



AGENCY BANKING AND FINANCIAL PERFORMANCE OF SELECTED COMMERCIAL BANKS IN KENYA

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Abstract: The Central Bank of Kenya recognizes the financial inclusion challenges which the country faces. These include the cost of financial services and the distance to bank branches in remote areas. Part of their approach to addressing these challenges is to address the delivery channel costs through increased use of agent banking. Since agency banking transactions cost far less than transactions at the branch teller, banks can make a profit handling even small money transfers and payments. Nonetheless, despite the adoption of agency banking in commercial banks, the performance of banks has been declining. The study sought to examine the role of agency banking on performance of commercial banks. The study was conducted in the month of July, 2016 and focused on selected commercial banks, that is, Equity bank Kenya limited, Co-operative bank of Kenya limited, KCB bank Kenya Limited and Family bank Kenya limited. The researcher used descriptive research design. The study adopted purposive sampling whereby respondents targeted provided the information that was required. The study used both primary and secondary data. Primary data was collected using a questionnaire, while secondary data was collected from the audited financial statements for over a period of 5 years (2011-2015). Statistical Package for Social Sciences (SPSS) version 22) was used for purposes of analysis. Data was analyzed using descriptive statistics (Means, percentages and standard deviation) as well as regression analysis. This study found that agency banking influences the financial performances of the four commercial banks in Kenya. The study also concludes that agency banking improves the efficiency of service delivery and increases the accessibility of financial service to many customers in remote areas. The management of commercial banking should increase their customer's awareness on the benefits and safety of using agency banking. This can be done through print and mass media advertisements.

Key Words: Agency Banking, Financial Performance, Commercial Banks

Introduction

With a huge rural population, that is economically challenged, financial inclusion is indispensable for the sustainable growth of Kenya. Financial inclusion is needed for rural and downtrodden masses that are the future growth engine of the economy (Amita, 2015). Despite the recorded progress made by financial institutions the majority of world's poor remains un-served by formal financial intermediaries that can safely manage cash and intermediate between net savers and borrowers (Elie-Dit-Cosaque, Pallud & Kalika, 2011). Commercial banks traditionally do not serve low income earners, micro-entrepreneurs and poor (collectively referred to as unbanked), chiefly because the high cost involved make it unattractive (Gichungu & Oloko, 2015). Whether simply the consequence of material poverty, geographic isolation or as the of being perceived as a result of being perceived as "noncredit worth", many of the world's low-income earners (particularly in rural areas) find themselves unbanked and without any recourse to the benefits of credit or secure deposit-taking facilities (Hao & Hunter, 2009).

A banking agent has also been introduced which is a retail or postal outlet contracted by a financial institution or a mobile network operator to process clients' transactions. Rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds, pay their bills, inquire about an account balance, or a direct deposit from their employer. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices, and many more. This model of banking allows Kenyans access financial services from bank-appointed agents, away from the traditional banking halls (Kablan, 2010).

Statement of the problem

The financial sector development plays a huge role in economic development and promotes economic growth through capital accumulation and technological progress by increasing the savings rate, mobilizing and pooling savings, producing information about investment, facilitating and encouraging the inflows of foreign capital, as well as optimizing the allocation of capital. In addition, financial development is key to the growth of small and medium-sized enterprises (SMEs) as it gives them access to finance (Kenyuru, 2013).

The profitability of Kenya's banking industry in the recent past has been a subject of public interest and debate. While the profit growth has also been helped by a steady growth in the customer base over the past four years from 4.7 million to 15.7 million, a report by the Central Bank of Kenya on 'Developments in the Kenyan Banking Sector for quarter ended March 31, 2012' indicates that this trend of profitability is equally largely attributed to financial inclusion by banks (KBA, 2012).

Central Bank of Kenya (CBK) recognizes the financial inclusion challenges which the country faces. These include the cost of financial services and the distance to bank branches in remote areas. Part of their approach to addressing these challenges is to address the delivery channel costs through increased use of agent banking (Central Bank of Kenya, 2010). Low-income people no longer need to use scarce time and financial resources to travel to distant bank branches. Since agency banking transactions cost far less than transactions at the branch teller, banks can make a profit handling even small money transfers and payments (Kero, 2013).

Various studies have been conducted on agency banking and financial performance. For instance, Mwangi (2011) evaluating the role of agency banking in the performance of commercial banks in Kenya found that infrastructure cost and security influence the performance of commercial banks attributable to agency banking. In addition, Kamau (2012) did a study on the relationship between agency banking and financial performance of the banks in Kenya and found a negative and weak correlation between number of agents, deposit and withdrawals transactions undertaken through agents and financial performance of banks as measured by return on equity. However, these studies were conducted as case studies and hence their findings could not be generalized other commercial banks in Kenya. This study sought to examine the effect of agency banking on financial performance of commercial banks in Kenya.

The study tested the following null hypotheses:

H₀₁: Agency banking does not have a significance effect on financial performance of selected commercial banks.

Theoretical Review

The section reviews relevant theories in view of the study variables and relationships.

