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Contribution Of Agency Banking On Financial Performance Of Commercial Banks In Kenya.

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Abstract

The revolution of information technology has influenced almost every facet of life, among them is the banking sector. Technological advancement has not only affected the way of living but has had an effect on the way people do their banking. The Kenya Bureau of Statistic Report (2011) indicates that more than 7 million adult rural Kenyans are either under-banked or unbanked. This is partly because of the high cost of maintaining the bank branches and the low nature of business transactions in rural Kenya - a situation which makes opening of new branches in the rural areas a less productive venture. Technology has therefore created greater opportunities to service providers to offer great flexibility to the customers. Agent banking involves a number of technologies in order for the financial institutions to keep track of the transactions done by the retail outlet. This study was guided by counsels of previous researches undertaken abroad in an effort to find out the contributions of agency banking on financial performance of the commercial banks in Kenya. This study adopted a descriptive survey. The study found that the move by the central bank to regulate agency banking had a positive influence on the financial performance of commercial banks in Kenya. The study also found that low transaction cost through agency banking had a positive impact on the financial performance of commercial banks in Kenya. The study found that financial services accessibility by customers through baking agencies had a positive impact on financial performance of commercial banks in Kenya. The study found that increased market share had a positive effect on the financial performance of commercial banks with many banking institutions indicating that increased market share allowed a company to achieve greater scale in its operations which generally improved its profitability.

Keywords: Agency banking, financial innovation, financial performance

1. Introduction

The revolution of information technology has influenced almost every facet of life, among them is the banking sector. The introduction of electronic banking has revolutionized and redefined the way banks were operating. As technology is now considered as the main contribution for the organizations' success and as their core competencies. So the banks, be it domestic or foreign are investing more on providing customers with the new technologies through mobile banking.

Technological advancement has not only affected the way of living but has had an effect on the way people do their banking. The last decade, has seen an incredible upsurge in mobile penetration in the developing world. However of great interest is that while the mobile phone offers several features including the possibility of mobile banking, almost half of the world populations have either failed to embrace mobile banking and financial services or they have been deprived of the same. Back in Kenya the scenario is no better. Astonishingly half of the Kenyan populations especially the rural folk do not have a clue on mobile banking. However, the outreach of the mobile banking sector has been found to vary across country (Ivatury& Mas, 2008).

The Kenya Bureau of Statistic Report (2011) indicates that more than 7 million adult rural Kenyans are either under-banked or unbanked. This is partly because of the high cost of maintaining the bank branches and the low nature of business transactions in rural Kenya - a situation which makes opening of new branches in the rural areas a less productive venture. At yet another level mobile technology has substantially penetrated rural Kenya and is likely to be on an upward trend in the near future. Banks and other financial institutions which have traditionally relied on physically established branches to provide banking services are now gearing towards the adoption of mobile banking services (MBS) as a form of branchless banking. This has the consequence of lowering cost of banking. Technology has therefore created greater opportunities to service providers to offer great flexibility to the customers. To this end banks are fast developing branchless banking such as ATM, internet and mobile banking among others (Laukkanen&Pasanen, 2007).

2. Agency Banking

Agency banking refers to contracting of a retail or postal outlet by a financial institution or a mobile network operator to process bank clients' transactions. It is different from a branch teller, since it is the owner or an employee of the retail outlet who conducts the transactions, ranging from: deposits, withdrawals, funds transfers, bill payments, account balance inquiry, receiving government benefits or direct deposits from employers. Banking agents may include: pharmacies, supermarkets, convenience stores, lottery outlets and post offices (CGAP, 2006). 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 utilizing corner stores, Brazil making use of lottery outlets to provide financial services, Kenya pioneering the mobile financial services, Nigeria, South Africa and the Philippines (Siedek, 2008).

