlets such as shops, convenience stores, hotels, gas stations or bus stations.

Agency banking has evolved from basic services to full range banking services in most cases banks have developed applications by which they allow their customers to access all services one can find in the traditional branch based banking. Some of the services offered at agency banking entail deposit, cash withdrawals, account opening, loan application, cash transfers, salary and remittance receipts and disbursements and payment of third party bills.

In conclusion banks prefer agency banking mainly due to its low cost of offering the service hence high returns, increased customer reach, banks are able to establish presence in areas that it would otherwise not due to cost , lower cost means they can offer banking services cheaply hence attract most of the unbaked population. The promise of lower costs, increased customer reach, sales productivity. Because of its convenience agency banking services has lured banks into setting new delivery channels, this has seen new players take on their established counterparts by leveraging on technology and cost effective delivery channels (Market Inteligence 2019).

1.3 Overview of Banking Sector

With new entrants in the market, the sector has grown to post total asset growth of over 20% in December 2020. Despite the numerous obstacles the business has faced, including new rules and uncertainty in the macroeconomic climate, financial inclusion has expanded. Due to this, the banking industry has undergone advances aimed at ensuring that the sector achieves the goals of Vision 2030. (Central Bank of Kenya [CBK], 2020).

Kenya's Banking Act and Companies Act both provide different principles that govern and regulate how commercial banks conduct their business. In Kenya, the banking industry is composed of 42 registered banks categorized as large, medium and small (CBK, 2020). Out of the 42 banks, 10 banks are listed with the NSE, in addition to the mortgage finance company.

1.4 Statement of the Problem

Banks have consistently invested in financial innovations key among them being agency banking, yet industry reports shows that there has been a decline in financial performance over the past few years. CBK reports that in 2021 though there was improved performance in total assets, total customer deposits, shareholder’s equity, and capital adequacy and liquidity ratios, overall pre-tax profitability declined by 9.6% (CBK, Bank Supervision annual Report 2017; CBK, 2018).

Financial innovations like electronic transfers, mobile banking, and internet banking, according to Muia (2017), had an impact on how well commercial banks performed. The study found out that there were variations in the degree of influence, but overall it was positive. Monyoncho (2015) also showed a positive influence brought by agency banking. Kambua (2015) also established that increased agency banking increased the financial returns. However, findings by Chipeta and Muthinja (2018), Oira and Kibati (2016) note that there is a varying level of influence of individual financial innovations. Additionally, In Kenya, there is no documentation of this contribution to the profitability or non-profitability of these organizations. Therefore, the purpose of this study was to examine the impact of agency banking on the financial performance of Kenyan banking institutions, with a particular emphasis on KCB.

1.5 Purpose of the Study

The primary goal of this study is to determine how agency banking affects Kenyan financial institutions' profitability. A case Kenya commercial bank.

1.6 Objectives of the Study

The general objective of this study was to determine the effect of agency banking on profitability of banks in Kenya. A case of Kenya commercial bank.

1.7 Specific Objectives

The specified goals of this study were:

i. To ascertain the impact of convenience on bank profitability.

ii. To evaluate the effects of agency cost on profitability of banks.

iii. To find assess the effects of agency access on profitability of banks.

iv. To assess how agency regulations affect banks' profitability..

1.8 Research Questions

i. What impact does agency convenience have on bank profitability?

ii. How do agency charges affect the profitability of banks?

iii. What impact does agency access have on bank profitability?

iv. What impact does agency regulation have on bank profitability?

1.9 Importance of this Study to Theory and Practice

The government through this study will be able to establish a regulatory framework to guide the micro finance institutions on interest rates to charge and to weed our exploitative institutions like the pyramid schemes. This study will also enable the microfinance institutions to redesign their credit structure to suit their customer needs and to avoid will long procedures that add cost to of banking service.

Potential bank customers will be empowered through this study to make informed decisions while sourcing a financial service provider. Institution scholars and academicians will also find this study useful in trying to understand the variables that hinder access to banking services. Donors and investors who would benefit from this study either as partners with financial sector or support poverty alleviation, would also benefit by making decisions that would lead to optimal benefit to the majority poor. The research is also important to researchers and academicians as it provides a point for further research.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter discusses the value of banking access for a country's economy and its citizens, particularly those living in informal settlements who are typically ignored by formal banking institutions. The chapter begins by introducing the concept of agent banking, reviewing literature relating to various models of delivery agent banking .The literature also dwells on aspect of adoption and how agency banking has been conceptualized the factors that play as well as the role of agent banking in financial inclusion.

2.1 Theoretical Framework

2.2 Agency Theory

Agency theory was initially suggested by Meckling and Jensen, (1976) and later advanced by Jensen and Fama, (1983). The theory is described by the alignment of interests of principals and their agents and is grounded on the underpinning that there exists an integral clash of wellbeing of management and their shareholders. Though this theory has a wider applicability, it has its short coming arising from the fact that the interests of the agents and that of principals diverge (Liao, 1999). Agency theory central point is that it ensures that the management and executives acting as agents of the organization performs their responsibilities diligently and in the paramount wellbeing of the firm’s owners acting as principals are met.

The theory’s relevancy is that it articulates that how commercial banks perform is highly dependent on how properly it manages its agents and their interests. This will ensure that the interests of agents of the banks aligned with profit maximisation of the organizations hence overall improvement in the performance (Cherry et al., 2002). As such, key emphasis is placed in monitoring the actions of the agents so as to discourage any self-interests based initiatives or deviations from the companies' organizational goals. Adoption of agency banking by a financial institution therefore has lead to banks off-loading their cost and risks to agents, thus leading to enhanced profitability.