Bank-led Theory

The theory was proposed by Lyman, Ivatury and Staschen (2006) and is based on the argument that, a licensed financial institution delivers financial services through a retail agent. This model promises the potential to substantially increase the financial services outreach by using a different delivery channel (retailers/ mobile phones), a different trade partner (Chain Store) having experience and target market distinct from traditional banks, and may be significantly cheaper than the bank based alternatives. In this model customer account relationship rests with the bank (Kero, 2013). Under the bank-led theory of branchless banking, banks deliver financial services through a retail agent. The bank in this case develops financial products and services, but distributes them through retail agents who handle all or most customer interaction (King'ang'ai & Kigabo, 2016). The bank is the ultimate provider of financial services and is the institution in which customers maintain accounts. Retail agents have face-to-face interaction with customers and perform cash-in/cash-out functions, much as a branch-based teller would take deposits and process withdrawals (Kiprop, Kalio & Kiprop, 2015).

Banking regulation typically recognizes multiple categories of risk that bank regulators and supervisors seek to mitigate. Five of these risk categories-credit risk, operational risk, legal risk, liquidity risk, and reputation risk-take on special importance when customers use retail agents rather than bank branches to access banking services. The use of retail agents also potentially raises special concerns regarding consumer protection and compliance with rules for combating money laundering and financing of terrorism (Muiruri & Ngari, 2014). The bank lead theory is related to the study as it focuses on how banks deliver their financial services through a retail agent, where the bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction. In fact, they perform almost all the duties performed by a banks teller. This can be a way of mobilizing deposits commercial banks use as a new model to increase financial inclusion and facilitate the transaction especially in the areas where the bank is not present.

Nonbank-led Theory

Nonbank-led theory was proposed by Susmit Kumar, in 2004. It states that customers do not deal with a bank, nor do they maintain a bank account. Instead, customers deal with a nonbank firm either a mobile network operator or prepaid card issuer and retail agents serve as the point of customer contact. Customers exchange their cash for e-money stored in a virtual e-money account on the non-bank's server, which is not linked to a bank account in the individual's name (Muiruri & Ngari, 2014). This model is riskier as the regulatory environment in which these nonbanks operate might not give much importance to issues related to customer identification, which may lead to significant Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT) risks. Bringing in a culture of Know Your Customer (KYC) to this segment is a major challenge.

Further the nonbanks are not much regulated in areas of transparent documentation and record keeping which is a prerequisite for a safe financial system. Regulators also lack experience in the realm. For these reasons, allowing nonbank-led model to operate is an unnecessarily big leap and an unjustifiably risky proposition (Ndwiga, 2013). However, this model becomes viable after regulators have gained sufficient experience in mitigating agent related risks using bank led model and need to think about mitigating only e-money related risks (Munoru, 2013).

According to Ndirangu (2013) to mitigate the e-money risks (which are peculiar to Nonbank-led model), necessary changes in the existing regulations are required. It starts by bringing non-banks under financial regulatory net by giving these entities special status of some sort of quasi-bank/remittance agent etc. Grant of this status depends upon meeting pre specified standards of transparency, financial strength and liquidity. There should be clear, well-defined limits on nature, type and volume of transactions that such entities can undertake. To avoid insolvency, these entities may be required to deposit their net e -banking surplus funds with scheduled banks meeting certain minimum rating criteria (Munoru, 2013). The Nonbank-led Theory is found relevant to the study as it explain how agent deals with customers on behalf of the bank, at affordable cost.

Empirical Review

Mwangi (2011) evaluating the role of agency banking in the performance of commercial banks in Kenya. This study was done on four banks offering agency banking services using questionnaires distributed to the banks' branch managers. The study established that infrastructure cost and security influence the performance of commercial banks attributable to agency banking to a very great extent. The study recommends that agency banking should be given attention on security measures including risk-based approach and banks should find better ways of screening their agents to ensure that the large cash transactions handling is effectively carried out ontheir behalf; secure operating systems capable of carried out real time transactions, generating an audit trail, and protecting data confidentiality and integrity.

Kamau (2012) did a study on the relationship between agency banking and financial performance of the banks in Kenya. Through review of secondary data, the study found that the outlets for agency banking were 9,748 and increase from 8,809 in 2010 facilitating a total volume of 8.7 million transactions valued at Kshs 43.6 billion. By use of regression analysis, the study found a negative and weak correlation between number of agents, deposit and withdrawals transactions undertaken through agents and financial performance of banks as measured by return on equity.

Aduda, Kiragu, Ndwiga (2013) studied the relationship between agency banking and financial performance of commercial banks in Kenya. The objective for this study was to find out the relationship between agency banking and financial performance for those banks. This research used the descriptive design method using secondary data gathered from the commercial banks in Kenya that had adopted agency banking in Kenya The findings indicates that out of a total of 43 banks,8 have rolled out the agency banking service. The findings further showed that yearly performance improved significantly from 2008 to 2011. This meant that agency banking is continuously improving leading to significance increased financial performance in those banks that have rolled up the service due to its convenience and efficiency in operation. The findings showed that commercial banks that had rolled up agency banking operations were more effective based on the number of agent signed by the commercial bank. It further indicated that agency banking has positively and significantly influenced performance of commercial banks. However, from the study there is need for further research to be undertaken which may include studieson the 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. The study also recommended development of a roadmap to agency banking development in Kenya, and further studies to be done on customer perception of agency banking so as to determine what affect banking agents' performance from the demand side.

Chiteli (2013) did study agent banking operations as a competitive strategy of commercial banks in Kisumu city. The objective of the study was to investigate agent banking operations as a competitive strategy for commercial banks in Kisumu city. Both primary and secondary data was used through questionnaires and a census. Descriptive research design was used. According to the study, The agents have also encountered challenges in providing banking services and the challenges include; liquidity risk, is whereby retail agents especially those that are relatively small, unsophisticated, and remote, may not have enough cash to meet customers' requests for withdrawals and may lack experience in the more complex liquidity management required for offering financial services.