Retail outlets are forced to extend their limited sources of financing in a bid to meet the regulations so as to fulfill the legal requirements necessary to operate as banking agents. Such requirements usually involve having a specific level of capital investment to assure the regulators of the sustainability of the venture. Inability of the retail outlets to fulfill these requirements prevents the expansion of retail banking to areas of low income earners. Unless the tight regulations are eased, few retail outlets would be able to meet the standards required by the policy makers (Ivatury& Lyman, 2006). Financial institutions can only be allowed to work through retail outlets if the laws permit it. Regulators determine what kind of, if any, financial institutions are permitted to contract banking agents, what products can be offered at the retail outlets, how financial institutions have to handle financial transactions and all aspects regarding the operation of agency banking. Without the approval of the lawmakers, agent banking would not be operational. Lawmakers also provide guidelines and alterations of the policies regarding operation of agent banking from time to time, which necessitates the banking agents to change their operations to be in line with the prevailing laws of the land (Ivatury& Mas, 2008). Without the support of the regulatory authorities, agent banking would not be facilitated. For example, the Filipino government's commitment to extending financial services to unbanked low-income populations has immensely contributed to making the Philippines a world leader in branchless mobile banking services (Seltzer, 2010).

Agent banking involves a number of technologies in order for the financial institutions to keep track of the transactions done by the retail outlet. These technologies include: point-of-sale (POS) card readers, mobile phones, barcode scanners to scan bills for bill payment transactions, Personal Identification Number (PIN) pads, and personal computers (PCs) that connect with the financial institution's server using a personal dial-up or other data connection. All these technologies require expertise and capital investment in acquiring the technological equipment which is a challenge to the retail outlets that have limited capital (Ivatury, 2006).

3. Statement of the Problem

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 promote innovation through mobile financial services and to address the delivery channel costs through increased use of agent banking (Central Bank of Kenya, 2010). Kenya has experience with both bank-based and nonbank-based agent banking models. In order to speed up the development of the agent banking in Kenya, the CBK made use of a knowledge exchange Programme supported by the Alliance for Financial Inclusion (AFI). In terms of branchless banking, Kenya is probably best known for its M-PESA mobile phone-based payment service. The 2010 agent banking guidelines allowed banks to start working in partnership with non-bank based models.

In Kenya agent banking has seen dramatic expansion in very many countries all over the world including Kenya. With agency banking, low-income people no longer need to use scarce time and financial resources to travel to distant bank branches. And since agency banking transactions cost far less to process than transactions at an automated teller machine (ATM) or branch, banks can make a profit handling even small money transfers and payments (Booz, 2003). The adoption of agency banking is mainly geared to improve on market share by attracting and retaining their customers, improving their financial performance and create variety of services. To this end, it is not clear whether the adoption has led to increase in market share and financial performance. This study therefore aimed at assessing the contribution of agency banking on financial performance of commercial banks in Kenya.

Despite the relevance of the agency banking in the commercial banks gaining competitiveness and enhancing financial performance, there has been limited research conducted locally specifically on the contribution of agency banking on commercial banks' financial performance. Most of the studies reviewed were done abroad and according to Aosa (1992), it's not right to import the wholesome results of a research without taking into account the contextual differences and hence the needs to carry out local research in order to understand better the problem. This study intends to be guided by counsels of previous researches undertaken abroad in an effort to find out the effect of agency banking on financial performance of the commercial banks in Kenya. The main objective of the study was to determine the contributions of agency banking on financial performance of commercial banks in Kenya.

4. Literature Review and Theoretical Framework

Theories of branchless banking can be classified into three broad categories: Bank-focused theory, Bank-led and Nonbank-led theory.

4.1 Bank-led Theory

In the most basic version of the bank-led theory of branchless banking, a licensed financial institution (typically a bank) delivers financial services through a retail agent. That is, the bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction (Lyman, Ivatury and Staschen, 2006). 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 (Owens, 2006). In some countries, retail agents also handle all account opening procedures and, in some cases, even identify and service loan customers. Virtually any outlet that handles cash and is located near customers could potentially serve as a retail agent. Whatever the establishment, each retail agent is outfitted to communicate electronically with the bank for which it is working. The equipment may be a mobile phone or an electronic point-of-sale (POS) terminal that reads cards.

Bank-led model offers a distinct alternative to conventional branch-based banking in that customer conducts financial transactions at a whole range of retail agents instead of at bank branches or through bank employees (Lyman, Ivatury and Staschen, 2006). 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 (Tomášková, 2010).