2.3 Innovation Theory

The theory is related to the work of Schumpeter (1954) who is considered the father of innovation and claimed that any organization seeking profits must innovate. According to Schumpeter (1954), innovation leads to increased competitiveness and favorable economic dynamics and that innovation is an internal, ongoing process of company change that changes the economic system from the inside out. Rogers (1962) enhanced the proposition advanced by Schumpeter. The theory explains how innovation spreads across organizations, countries or regions. The process of diffusion finishes with people learning of new ideas on products, services and processes.

For diffusion to take place, people must associate themselves with the new ideas which they perceive as beneficial and adopt them (Greenhalgh et al., 2004). According to diffusion innovation theory, diffusion of ideas does not just happen but follows a certain process. Thus, innovation is driven by people and for innovation to take place, managers should be able to adopt to understand the salient features of a population (Dobbins et al., 1995).

The theory aids to understand how various innovation strategies in use including agency banking within the economic environment have been adopted and used in the firm in response to the external environment. The theory is applied to enable the understanding of how agency banking come into being and some of the limitations as to why innovation strategies could fail to be adopted. Further, the theory has guided the study in terms of detailing some of the important aspects in adoption of innovative strategies.

2.4 Dynamic Capability Theory

Dynamic capability theory was first presented by Teece and Pisano, (2003) in defining the capacity of a firm in taking part in operations. Based on this theory, capability refers to the ability of an organization to build, integrate and configure its core competency in line with the external environment demands as well as the objectives of the firm. The theory is thus of importance in describing the considerations on which the available resources are utilized. Agency banking being a new model of doing business therefore should present opportunity to banks to offer same services cheaper and more efficient manner hence lead to more profitability.

2.5 Empirical Review

2.6 Accessibility

Kambua, (2015) investigated adoption of agency based banking in Kenya using a descriptive approach. That study revealed that after the introduction of agency banking, most of the customers accessed the banking services more. The number of transactions also increased drastically during the study period. Similarly, Kanyore, et al. (2017) undertook a study on NSE firms' performance. A descriptive nature and concluded that increased in agency banking lead to increased annual returns in the firms. This is in line with Mbugua and Omagwa (2017) who established the same.

Cyprian and Muturi (2015) explored e-banking using purposeful sampling and concluded that gross settlement in real time influences how the returns of the banks. Also, the study wasn't able to investigate other measures of innovations. This compares to Vekya (2017) who investigated e-banking among Kenyan banks. Using secondary data, the results were that ATM transactions positively impacted on performance.

2.7 Cost

Lowering transaction cost, for any service has in most cases lead to uptake of service and the service provider then benefit from economies of scale hence better performance, cost has been found to be barrier for access of banking services. Beck (2006) assessed how the features of the agency banking model. The study collected data using questionnaires from a sample of 400 respondents. The findings show that convenience in accessing financial services had positive and significant effects on SMEs in Tharaka Nithi County.

A study by Kalinda et al. (2017) noted that agents minimized fixed costs. Banking agents offer cash deposits, cash withdrawals, and cash transfers in a way that is complementary to the traditional bank network. However, in a study that covered the 2015-2016 period, data collected from CBK reports and analyzed reveled only a minimal impact (Seda, 2016).

2.8 Bank Regulation

Central Banks Regulation and has huge impact on how banks conduct themselves and how much they can charge hence profitability. A good example in Kenya where a law was passed restricting interest charged by banks. A study conducted by Plosser, et al. (2016) found out that after the adoption of strict bank regulations, the performance of commercial banks had improved significantly. This compares to research conducted by Bouheni, (2014) and Pasiouras (2009) who both found significant positive relationships in their respective works.

2.9 Convenience

Traditional Banks have regulated opening and closing hours and for most of the target population have long working hour sometimes no lunch breaks, their wages are often paid in cash. The research sought to establish if agency banking has brought any convenience to this group. In a study by Argamo (2015) on a study based at Chase Bank, low cost services and financial performance were found to be significantly correlated.. Finally, the agency bank customer relation and financial performance was also demonstrated to be significant. This shows that for delivering banking services to customers was associated with better financial performance at chase Bank. In a comparable studies, Wairimu and Mbugua, (2020) found out that ease of access brought about by introduction of agency banking drastically improved the performance.