Operations to be effective as a competitive strategy for commercial banks strong internal control system should be put in place which should be flexible to be evaluated periodically. There should also be frequent updates of policies and procedures used in the industry by Kenya Bankers Association in consultation with the Central Bank of Kenya. Frequent audit should be carried out on the bank system and automation of all processes at least quarterly to determine any loopholes that should be sealed. The study recommended that for agent banking operations to be effective as a competitive strategy for commercial banks strong internal control system should be put in place which should be flexible to be evaluated periodically. During the study, it was noted that more commercial banks country wide have embraced agent banking operations and various competitive strategies. It would be worthwhile to study agent banking operations as embraced by the other commercial banks not captured in this study as well as the other competitive strategies in use.

Watiri (2013) did as study on the adoption of agency banking by equity bank Kenya limited in its international business operations. The objective of this study was to determine the adoption of agency banking by equity bank in its international business operations. Data was collected using an interview guide and data collected both qualitative and quantitative form data. The study realized that agency banking is continuously improving and growing and as it grows, the level of financial inclusion is also growing. The study findings showed that increasing the area covered by agents outside the country has had the effects of increasing the reach. From the study agency banking has contributed to growth in financial inclusion. The study has also revealed that agent banking has improved the banks performance and also transformed the lives of customers and agents. Agency security is a major contributor to performance as per the study. The banks do understand application level security in agency banking in its business operations.

The study therefore recommends that there is need to support agency banking by all players: the banks, government, and licensing bodies, especially local authorities; so as to reduce the high compliance costs in bureaucracy in registration. This will enhance financial inclusion. The study further recommends adoption of agency banking by all banks operating in the retail market and that agency banking be marketed more as it's an area with great growth potential as it uses the already established private enterprises and saves the bank huge capital outlays of opening a branch.

Wawira (2013) studied the contributions of agency banking on financial performance of commercial banks in Kenya .This study sought to establish the effect of central bank regulation on financial performance of commercial banks in Kenya, to determine the effect of low transaction cost through agency banking on financial performance of commercial banks in Kenya, to establish the effect of financial services accessibility by customers on financial performance of commercial banks in Kenya. The study targeted a population of 9 Commercial Banks offering agency banking with a sample of 36 respondents by use of questionnaires and analyzed by use descriptive statistical analysis.

In the study it was established that accessibility for financial services through agency banking affects the financial performance of commercial banks in Kenya to a great extent. Further, revealed that the adoption of agency banking in banking industry has shown a great momentum and across the world which has increased the accessibility of financial services. Many customers at remote areas can access financial services due to agency banking which has led to profitability of commercial banks and finally that there is great potential of using agency banking for provision of banking services to unbanked community. Moreover, it established that agency banking has made it easier for commercial bank to reach out to many potential clients without investing so much in opening branches hence it's a cost effective measure. It also increased the ease of expansion hence outreach to far flung market pockets of bankable populations.

Conceptual Framework

A conceptual framework is described as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. The dependent variable of the study is financial performance. This was measured by net income, loan book, liquidity ratio and capital strength. The independent variable was agency banking. Under Agency Banking, the study focused on scope of services, number and value of agents, confidentiality and commission earned in Kenya.

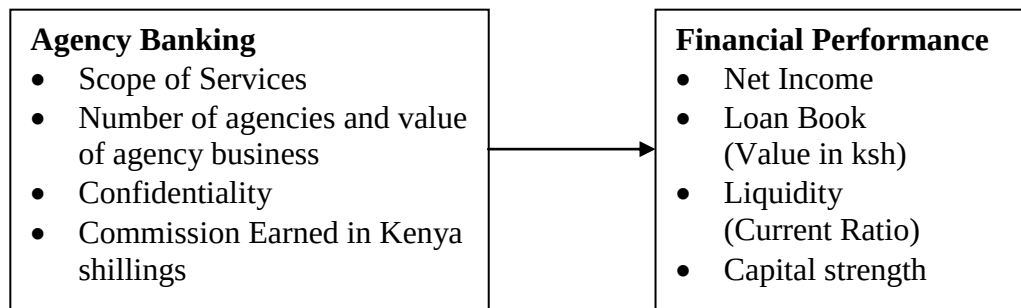


Figure 1: Conceptual Framework

Research Methodology

This study used a descriptive research design. Descriptive research design was selected as it involves observing and describing the subject or variables without influencing them in any way. The target population of this study was 4 commercial banks in Kenya, who have embraced the concept of financial inclusion to a great extent. These are Kenya Commercial Bank, Equity Bank Limited, Co-operative Bank of Kenya and Family Bank.

The study targeted 12 respondents from each of the 4 selected banks. These included agency banking managers, mobile banking managers, operations managers, finance managers and strategic planning managers who are actively involved in firm strategy especially product development. The distribution is shown in the Table 1 below.