Agents Related Risks arise from substantial outsourcing of customer contact to retail agents. From a typical banking regulator's perspective, entrusting retail customer contact to the types of retail agents used in both the bank-led and nonbank-led models would seem riskier than these same functions in the hands of bank tellers in a conventional bank branch. These retail agents may operate in hard-to reach or dangerous areas and they lack physical security systems and specially trained personnel. The lack of expert training may seem a particular problem if retail agents' functions range beyond the cash-in/cash-out transactions of typical bank tellers to include a role in credit decisions (State Bank of Pakistan, 2011). 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 (Kumar, et al. 2006).

The bank lead theory is related to the study as it focus on how financial institution like bank 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 . For example; Family bank of Kenya distributes it financial product through it Pesa pap agent, where the agent 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 .

4.2 Nonbank-led Theory

In this theory 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 (Kumar, et al. 2006). 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. 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 (Kapoor, 2010).

According to Hogan (1991) 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 (State Bank of Pakistan, 2011). The Nonbank-led Theory is found relevant to the study as it explain how agent deals with customers on behalf of the bank.

4.3 Bank-focused Theory

The bank-focused theory emerges when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers. Examples range from use of automatic teller machines (ATMs) to internet banking or mobile phone 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 conventional branch-based banking. Although the bank-focused model offers advantages such as more control and branding visibility to the financial institutions concerned, it is not without its challenges. Customers' primary concerns are to do with the quality of experience, security of identity and transactions, reliability and accessibility of service and extent of personalization allowed. Banks address these issues by providing a branchless banking service with an easy to use interface, made secure with the help of multi-factor authentication and other technology, capable of running uninterrupted 365 days a year (Kapoor, 2010).

The bank-focused theory emerges when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers. With the use of agent family bank achieves economies of scale by serving many customers at low cost, this is therefore related to the study as Family bank utilizes Pesa pap agents for low cost delivery of its financial services.

5. Empirical Review

5.1 Central Banks Regulation

According to a report by CGAP (2010), policymakers around the world seek to encourage the provision of financial services to the unbanked and under-banked poor, they implement regulatory frameworks that enable the spread of low-cost branchless banking while at the same time protect consumers against fraud. This is a difficult balance to strike, particularly when it comes to regulating agents, which typically play a crucial role in receiving and dispensing cash on behalf of the financial service provider (CGAP, 2010). World Bank report (2010) indicates that branchless banking is only allowed to be undertaken by licensed deposit-taking financial institutions (bank and non-bank) or their agents. Furthermore, all customers of financial institutions (FIs) undertaking branchless banking activities must be uniquely identified. In each case customer account relationship must reside with some FI and each transaction must hit the actual customer account. All FIs and their agents must comply with the Anti-Money Laundering Act (2008) as well as the international standards set by the Financial Action Task Force (World Bank, 2010).

According to World Bank (2010), it is a regulatory requirement that adequate customer due diligence, on the spirit of (KYC) be undertaken on all new accounts and on one-off cash transactions over designated thresholds. This requires identifying the customer and verifying the customer's identity: - Financial service providers to keep detailed transaction records for at least five years; Financial institutions to report suspicious transactions promptly to the AML/CFT authority (World Bank, 2010)

A study Conducted by Bold (2011) in Brazil found that some countries restrict the location of agents, though such restrictions are sometimes eased when regulators recognize that the regulations create obstacles to financial inclusion. For example, due to concerns that agents could threaten bank branches, Brazilian regulation originally allowed agents only in municipalities that did not have bank branches (Bold, 2011). Bold (2011) also found that Indian regulators initially required agents to be located within 15 kilometers of a "base branch" of the appointing bank in rural areas, and within 5 kilometers in urban areas. This policy, intended to ensure adequate bank supervision of its agents, limited the use of agents by banks with only a few branches (Bold, 2011). Experience has shown that overly restrictive location requirements can complicate the business case for viable agent-based banking and ultimately work against financial inclusion goals. In addition, the real-time nature of most agent services has enabled remote supervision, thereby obviating one of the central arguments for location restrictions (Tarazi and Breloff, 2011).

Tarazi and Breloff, (2011), revealed that regulations often impose some form of "fit and proper" requirements, mandating a form of agent due diligence that requires financial institutions to verify that would-be agents have good reputations, no criminal records, and no history of financial trouble or insolvency. While fit-and-proper criteria listed in regulation often are not problematic, providers and agents have occasionally argued that compliance with particular details can impose significant cost, particularly with respect to gathering documentation (Tarazi and Breloff, 2011). Central banks regulations on agency banking hamper the growth of agency banking, these regulations slows down the penetration of the agency banking which negatively affect the performance of commercial banks. Central Bank has stringent regulations on agency banking which slow down the growth of agency banking in Kenya thus affecting the performance of commercial banks in Kenya.