Figure 2. 1

Conceptual Framework

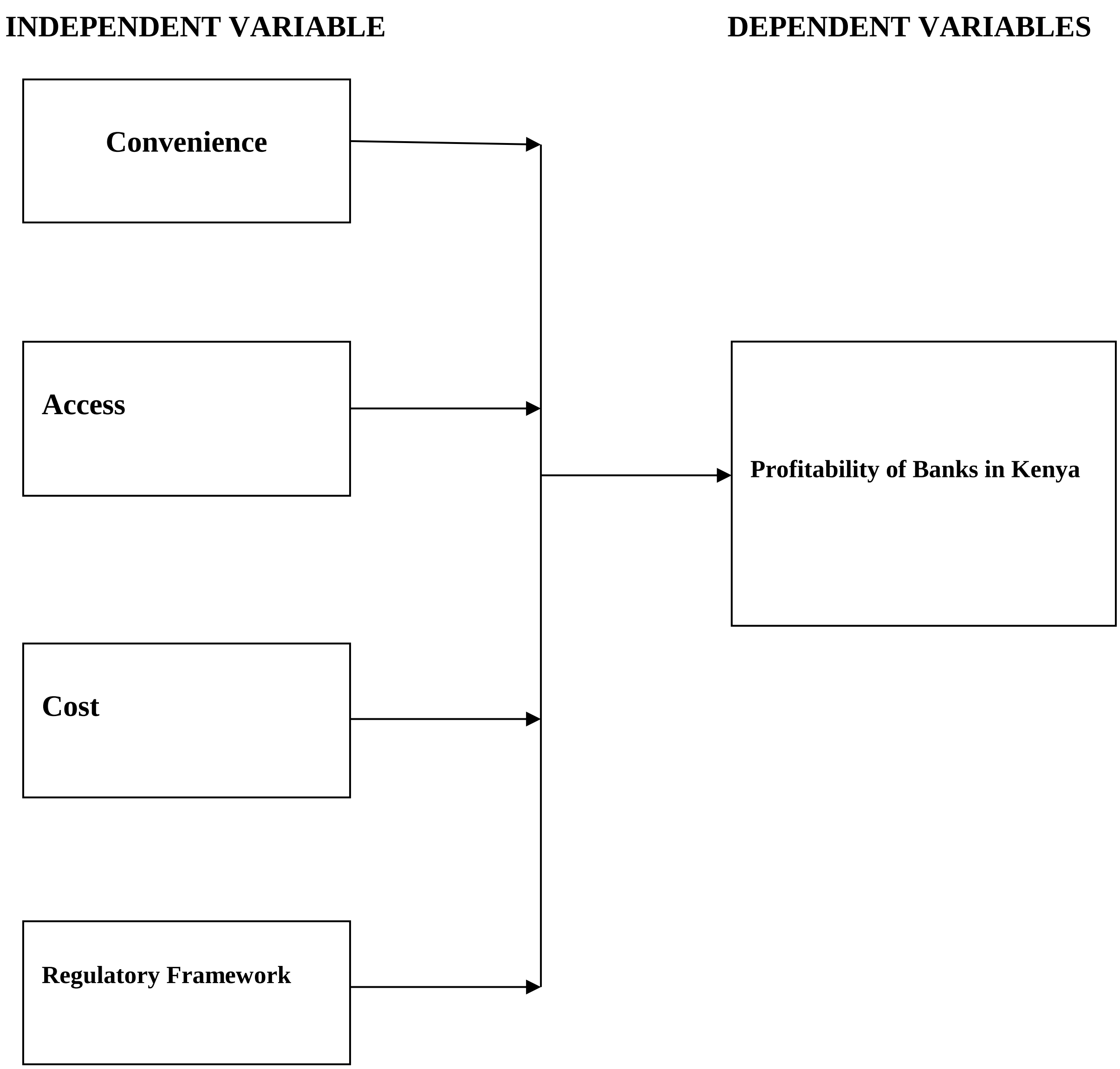
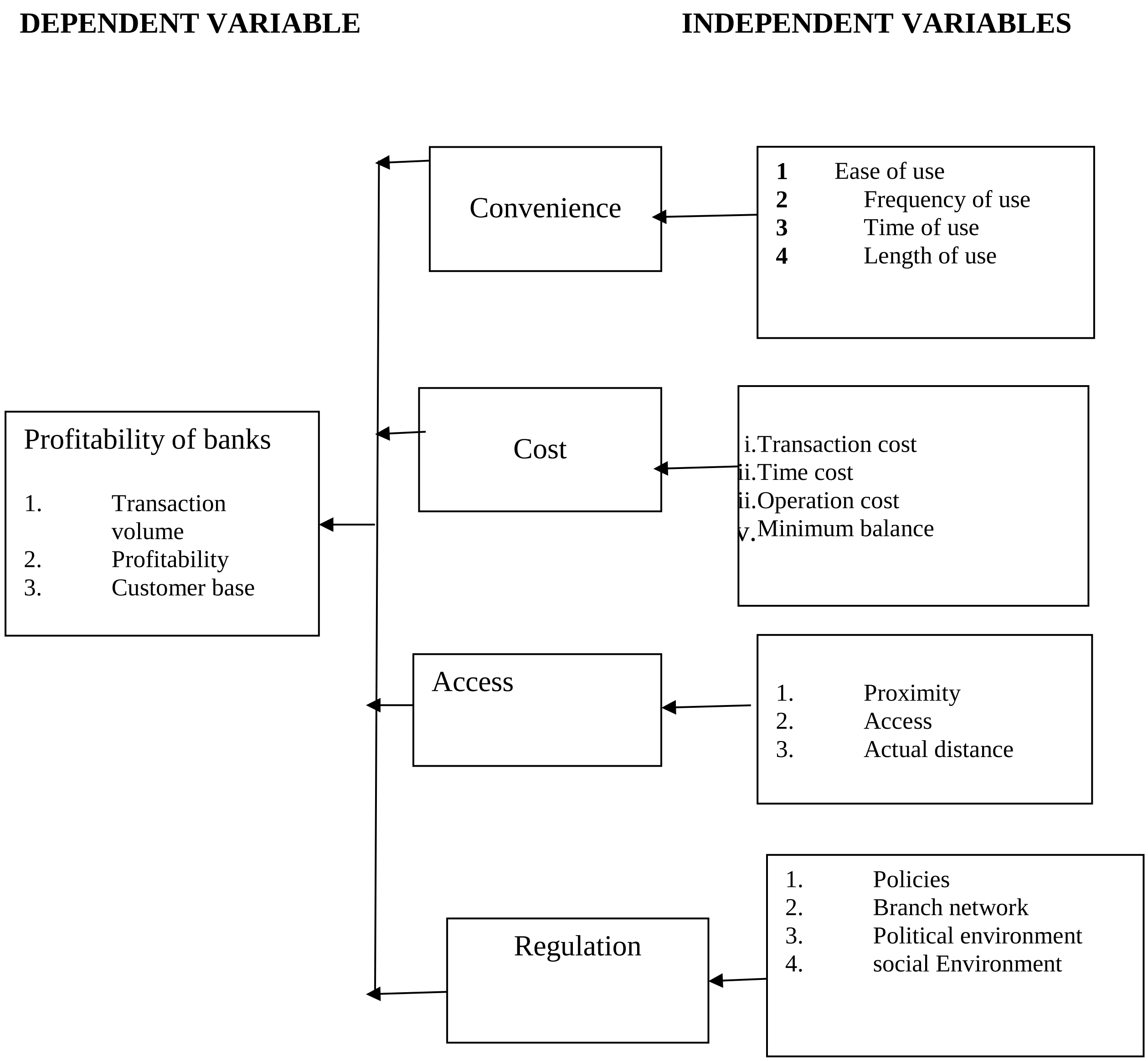