Table 1: Target population

Bank	Agency Manager	Mobile Banking Manager	Operation Manager	Strategic Planning Manager	Finance Manager	Total
Kenya Commercial Bank	9	7	4	4	5	29
Equity Bank	6	10	6	5	5	32
Co-operative Bank	12	9	5	3	6	35
FAMILY Bank	7	6	4	3	4	24
Total	34	32	19	15	20	120

The study adopted purposive sampling. The researcher purposively picked 3 respondents from each of the 5 categories of target respondents. Since the study focused on 4 commercial banks, the sample size was 60. The selected commercial banks are Kenya commercial bank, Equity bank limited, Co-operative bank of Kenya limited and Family bank limited.

The study used secondary data and primary data. Secondary data on various performance trends of the selected commercial banks mainly profits, liability values and the assets books, was collected over a period of time(2011-2015). Data collection sheet was used to collect secondary data. Primary data was collected by use of semi-structured questionnaires containing closed, likert-type and open-ended questions. The questionnaires were used because they help in the collection of large volumes of data within a short period of time and were easy to administer. The questionnaire was pre-tested to ensure it was not faulty and that it could be understood by the participants. The questionnaire was pre-tested for validity proof by issuing to two randomly selected respondents from 3 commercial banks. This study adopted Cronbach's which is a measure used to assess the reliability, or internal consistency, of a set of scale or test items.

Data was edited and coded, then presented in tables and figures. Statistical Package for Social Sciences (SPSS) version 22) was used for purposes of analysis. Data was analyzed using descriptive statistics (means, percentages and standard deviations) and multiple regression analysis. The regression model is captured below.

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where: Y = Financial Performance; β_0 =constant term; β_1, β_2 , and β_3 = Beta coefficients; X_1 = Agency Banking; and ε = error term

Research Findings and Discussions

The sample size of this study was 60 managers who comprised of agency managers, mobile banking managers, operation managers, strategic planning managers and finance managers in four commercial banks in Kenya, which include Kenya Commercial Bank, Equity Bank, Co-operative Bank of Kenya and Family Bank of Kenya. Out of a sample size of 6 managers, 55 responses were obtained, which gives a response rate of 91.66%. According to Kothari (2009), a 50% response rate is adequate for analysis, 60% is good and 70% is very good. This response rate indicates a reasonable representation of the sample and of the entire population.

Agency Banking

The objective of the study was to determine the effect of agency banking on financial performance of selected commercial Banks in Kenya.

Financial Services Offered At Agents' Location

The respondents were requested to indicate the financial services offered at agents' location. From the finding, all the respondents (100%) indicated that cash deposits and cash withdrawal services were offered at agents' location. In addition, 96.4% of the respondents indicated that bill Payments services were offered at agents' location. Also 92.7% and 80.0% of the respondents indicated that Money transfer and Account opening services respectively, were offered at agents' location. However, only 16.4% of the respondents indicated that balance enquiry services were offered at agents' location. These findings imply that agency banking services include cash deposits, cash withdrawal, money transfer, account opening services and bill payments services. These findings are in line with Munoru (2013) that agency banking services include cash deposits, cash withdrawal, money transfer and bill payments services.

Table 2: Financial Services Offered At Agents' Location

	Frequency		Percent	
	Yes	No	Yes	No
Money transfer	51	4	92.7	7.3
Cash deposits	55	0	100.0	0.0
Cash withdrawal	55	0	100.0	0.0
Account opening	44	11	80.0	20.0
Balance enquiry	9	46	16.4	83.6
Bill Payments	53	2	96.4	3.6

Agency banking in decongesting the Banking Halls

The respondents were requested to indicate whether agency banking had succeeded in decongesting the banking halls in their banks. From the findings, 70.9% of the respondents indicated that agency banking had not succeeded in decongesting the banking halls in their banks while 29.1% indicated that. This implies that agency banking had not succeeded in decongesting the banking halls in the four commercial banks.

The respondents who indicated that agency banking had not succeeded in decongesting the banking halls in their banks also indicated that many customers tend to trust coming to the banking hall for services rather than to the agents. The respondents who indicated that agency banking had succeeded in decongesting the banking halls in their banks also indicated that customers' can transact at their own convenient using agency banking.