5.2 Low Transaction Cost

According to Arora and Ferrand, (2007), access to Finance is critical for sustainable economic growth and social development. Financial inclusion empowers low income people and marginalized sectors of society to actively participate in the economy, which leads to increasing employment and decreasing poverty levels (Arora and Ferrand, 2007). Apart from increasing access to those excluded from financial services and reducing reliance on informal financial sources such as Accumulating Savings and Credit Associations (ASCAs), Rotating Savings and Credit Associations (ROSCAs) and shylocks, agent banking has reduced the need for more staff and branches to reach customers (Arora and Ferrand, 2007).

Bean, (2009), states that agent banking has reduced cost and enhanced efficiency in the financial sector with a possibility and availing financial services at much lower cost to consumers (Bean, 2009). It has also increased the ease of banks' expansion hence outreach to far flung market pockets of bankable populations (Bold, 2011). Agent banking means commercial outlets like shops and supermarkets acting in some capacity on behalf of formal banks (Hogan, 1991).

5.3 Financial Service Accessibility

Arora and Ferrand, (2007), reveal that technology adoption especially, in banking systems has shown a great momentum and spread at an unbelievable pace across the world. Considering the importance of banking system's high presence and affordability, there is great potential of using this in agent banking for provision of banking services to unbanked community (Arora and Ferrand, 2007). However, technology systems have associated data and network security risks which make them susceptible for conducting financial transactions. Technology risks regarding information and data security based on applicable models of agent banking have been reported thus creating uncertainty to the clients (Owens, 2006).

Owens, (2006), states that financial institutions are required to plan and act for long term development and prosperity of their agents for them to reach the targeted customers at a set population. This requires close coordination/collaboration with agents; providing them opportunities to learn more, to become more efficient and; a fair pricing mechanism for the services provided by the agents (Arora and Ferrand, 2007). As the technology changes rapidly, banks have been greatly affected in its operation, whereby application of the technology ensures quick and effective services to the clients. However, banking agents do not change their system as frequent often leading to system failure and the consequent delays in transaction execution (Lyman, et al., 2008). This leads to customer inconvenience and trust over the security/safety of transaction lodged with agent banks. Moreover, these constant systems failure makes transactions with banking agents vulnerable to fraud.

5.4 Size by Market Share

Market share is the percentage of an industry or market's total sales that is earned by a particular company over a specified time period. Market share often is associated with profitability and thus many firms seek to increase their sales relative to competitors. Market share is calculated by taking the company's sales over the period and dividing it by the total sales of the industry over the same period. This metric is used to give a general idea of the size of a company to its market and its competitors. Market share increases can allow a company to achieve greater scale in its operations and improve profitability. Companies are always looking to expand their share of the market, in addition to trying to grow the size of the total market by appealing to larger demographics, lowering prices, or through advertising.

Investors look at market share increases and decreases carefully because they can be a sign of the relative competitiveness of the company's products or services. As the total market for a product or service grows, a company that is maintaining its market share is growing revenues at the same rate as the total market. A company that is growing its market share will be growing its revenues faster than its competitors. Additionally, market share is considered as a profitability determinant under the assumption that firms will obtain a bigger market share and increase their profitability due to their greater efficiency. A bigger market share also means more power to the bank in controlling the prices and services it offers to ties customers. Heggested and Mongo (1976) found that the greater the market share, the greater is a bank's control over its prices and the services it offers. Heggested (1977) and Mullineaux (1978), however, found that market share had an adverse relationship with profitability.

Short (1979) believed that some banks might sacrifice current profits by growing at a faster rate or expanding their market share with the intention of earning more profits in the future. He used the growth of assets rate as a proxy for measuring the effect of market share on profitability and found that growth of assets did not have a significant effect on profit. Smirlock (1985) not only believed that market share influenced profitability but that

growth in the market created more opportunities for a bank and thus generated more profits. His findings indicated that growth had a significant positive relationship with profits.
According to the Central Bank Annual Supervision report (2006), employment on the banking sector rose by 23%. The report attributes this due to the expansion of the institutions branch network and expanded business volume. The human resource factor is measured by the number of employees in the institution as per the Central Bank of Kenya. Agency banking has lead to increase in financial service penetration which has led to increase in market share for commercial banks using agency banking.