Figure 2. 2

Operational Framework



CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

In this chapter we discuss in details a description of how the data was collected, analysed and presented.

3.1 Research Design

This study will employ a descriptive approach, which focuses on characterizing the variables and looking at how they relate to one another, without controlling or manipulating the situation. The descriptive aspect of the study demands the clear identification of variables (Cresswell & Cresswell, 1996). The study used collection methods such as questionnaire, interviews. Kenya commercial bank staff in Nairobi CBD. They were administered with questionnaire the second batch was distributed to be filled in by KCB bank managers or credit officers in respective branches. Studies on KCB enabled a thorough analysis of the current state of agency banking. It provided deeper perceptions and improved comprehension of the impact of agent banking on banks' performance. KCB was mostly chosen because they are one of the pioneer of agency in Kenya.

3.2 Population of Study

The study's population was selected branches of Kenya commercial bank in the CBD and bank managers or credit officers in respective bank branches in Nairobi CBD. The study was conducted from Uhuru highway and University way all the way to river road, this is because there is a high concentration of bank branches as opposed to upper hill side which has just few branches.

Table 3. 1

Representation of Managers and Agency Network

Bank Branch	No. of Agents	No. of management staff	Total
Anniversary Towers	61	14	75
Kencom	233	67	240
Tom Mboya	105	23	128
Kipande House	54	11	65
River road	100	15	115
Total	553	130	683

Source Kenya commercial bank (2020)

3.3 Sample size

According to Gay (1992), a sample population of 20% is appropriate enough to enable compressively analysis of the findings. This investigation used 20% of the 130 agents which was the total population from across the bank network as tabulated. Two customers from each agent outlet were picked using simple random sampling. One Branch manager was targeted from each bank of the branches sampled in Nairobi CBD.

3.4 Target population

This constituted of 141 individuals, 111 of them being agency banking agents across various branches and 30 banks staff again from the same branches

Table 3. 2

Showing Sample Size

Bank Branch	sample of Agents	sample staff	Total of sample population
Anniversary Towers	12	3	15
Kencom	47	13	60
Tom Mboya	21	5	26
Kipande House	11	6	17
River road	20	3	23
Total	**111**	**30**	**141**

3.5 Sampling Procedure

The sample method used was stratified random sampling. The institution and the stakeholder group served as the criteria for classification., i.e. there were different branches (River road , Kipande , Tom mboya KENCOM and Anniversary towers) and three stakeholders groups (Middle Level Managers, Agents and Customers). Stratification was used to make sure that the sample more or less replicated the existing groupings in the population.

3.6 Instrumentation and Data Collection Procedures

The study used questionnaires which were divided into sections, with each segment addressing a particular study goal. The existing literature review and additional guidance from the supervisor served as the basis for this, To comprehensiveness of the data collection, both close and open ended sections were used in the questionnaires. The researcher sought prior appointments in order to prevent any inconveniences.

3.7 Data Analysis and Presentation

After the questionnaires are received back, they will be coded and tabulated. Coding will allow transferability of data to the computer. Tabulation will enable the data to be arranged in an orderly manner. Using descriptive and inferential statistics, the collected data was adequately analysed. Figures and tables will be used in presenting the analysed data.

The data obtained was analysed by regression model below.

Profitability= (Cost)+(Convenience)+ (Access)+(Regulations)+ε

Predictors; (constant), Access, convenience, regulations, cost.

Dependent variable: Profitability of banks

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.0 Introduction

In this section the researcher presents the research findings obtained from the field as analysed and interpreted. The study had a response rate of 61.6% as 87 out of 141 questionnaires were returned.

4.1 Descriptive Analysis

4.2 Job Category

On the job category of respondents, 52% were in middle management, 34% top management, while 14% of were lower managers

Table 4. 1

Job Category

Job Category	Frequency	Percentage
High-Level Managers	**13**	**34%**
Middle-Level Managers	**29**	**52%**
Low-level managers	**13**	**14%**
Total	**87**	**100%**

4.3 Work Duration

On the working duration of the respondents, majority had worked for over 10 years as per Table 4.2.