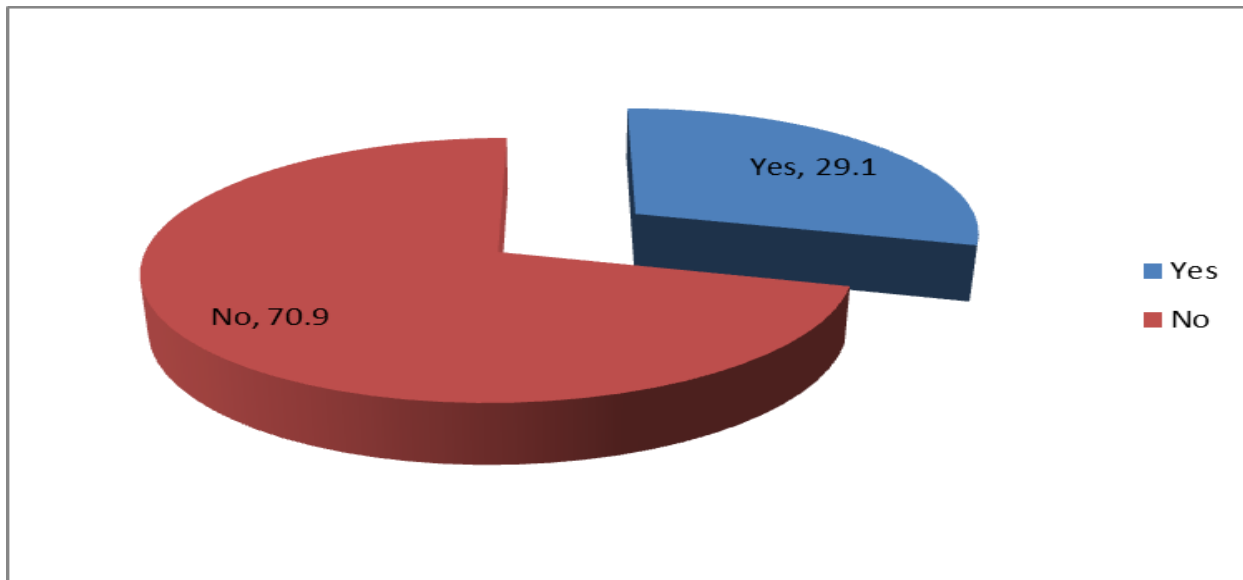


Figure 2: Agency banking in decongesting the Banking Halls

Low Transaction Cost of Agency Banking

The respondents were requested to indicate whether low transaction cost of agency banking affects the financial performance of their banks. According to the findings, 85.5% of the respondents indicated that low transaction cost of agency banking does not affect the financial performance of their banks while 14.5% indicated that it affects the financial performance of their banks. These findings imply that low transaction cost of agency banking does not affect the financial performance of the four commercial banks.

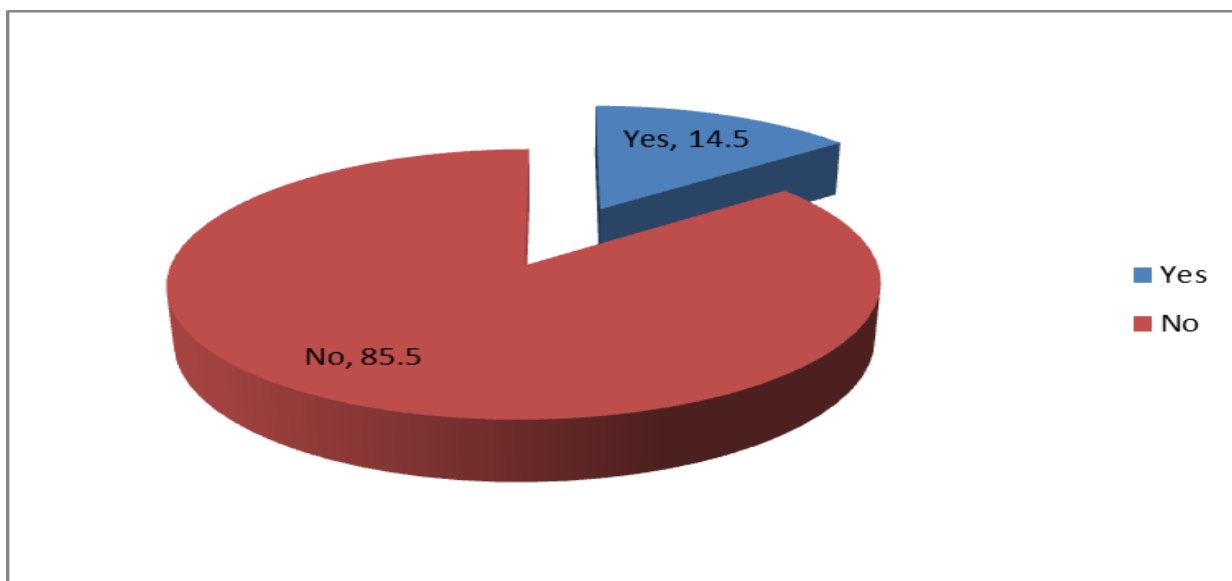


Figure 3: Low Transaction Cost of Agency Banking

Cost Involved In Agency Banking and Performance of Commercial Banks

The respondents were asked to indicate whether they believe that the cost involved in agency banking positively influence performance of commercial banks. From the findings, 81.8% of the respondents indicated that they believed that the cost involved in agency banking positively influence performance

of commercial banks while 18.2% disagreed. This shows that the cost involved in agency banking positively influence performance of commercial banks. The respondents also indicated that this was due to increased and affordable number of transactions.