5.5 Research Gap

Access to Finance is critical for sustainable economic growth and social development. Financial inclusion empowers low income people and marginalized sectors of society to actively participate in the economy, which leads to increasing employment and decreasing poverty levels (Bold, 2011). Apart from increasing access to those excluded from financial services and reducing reliance on informal financial sources such as Accumulating Savings and Credit Associations (ASCAs), Rotating Savings and Credit Associations (ROSCAs) and shylocks, agent banking has reduced the need for more staff and branches to reach customers (Arora and Ferrand, 2007). Agent banking has reduced cost and enhanced efficiency in the financial sector with a possibility and availing financial services at much lower cost to consumers (Bean, 2009). It has also increased the ease of banks' expansion hence outreach to far flung market pockets of bankable populations (Bold, 2011). Previous studies mainly in developed countries like U.S.A and Britain shows the essence of agent banking to an economy, despite this there has been no empirical study that has been undertaken in Kenya to establish the contributions of agency banking on financial performance of commercial banks in Kenya.

6. Research Methodology

This study adopted a descriptive survey. Descriptive survey research design is a scientific method which involved observing and describing the behavior of a subject without influencing it in any way (Bryman, 2001).The target population of the study was 9 Commercial Banks offering agency banking in Kenya (Appendix I).Census was employed to select 4 senior managers from each bank thus forming a sample size of 36 respondents who were used in this study.

Primary data will be collected for this study. Primary data was collected by administering a semi-structured questionnaire. This type of questionnaire used both closed and open-ended questions. Closed questions had predetermined answers and usually collect quantitative data while open-ended questions give the respondents free will to answer and usually collect qualitative data. The researcher used Likert scale questionnaire to ensure collection of data from many respondents within a short time and respondents are free to give relevant information because they are assured of their anonymity (Mugenda and Mugenda, 2003).
The study also used ANOVA to test the level of significant of the variables on the dependent variable at 95% level of significance. In addition, the study conducted a multiple regression analysis.
The regression equation was:

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon$

Whereby Y = Financial Performance, X1= Central Bank Regulation, X2= Low transaction Cost, X3= Financial Service Accessibility and X4= Market Share, while β1, β2, β3 and X4 are coefficients of determination and ε is the error term.

7. Results Presentation and Analysis

8. Regression Analysis

Table 1.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.808(a)	.653	. 633	.69440

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable, from the findings in the above table the value of adjusted R squared was 0.633 an indication that there was variation of 63.6% on the financial performance of commercial banks due to changes in central bank regulation, low transaction cost, financial service accessibility and market share at 95% confidence interval . This shows that 63.6% changes in financial performance could be accounted to changes in central bank regulation, low transaction cost, financial service accessibility and market share. R is the correlation coefficient which shows the relationship between the study variables. From the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.691.

Table 1.2: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Constant	.455	.231		1.973	.106
	Central Bank Regulation	.016	.009	.444	1.815	.009
	Low transaction cost	.182	.050	1.231	3.616	.036
	Financial service accessibility	.153	.017	1.075	3.159	.025
	Market Share	.204	.240	.230	.850	.028

From the data in the above table the established regression equation was
$Y = 0.455 + 0.016 X_1 + 0.182 X_2 + 0.153 X_3 + 0.204 X_4$
From the above regression equation it was revealed that holding central banks regulation, low transaction cost, financial service accessibility and market share to a constant zero, financial performance would be at 0.455. A unit increase in central banks regulation would lead to increase in financial performance by a factor of 0.016, a unit increase in low transaction cost would lead to increase in financial performance by a factor of 0.182, a unit increase in financial service accessibility would lead to increase in financial performance by a factor of 0.153 and unit increase in market share would lead to increase in financial performance by a factor of 0.204.

The study targeted a sample size of 36 respondents from which 35 filled in and returned the questionnaires making a response rate of 97.2%. This response rate was satisfactory to make conclusions for the study.The study found that majority of the respondent (62.86%) were male whereas 37.14% of the respondent were female, this is an indication that both genders were involved in this study and thus the finding of the study did not suffer from gender bias.