Table 4. 2

Working Duration

Work Duration	Frequency	Percentage
Over 20 yrs	14	17%
16 to 20 yrs	12	14%
11 to 15 yrs	18	21%
6 to 10	37	43%
Less than 5 yrs	6	5%
Total	**87**	**100%**

4.4 Distribution of Gender and Educational Level

On the distribution of gender and education level, the findings as per Table 4.3 show that 41% of responders were women and 59% were men.. Further, majority of the respondents were well educated up to university and college level.

Table 4. 3

Gender Distribution

Education Background	Male		Female		Total	
	N	**%**	**N**	**%**	**N**	**%**
University	44	51%	26	30%	70	80%
College	7	8%	10	11%	17	20%
Secondary	0	0%	0	0%	0	0%
Primary	0	0%	0	0%	0	0%
Total	51	59%	36	41%	87	100%

4.5 Age distribution of the Respondents

On the age of the respondents, majority were above 30 years as per Table 4.4.

Table 4. 4

Age of the Respondents

Age Of Respondent	Frequency	Percentage
Above 50 yrs	9	11%
40 to 50 yrs	19	22%
36 to 40 yrs	28	32%
30 to 35 yrs	22	24%
26 to 30 Yrs	9	11%
21 to 25 Yrs	0	0%
Below 20 Yrs	0	0%
Total	**87**	**100%**

4.6 Duration of Agency banking

On the duration of agency banking only 5% had agency banking for less than 3 months as shown by Table 4.5.

Table 4. 5

Duration of Agency Banking

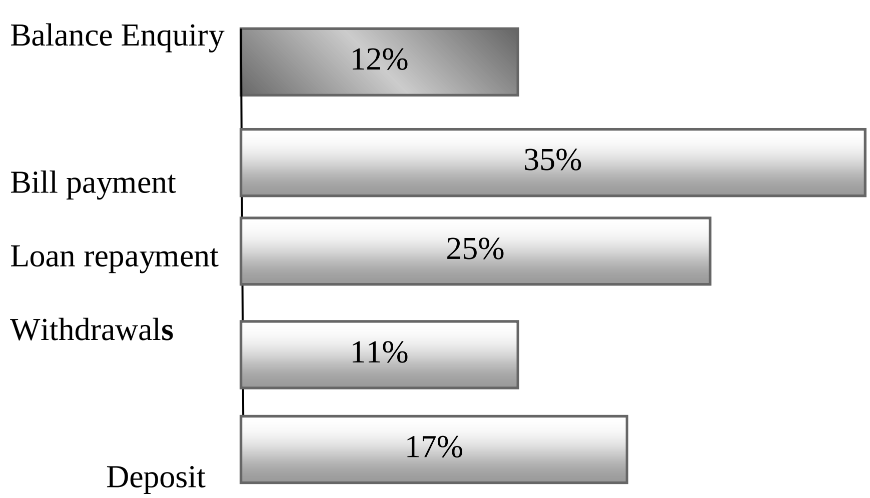
Duration Of Agency Banking	**Frequency**	**Percentage**
More than a year	41	47%
9 – 12 months	28	32%
3 – 9 months	14	16%
Less than 3 months	4	5%
Total	**87**	**100**

4.7 Agency Banking Services

On the services offered in agency banking, 35% stated bill payment, 25% loan repayment, 17% deposits, 12% balance enquiry and the remaining 11% withdrawals as indicated by Figure 4.3.

Figure 4. 1

Agency Banking Services



4.8 Effect of Cost on Financial Profitability of the Bank

On the extent of influence of agency banking on performance, as shown by Table 4.6, majority stated a very large extent and great extent (73% combined).

Table 4. 6

Agency Cost and Profitability

	FREQUENCY	PERCENTAGE
Very great-extent	37	43%
Great-extent	26	30%
Moderate-extent	17	19%
Low-extent	7	8%
TOTAL	**87**	**100%**

The study also determined the effect of other elements of cost due to agency banking on banks profitability and findings presented as follows.

Table 4. 7

Other Cost Elements of Agency Banking

Element	Frequency	Percentage
Agency banking does not require minimum balance	**70**	**81%**
Charge less for transaction at agency than bank	**87**	**100%**
One does not need transport to my agency bank kiosk	**73**	**84%**
It saves time by transacting at agency kiosk than bank	**77**	**89%**
It cost less to open account at agency than in bank	**79**	**91%**

As shown, 81% noted that agency banking requires minimum balance, 100% said transaction cost are lower. While 84% indicated that they do not use transport cost to access agency banking. 89% of the respondents said it saves time to use agency banking while 91% said it cost less to open an account with agency banking.

Findings on other aspects of agency banking are as below.

Table 4. 8

Effect of Agency Banking

Agency Banking Effect	Mean	Standard Deviation
This service saves time	4.1333	5.71153
There are no transaction cost	3.1492	1.55254
Reduces operation cost	3.1111	1.51555
No minimum balance required	2.8016	1.66743

As shown, on agency banking saves time, a very great extent was affirmed by the respondents having a mean of 4.1333. However, a moderate extent was noted on transaction and operation costs having means of 3.15 and 3.11 respectively. Whereas on no minimum balance required, the respondents stated a low extent with a mean of 2.80. This implies that there is need to ensure that minimal costs are incurred in the transactions and the balance required as explained by Ferrand and Arora, (2007).

4.9 Effects of Accessibility on Profitability of Banks

The respondents were required to indicate whether they believed that accessibility due to Agency banking increased banks profitability.