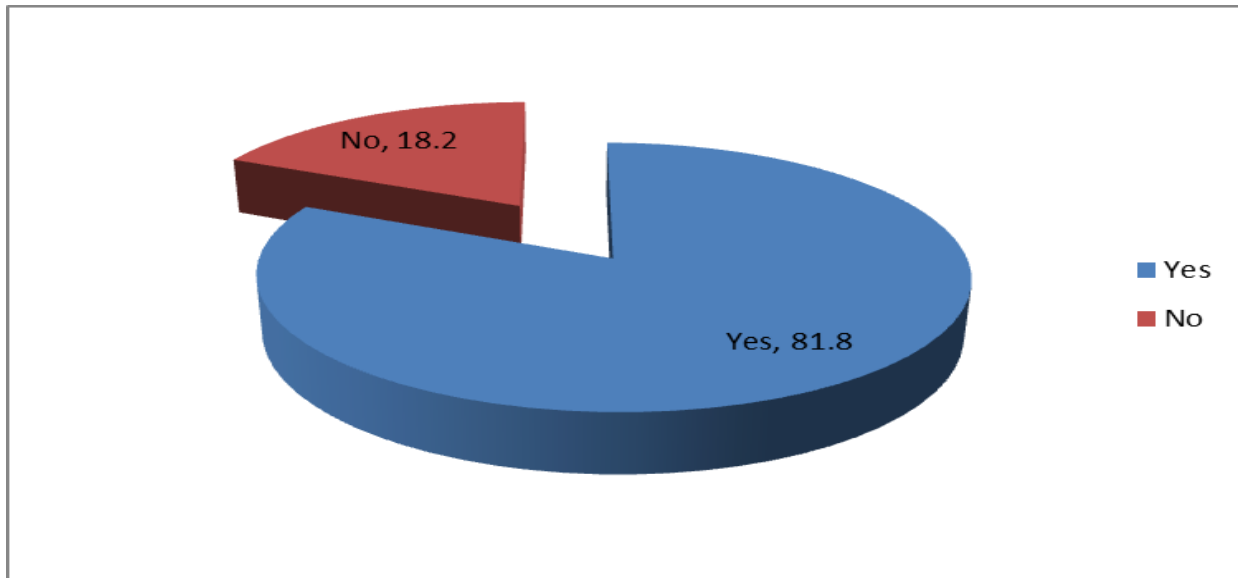


Figure 4: Cost Involved In Agency Banking and Performance of Commercial Banks

Aspects of Agency Banking

The respondents were asked to indicate their level of agreement with statements on various aspects of Agency banking in their bank. The results indicate that time spent in agency banking is low compared to the normal banking, which increases utilization by customers and hence the profitability of the bank. The results also indicate that agency banking has led to accessibility of financial service to many customers in remote areas and hence increases revenue in commercial banks. The results further indicate that accessibility of banking service through agents has led to profitability of the bank. In addition, the findings show that the cost involved in transacting at the agent location is low as compared to banking hall, which increases utilization by customers. However, the findings show that agents' prior experience with the banks customers is not positively related to both performance and survival. These findings are contrary to Ndirangu (2013) findings that there is a negative and weak correlation between number of agents, deposit and withdrawals transactions undertaken through agents and financial performance of banks as measured by return on equity. However, Ndwiga (2013) found that agency banking has positively and significantly influenced performance of commercial banks.

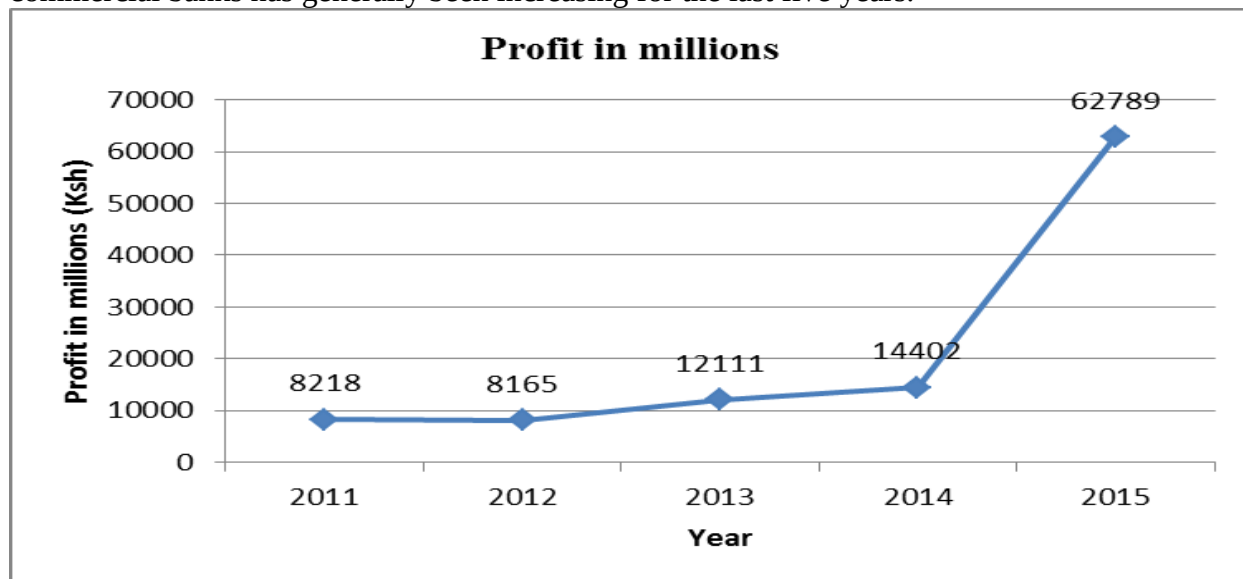
Table 3: Aspects of Agency Banking

	Mean	Std. Deviation
Accessibility of banking service through agents has led to profitability of your bank	4.236	.665
Agency banking has led to accessibility of financial service to many customer in remote areas	4.254	.725
Agents' prior experience with the banks customers is positively related to both performance and survival	2.690	.978
Time spent in agency banking is low compared to the normal banking	4.363	.648
Cost involved in transacting at the agent location is low as compared to banking hall	3.127	.746

Financial Performance

Trend of Profits for the Last Five Years

Figure 5 shows the trend of the average profit of the four commercial banks for the last five years. From the findings the average profit for the four commercial banks was Ksh. 8218 million in the year 2011. This figure decreased to Ksh. 8165 million in the year 2012 and then attained an upward trend. In the year 2013, the average profit for the four commercial banks was Ksh. 12111 million, which increased to Ksh. 14402 million and Ksh. 62789 million. This shows that the profitability of the four commercial banks has generally been increasing for the last five years.