From the analysis the study established that Central Bank regulation on agency banking indeed affects the financial performance of commercial banks in Kenya to a great extent. The study further reveled that, responders were of the wish that the Government of Kenya should allow scope for different means of compliance so as not to unduly restrict market participants from launching new financial products and services. CBK should efficiently maintain confidence in the financial system. It is the responsibility of CBK to protect consumers of financial services and reduce financial crime. The Kenyan government should hold banks liable for the conduct of their agents and finally that CBK should promote public understanding of the financial system.

The study sought further reveled that low transaction cost of agency banking affects the financial performance of commercial banks in Kenya top a great extent. It was revealed that; the costs involved in agency banking positively influence performance of commercial banks. Agents prior experience with the banks customers is positively related to both performance and time spent in agency banking is low compared to the normal banking and also the cost involved in transacting in agency banking was low compared to banking hall. The study further revealed that favorable transaction cost within banking agencies compared to the main bank branches acted as a lock in strategy where majority of the customers preferred using local banking agencies thereby ensuring the sustainability of the local agency banking which contributed improved performance.

The study established that financial services accessibility through agency banking affects the financial performance of commercial banks in Kenya to a great extent. Further it was revealed that; agency banking adoption in banking systems has shown a great momentum and spread at an unbelievable pace across the world which has increased the accessibility of financial services, agency banking has led to accessibility of financial service to many customer in remote, accessibility of banking service through agency banking 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 further established that agency banking 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. Further it also increased distribution channels to offer financial services hence improving overall performance of the organization.

The study established that market share through agency banking affects the financial performance of commercial banks in Kenya to a great extent. The study further revealed that the greater the market share, the greater is a bank’s control over its prices and the services it offers. Market share increases can allow a company to achieve greater scale in its operations and improve profitability. Banks are always looking to expand their share of the market through agency banking. A bigger market share also means more power to the bank in controlling the prices and services it offers to its customers and finally that market share often is associated with profitability and thus many firms seek to increase their sales relative to competitors.

9. Discussion of Major Findings

From the findings and summary the study concludes that the move by the central bank regulate agency banking had a high positive influence on the financial performance of commercial banks in Kenya. Central Bank regulation helped to promote efficiency and confidence in the financial system thus winning public trust.

The study also concludes that low transaction cost through agency banking had a positive impact on the financial performance of commercial banks in Kenya with many of the baking institution recording high amount of deposits and thus creation enough pool of for willing investors to borrow.

The study further concludes that financial services accessibility by customers through banking agencies had a positive impact on financial performance of commercial banks in Kenya with many of the banking institutions indicating that agency banking had made it easier for them to reach out to many potential clients without investing so much in opening branches hence it's a cost effective measure.

The study concludes that increased market share had a positive effect on the financial performance of commercial banks with many baking institutions indicating that increased market share allowed a company to achieve greater scale in its operations which generally improved profitability.

10. Recommendations

From the summary and conclusions the study recommends that Central Bank should consider coming with a clear agency banking regulatory policy which creates a universal platform for all banking institutions. This will enhance fair market completion and thus barring financial institutions from customer exploitation. The study recommends that the financial institutions should continue offering low transaction rates within their local agency points. This will lure customers to adopt this as a culture thus ensuring the future sustainability of the agency banking system.

The study recommends that the banking institutions should considered intensifying the agency banking network which will ensure services accessibility by customers and thus improving financial performance.

Finally the study recommends that banking institutions should consider coming up with lock in strategies for the already captured market. This will award more power to the bank in controlling the prices and services it offers to its customers.

11. Areas For Further Research

The study sought to determine the contributions of agency banking on financial performance of commercial banks in Kenya. The study recommends that a study should be done on the challenges facing the adoption of agency banks by commercial banks in Kenya.

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Appendix I: Commercial Banks in Kenya Offering Agency Banking

1. Consolidated Bank of Kenya Ltd
2. Co-operative Bank of Kenya Ltd
3. Equity Bank Ltd
4. Chase Bank Kenya Ltd
5. Family Bank Ltd
6. Kenya Commercial Bank Ltd
7. Diamond Trust Bank Kenya Ltd
8. National Bank of Kenya
9. Post Bank