Table 4. 9

Effects of Accessibility on Profitability of Banks

Profitability Aspect	Frequency	Percentage
Accessibility has increased financial inclusion	70	81%
Accessibility has not increased financial inclusion	17	19%
Improved profits	25	68%
No impact on net returns	12	32%

The study sought to establish if accessibility has led to increase in banks profitability. Majority of the respondents (81%) stated that agency banking increased financial inclusion, while 19% of the respondents indicated agency banking had not increased financial inclusion. Sixty eight percent also indicated that agency banking led to improved profits and 32% indicated that agency banking did not improve profitability.

The study also determined the extent accessibility improvement due to agency banking returns. The findings are presented below.

Table 4. 10

Extent of Accessibility on Profitability of Banks

Effect Extent	**Frequency**	**Percentage**
Very-great	43	48%
Great	31	36%
Moderate	10	12%
Low-extent	3	4%
No-extent	0	0%
Total	**87**	**100%**

Of the 87 respondents who said access due to agency banking has increased profitability of banks, 48% said it does so to a very large extent, 36% to large extent while 12% agreed to a moderate extent with the statement.

4.9 Convenience of Agency Banking

The study sought to determine to what extent convenience improved due to agency banking and affect profitability of banks. Findings are below.

Table 4. 11

Effect of Convenience on Profitability of Banks

	Frequency	**Percentage**
Very reliable	**73**	**84%**
Friendly to use	**14**	**68%**
Unlimited banking Hours	**87**	**100%**

From the above findings, all the respondents i.e. 100% said that agency banking offered unlimited banking and therefore convenient to them. 84% felt agency banking is reliable while some 16% said it is not. 68% found agency banking easy to use while 32% did not find it as much friendly.

Table 4. 12

Effect of Convenience on Profitability

Effect of Convenience on Profitability	**Mean**	**Std Deviation**
Respondents use agency joined due to ease of use	4.0162	1.07670
Respondents use service outside working hours	3.9235	0.86830
Respondent using service more than once daily	3.8647	1.30537

As per Table 4.13, having a mean of 4.01, a large extent of influence of us respondents use agency joined due to ease of use. Most respondents also said they adopted service because they need to do banking services more than once daily this is shown by a mean score of 3.9235, a lot of the customers reported that with agency banking they can transact any time with a mean of 3.8647. Notably, the respondents agreed to a large extent that respondents were using agency banking due to the convenience created. In relation to these findings, Kitaka (2019) found that innovative systems in banking improved the customer base and hence profitability due to the convenience created by the innovations. Further, Dondo (2013) found that agency improved financial performance due to convenience.

4.10 Agency Regulation on Profitability

The findings are for the regulation of agency banking is represented in the table below.

Table 4. 13

Regulations

Regulation	Mean	Standard Deviation
List of 3rd parties that conduct business with CBK	3.8705	1.70177
Permission required before introduction of agents.	2.8441	1.61279
Specified services which ought to be carried out	2.7293	1.53797
Need for transactions conducted in real time	2.7002	1.51865

As shown, regulatory framework on agency banking had affected financial performance to moderate extent. This findings are explained by World bank (2014) which required that all countries to have well regulated guidelines on how banks conducted their operations and subsequently reviewed these guidelines.

4.11 Agency Regulation on Profitability

On the extent of application of agency regulations, as shown by Table 4.15, the findings revealed a moderate extent on detailed rules on operation, prioritized screening and capacity of monitoring markets having means of 3.89, 3,86 and 3.77 respectively.

Table 4. 14

Bank Regulation on Profitability

Regulation Aspect	Mean	Standard Deviation
Rules on operation	3.8941	1.22221
Prioritization of screening	3.8647	1.63857
Capacity monitoring of consumers	3.7765	1.34853

4.12 Performance of Commercial Banks

The respondents were also asked to rate how agency banking had affected profitability of their bank and results tabulated as below.

Table 4. 15

Performance of Commercial Banks

Regulation	Frequency	Percentage
It increased no of accounts	**87**	**100%**
It increased no of loans	**81**	**93%**
It has reduced cost	**80**	**91%**
It increased no of transactions	**87**	**100%**
It has increased commissions	**87**	**100%**
It has reduced risks	**80**	**90%**

Agency banking led to increased number of accounts as indicated by 100% of respondents, 93% indicated it led to increased loans, 91% indicated reduced cost, 200% increased number of transactions, 100% increased commissions and 90% indicated that agency banking led to reduced risks.

4.13 Correlation Analysis

To accomplish the study's specific goals, correlation analysis was performed. The results are displayed below..

Table 4. 16

Correlation Analysis

		Profitability	Cost	Access	Convenience	Regulations
Cost	Pearson Correlation	.332**	1			
	Sig. (2 tailed)	0.002				
Accessibility	Pearson Correlation	.261*	.470**	1		
	Sig. (2	0.015	0.000			
Convenience	Pearson Correlation	.529**	.355**	.489**	1	
	Sig. (2	0.000	0.001	0.000		
Regulations	Pearson Correlation	.568**	.550**	.433**	.544**	1
	Sig. (2	0.000	0.000	0.000	0.000	0
	N	87	87	87	87	87

***. Correlation is significant at the 0.01 level (2*

**. Correlation is significant at the 0.05 level (2*

The study found not only a positive relationship but also significant at 95% confidence level between the research variables and performance namely cost savings (r= 0.332, p-value= 0.02), accessibility (r= 0.261, p-value= 0.015), convenience (r= .529, p-value= 0.000) and regulations (r= .568, p-value= 0.000). This relates to previous studies conducted such as Ferrand and Arora, (2007), Podpiera, (2008) and Bold (2011).