**Figure 5: Trend of Profits**

Trend of Loans for the Last Five Years

Figure 6 shows the trend of loans and advances in the four commercial banks in the last five years. The average loans and advances in the four commercial banks in the year 2011 was Ksh. 121046 million, which increased to Ksh. 140237 million in the year 2012, Ksh. 150511 million in the year 2013, Ksh. 167856 million in the year 2014 and Ksh. 824364 million in the year 2015. This shows that the loans and advance in the four commercial banks have been increasing in the last five years.

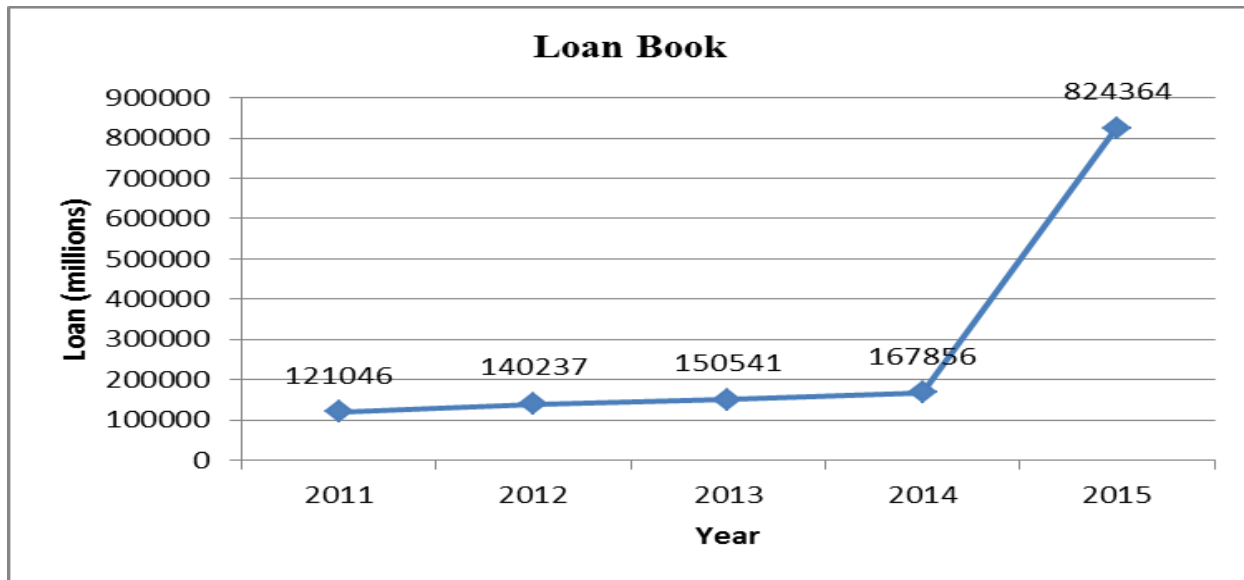


Figure 6: Trend of Loans

Trend of Capital for the Last Five Years

Figure 7 shows that trend of the average core capital in the four commercial banks for the last five years. In the year 2011, the average core capital in the four commercial banks was Ksh. 24504 million, which increased to Ksh. 25266 million in 2012, Ksh. 30855 million in 2013, Ksh. 36546 million in 2014 and Ksh. 158374 million in the year 2015. This shows that the average core capital in the four commercial banks has been increasing over the years.

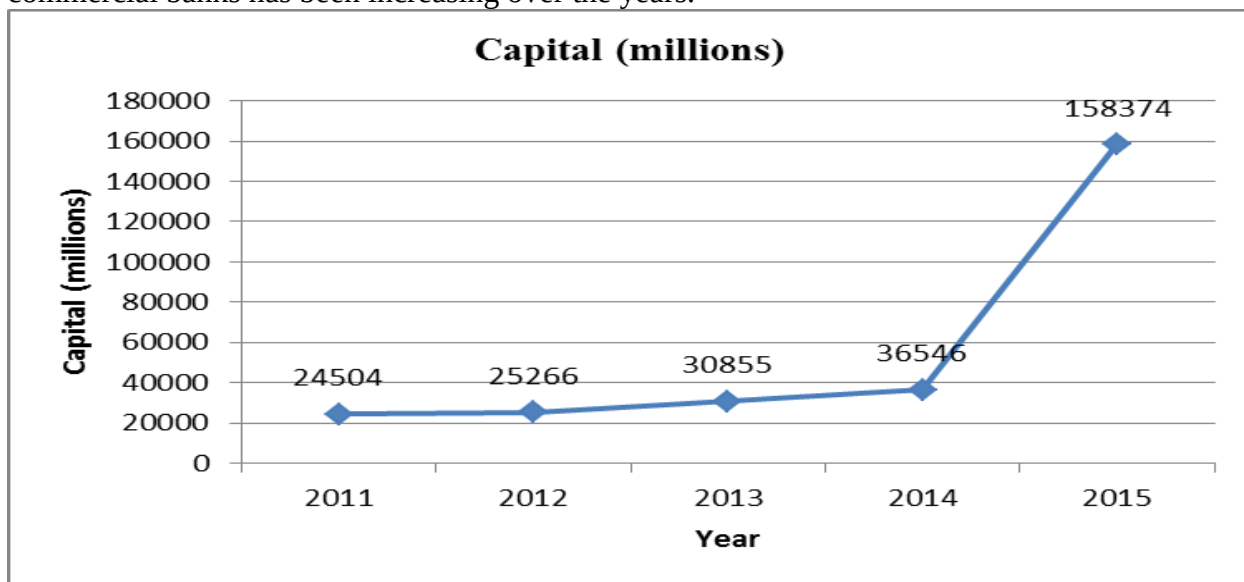


Figure 7: Trend of Capital for the Last Five Years

Regression Analysis

The study used multiple regression analysis to determine the influence of the independent variables on the dependent variable. The regression model is captured below.