4.14 Regression Analysis

Multiple regression analysis was performed to examine the impact of agency banking on the profitability of banks in Kenya.. The model summary is presented in the following table.

Table 4. 17

Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.831a	0.691	0.568	0.63801

a. Predictors: (Constant), Regulation, Accessibility, Cost, Convenience

The study findings indicated that the performance of Kenyan banks was positively impacted by agency banking, as shown by the 0.831 coefficient of correlation. The coefficient of determination indicated that agency banking explained 56.8% of performance of commercial banks in Kenya. The findings compared to those of Pirzada (2017) conducted a research on the impact of dividend policy on stock price volatility in the financial sector of Malaysia between 2001 and 2009. In essence, this study showed how to discover the precise factors influencing stock prices. The study suggested a wider time horizon of up to 20 years while blaming the lack of evidence on the topic.

The ANOVA results as tabulated in Table 4.20 reveal that the model significantly describe the relationship between the research variables (p-value< 0.000).

Table 4. 18

ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	22.054	4	5.513	13.545	.000a
Residual	33.379	82	0.407		
Total	55.433	86			

a. Predictors: (Constant), Regulations, Accessibility, Cost, Convenience

b. Dependent Variable: Profitability and Agency Banking

The model coefficients are presented in following table.

Table 4. 19

Model Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		Std. Error	Beta		
(Constant)	0.67	0.4353		3.54	0.000
Cost	0.24	0.1312	0.0330	3.31	0.000
Accessibility	0.35	0.1015	0.0989	3.93	0.000
Convenience	0.36	0.1131	0.3449	3.18	0.000
Regulations	0.46	0.1311	0.4054	3.53	0.000

a. Dependent Variable: Profitability and Agency Banking

As shown the research variables Cost, Accessibility, Convenience and Regulations have model coefficients of 0.24, 0.35, 0.36 and 0.46 respectively implying a significant and positive effect on performance. The predictive model developed by the study was profitability

$Y_s = 0.67 + 0.24X_1 + 0.36X_2 + 0.35X_3 + 0.46X_4 + e$

Y_s = Financial Performance

X_1= Cost

X_2= Convenience

X_3= Access

X_4= Regulations

The positive coefficients implied that an increase in cost savings, convenience, customer access to banking services and regulations on agency banking improved financial performance. Monyoncho, (2015) also found out that agency banking have been associated with reduction in service delivery costs for banks and increased efficiency in access which is linked to customer satisfaction. Similarly, Olouch, (2016) established that there was a positive effect of agency banking and financial performance. Senelwa et al. (2020) also concluded a positive correlation between agency banking and return on assets over the years covered by that study, 2007-2016.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter encompasses a summary of key findings obtained from the field followed by the conclusions reached at and thereafter recommendations.

5.1 Summary of the Findings

5.2 Convenience and Profitability of Banks in Kenya

This investigations revealed that convenience due to agency banking influenced profitability to a very great extent and most customers using the service said, their biggest impediment before urgency baking was the inconvenience which comes with brick and motor model. Cooperation between agents have also enabled respondents to transact high value transactions. The study found a positive relationship between convenience as a result of agency banking and profitability of banks in Kenya. The positive effect of convenience on profitability was significant.

5.3 Effects of Agency Costs on Profitability of Banks

A great extent of influence was stated on the impacts of agency cost on performance. 81% noted that agency banking requires minimum balance, 100% said transaction cost are lower. While 84% indicated that they do not use transport cost to access agency banking. 89% of the respondents said it saves time to use agency banking while 91% said it cost less to open an account with agency banking.

5.4 Effects of Access Due to Agency Banking on Profitability of Banks

The majority of respondents concured that improved access to banking services due to agency banking has increased profitability to a very great extent. The respondents also revealed that more chargeable transaction take place at agency banking network than all the bank branches combined. In fact some managers see a future where banks with minimise on brick and motor model, thereby saving fund that have been used in leases and rental hence more profits.

5.5 Effects of Agency Regulations on Profitability of Banks

The findings revealed a moderate extent on detailed rules on operation, prioritized screening and capacity of monitoring markets having means of 3.89, 3,86 and 3.77 respectively. The study found a positive relationship between regulations as a result of agency banking and profitability of banks in Kenya. The positive effect of regulations on profitability was significant. Bold (2011) recognized the importance of agent banking regulation if they are to have effect on profitability.

5.6 Conclusions

The main purpose of this study was to establish the role of agency banking on profitability banking institutions in Kenya. A case of Kenya commercial bank. The study concluded that the agency costs and convenience determine the nature and frequency of transactions done by the consumers. Agency banking is concluded to have opened regulatory framework hence making it easy for thanks to offer their services cheaply, the amounts saved goes directly to P&L and additional profits. The study also concluded that agency banking have made banking on demand possible, they can transact for longer hours hence more fees and commissions to the bank.

5.7 Recommendations

On regulation; it is the recommendation of this research that CBK must strengthen the regulation framework even as banking sector gets liberalised so as to protect customers as well as encourage uptake of banking services

On cost; we recommend banks to leverage on technology for this channel of delivery so as to lower the cost even further, this way they will net more unbanked among our population and benefit from economies of scale.

On access; we recommend the banks should adopt more technology to make their services more available everywhere all the time.

On convenience; again we recommend adoption of technology to address the convenience of delivery.