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where: Y was Financial Performance, β_0 was constant term, β_1 were Beta coefficients, X_1 was Agency Banking and ε was an error term.

R represents the correlation between agency banking and the dependent variable, financial performance. Since the R was close to one, we can deduce that there is a positive correlation between the agency banking and the financial performance of commercial banks. The R-squared shows the variation in the dependent variable that can be explained by the independent variable. The R-squared in this study was 0.2830, which shows that 28.30% of the financial performance of the four commercial banks can be explained by agency banking. This also shows that 71.70% of the dependent variable can be explained by other factors not considered in this study.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.532	0.2830	0.272	0.21307	1.581

The analysis of variance is used to test whether the model is a good fit for the data. From the findings, the F-calculated (152.404) is greater than the F-critical (2.79). In addition, the p-value (0.000) was less than the significance level (0.05). This implies that the model is a good fit in predicting the influence of agency banking on the financial performance of the selected four commercial banks.

Table 5: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	31.44	1	31.440	152.404	0.000
	Residual	10.521	51	0.206		
	Total	41.961	54			

$$Y = 0.271 + 0.154X_2$$

The findings show that holding the independent variable (agency banking) constant, financial performance will be having an index of 0.271. The results also indicated that there is a positive relationship between agency banking and the financial performance of the four commercial banks. This is shown by a regression coefficient of 0.154. This implies that a unit increase in agency banking would lead to a 0.154 increase in the financial performance of the four commercial banks.

The results also indicated that the relationship between agency banking and the financial performance of the four commercial banks was significant. This is shown by a p-value of 0.014, which is less than the significance level (0.05). Thus we can reject the null hypothesis that “agency banking does not have a significance effect on financial performance of selected commercial banks”. From these findings we can infer that agency banking has a significant influence on the financial performance of the four commercial banks in Kenya. These findings are in line with Kero (2013) findings that agency banking influences the performance of commercial banks attributable to agency banking to a very great extent.

Table 6: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.271	.076		3.578	.001
Agency Banking	.154	.060	.145	2.555	.014

Discussions of the Findings

The study found that there is a positive relationship between agency banking and the financial performance of the commercial banks. These findings agree with Kenyuru (2013) findings that agency banking influences the financial performance of the commercial banks positively. Also, Kero (2013) found that agency banking is continuously improving leading to significance increased financial performance in those banks that have rolled up the service due to its convenience and efficiency in operation. The study revealed that agency banking services include cash deposits, cash withdrawal, money transfer, account opening services and bill payments services. These findings also agree with Kamau (2012) findings that number of agents, deposit and withdrawals transactions in agency banking influence the financial performance of commercial banks. The study revealed that cost involved in agency banking positively influence performance of commercial banks through increased and affordable number of transactions. These findings agree with Wawira (2013) argument that any customers at remote areas can access financial services due to agency banking which has led to profitability of commercial banks and finally that there is great potential of using agency banking for provision of banking services to unbanked community.

The study found that time spent in agency banking is low compared to the normal banking. In addition, agency banking has led to accessibility of financial service to many customers in remote areas. These findings are in line with King'ang'ai & Kigabo (2016) findings that the increasing the area covered by agents outside the country has had the effects of increasing the reach. The study revealed that accessibility of banking service through agents has led to profitability of the four commercial banks. However, agency banking had not succeeded in decongesting the banking halls in the four commercial banks. This was because many customers tend to trust coming to the banking hall for services rather than to the agents. In addition, the low transaction cost of agency banking does not affect the financial performance of the four commercial banks. However, agents' prior experience with the banks customers is not positively related to both performance and survival.

Conclusions and Recommendations

This study concludes that agency banking influences the financial performances of the four commercial banks in Kenya. The study also concludes that agency banking improves the efficiency of service delivery and increases the accessibility of financial service to many customers in remote areas. This increases the number of transaction made by customers and hence the profitability of the bank.

The study found that agency banking has not succeeded in decongesting the banking halls in the four commercial banks. This was because many customers tend to trust coming to the banking hall for services rather than to the agents. This study therefore recommends that the management of commercial banking should increase their customer's awareness on the benefits and safety of using agency banking. This can be done through print and mass media advertisements. The study found that only 15 out of 43 commercial banks in Kenya had adopted the use of agency banking. This study

suggests that academicians and other researchers should seek to establish the factors affecting the adoption of agency banking among commercial banks in Kenya.

Areas for Further Research

The study found that the agency banking could only explain 28.30% of the financial performance of the four commercial banks in Kenya. This study therefore suggests that further studies should be conducted to investigate on other factors that influence the financial performance of commercial banks in Kenya. The study found that agency banking was not decongesting banking halls in commercial banks. The study therefore suggests further studies on the relationship between agency banking and decongestion of banking halls in commercial banks in Kenya.

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