5.7 Suggestions for Further Research

The study was limited by scope whereby only the bank branches at Nairobi CBD were targeted. To enable inclusivity further studies is recommended encompassing branches of the commercial banks in other regions. The paper also recommends conducting additional research on agency banking factors not already considered by this study. Further, additional studies could also be conducted on the factors impeding the implementation of the agency strategies in the banks.

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APPENDICES

ANALYSIS OF EFFECTS OF AGENY BANKING ON PROFITABILITY OF BANKS IN KENYA A CASE OF KCB

Dear respondent:

This survey is carried out to help understand the effects of agency banking on profitability of banks in Kenya, a case of Kenya commercial bank. Your response to these questions is anonymous. However if you agree will write down your contact information in some cases. The information given in the questionnaire will be kept confidential and will only be used for the purpose of this study.

Thank you for your co-operation.

Part A: BIO DATA

1. Bank...

2. Branch...

3. **State your job category (Tick appropriately**)

High management ☐ Middle management ☐ Low level management ☐

4. **How long have you banked with this bank?**

Below 5 years ☐ 6-10 years ☐ 16-20 years ☐ over 20 years ☐

5. **Gender**

Male ☐ Female ☐

6. **Age**

Below 20years ☐ 21-25 years ☐ 40-50 years ☐ Above 50 years ☐

7. **Level of education**

Primary ☐ Secondary ☐ College ☐ University ☐

Other specify......................

8. **How long has this bank been offering agency banking**?

Less than 3 months ☐ 3 to 9 months ☐ 9 to 12 months ☐

Above 12 months ☐

9. **What services does this bank offer in agency banking**?

a. Cash deposits ☐ Cash withdrawals ☐

b. Loan repayments ☐ Payment of bills ☐

c. Balance enquiry ☐

10 State your job category

High management ☐ middle management ☐ Low level management ☐

11 How long have you worked with this bank?

Below 5 years ☐ 6-10 years ☐ 16-20 years ☐ over 20 years ☐

12. Gender

Male ☐ Female ☐

13. Age

Below 20years ☐ 21-25 years ☐ 40-50 year ☐ above 50 ☐

Part C: EFFECTS OF COST ON PROFITABILITY OF BANKS

14) To what extent has cost of agency banking affected profitability of your bank?

To a very great extent ☐ To a great extent ☐ To a moderate extent ☐

To a low extent ☐ To no extent at all ☐

15) To what extent do you agree with the following statements?

Use a scale of 1-5 where; 5 very great extent, 4 Great extent, Moderate extent, 2 Little extent, No extent.

	1	2	3	4	5
Agency banking does not require minimum balance					
We charge less for transaction at agency than bank					
One does not need transport to my agency bank kiosk					
It saves time by transacting at agency kiosk than bank					
It cost less to open account at agency than in bank					

Part D: EFFECT OF ACCESSIBILITY ON PROFITABILITY OF BANKS.

16 .Do you agree that increased access due to agency banking has increased banks profitability?

Yes ☐ No ☐

17.To what extent does this apply?

Very weak ☐ Weak ☐ Moderate ☐ Strong ☐ Very strong ☐

18. The following statements relate to effect of access on profitability of banks.

Please rate the extent to which these apply to agency banking with your bank?

Use a scale of 1-5 where; 5 Very great extent, 4 great extent, 3 Moderate extent, 2 little extent, 1 No extent.

	1	2	3	4	5
A banking agent kiosk is in close proximity than banks					
A banking agent is within one kilometer from the other					
Agency has longer working hours					

Part E: EFFECT OF CONVINIENCE ON PROFITABILITY OF BANKS.

19. To what extent has convenience due to agency banking contributed to profitability of your bank?

Use a scale of 1-5 where ; 5 Very great extent, 4great extent, 3 Moderate extent,2 Little extent,

No extent.

	5	4	3	2	1
Very reliable					
Friendly to use					
Unlimited banking Hours					
Most customer use the service outside working hours					
Most customers visit atleast 4 times a week					

How else do you think agency banking has contributed profitability of your bank?

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Part F: REGULATIONS ON PROFITABILITY

20. To what extent do the following aspects of agency banking affect the profitability of your bank? Use a scale of 1-5 where ; 5 Very great extent, 4great extent, 3 Moderate extent,2 Little extent, No extent

	5	**4**	**3**	**2**	**1**
Unlimited banking hours					
Reduced operation cost					

Increased access to customers					
Reduced congestion in banking halls					
Increased customer base					
Led to adoption of other delivery models					

To what extent do you agree with the following statements that relate to the bank regulators in the alignment of policies on agency banking? Use a scale of 1-5 where ; 5 Very great extent, 4great extent, 3 Moderate extent,2 Little extent, No extent.

	5	**4**	**3**	**2**	**1**
Regulators have developed detailed rules on the operations of agency banking.					
Regulators have prioritized screening of agency banking providers at entry level.					
Regulators have the capacity to monitor the market for potential concerns.					

Part G: PROFITABILITY AND AGENCY BANKING

21. To what extend do you agree with the following statements that relate how agency banking has improved profitability of banks?

Use a scale of 1-5 where; 5 very great extent, 4 great extent, 3 moderate extent, 2 little extent and 1 No extent.

Statement	5	4	3	2	1
Agency banking has increased number of accounts					
Agency banking has increased number of loan accounts					
Agency baking has reduced cost of offering services					
Agency banking has increased number of transactions					
Agency banking has increased bank commissions					
Agency banking has reduced bank risks					

22. Apart from the factors above, what other factors affect agency banking operations

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