EFFECT OF AGENCY BANKING ON THE PERFORMANCE OF COMMERCIAL BANKS IN KENYA: CASE OF MACHAKOS COUNTY, KENYA

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ABSTRACT

Technological advancements has not only affected the way of living but has had an effect on the way people do their banking. Technology has therefore created greater opportunities to service providers to offer great flexibility to customers. Agency banking involves the use of a number of information technologies. This study utilized a descriptive survey. The population of the study was 5 Commercial Banks offering agency banking in Machakos County, where the respondents of the study were the employees of the respective banks and the agents operating the outlets. The sample of the study was 150 respondents where 115 were the employees of the respective banks and 35 the agents. Primary data was collected by administering a semi-structured questionnaire and an interview. Quantitative data was gathered and the information was presented through the use of bar charts, graphs and pie charts. Content analysis was applied to test qualitative data. The study revealed that agency banking regulations negatively affects performance of commercial banks in Kenya. The study established that agency banking staff skills and competencies positively affects performance of commercial banks in Kenya. The study found that marketing strategies used in agency banking positively affects the performance of commercial banks in Kenya. The study revealed that agency banking monitoring and evaluation positively affected performance of commercial banks in Kenya. The findings of this study will help other financial institutions to understand the effects of agency banking on commercial banks performance as well as attain the goal of financial Inclusion. The study recommends that the banking institutions should consider intensifying the agency banking network as this will ensure financial inclusion.

Key words: Agency banking regulations, marketing strategies, skills and competencies, monitoring and evaluation, performance of commercial banks.
INTRODUCTION

This section gives the background information to the study, the statement of the research problem, objectives of the study, scope of the study, limitations of the study and the importance of the study. The revolution of information technology has influenced change in almost every aspect of life, among them the provision of financial service in the banking sector. The introduction of e-banking has changed and redefined the ways banks were operating in traditional banking system. In the Banking Industry technology is now considered as key contributor for the banks’ success and as way of gaining competitive advantage. Commercial banks both in domestic and foreign market are investing heavily on mobile technology. 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. It is observed that half of the Kenyan population and the rural population in particular do not have a clue of mobile banking. Nevertheless, 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. 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).
Agency Banking

Agency banking is contracting of retail or postal outlets by commercial banks or a mobile network operator to process bank clients’ transactions away from the normal banking hall. Banking agents include; supermarkets, pharmacies, lottery outlets, convenience stores 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. 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. Without the support of the regulatory authorities, agency banking would not be facilitated. For example, the commitment of Filipino to extend financial services to unbanked low-income populations has largely contributed to making the Philippines a world leader in branchless mobile banking services (Ivatury & Mas, 2008; Seltzer, 2010).

Agency banking involves the use of a number of technologies to enable the financial institutions to keep track of the financial transactions done by their agents, the technology. All these technologies need expertise and capital investment in obtaining the technological equipment which is a difficult task to the retail outlets that are limited in capital (Ivatury, 2006).
Performance of Banking sector in Kenya

Financial performance is an independent measure of how business utilizes its assets from its core business and generate revenues from them. (Mido, 2006). Quantitative measures of business performance include profitability measures for instance gross margin, net margin for example return on equity, return on equity less cost of equity, return on capital employed, economic value added, return on sales; cash flow measures such as free cash flow over sales; and growth measures such as 1-, 3-, and 5-year historical revenue growth. Previous studies normally measure accounting rates of return, they include; Return on capital (ROC), return on Investment (ROI), return on sales (ROS) and return on assets (ROA). The idea behind business performance measures is possibly to evaluate how well management manages the assets to generate revenue per unit of investment, assets or sales (Donaldson & Preston, 1995).

Commercial Banks in Kenya

Currently there are 43 licensed commercial banks in Kenya. Commercial banks account for much of the total deposit in the country. The banks that dominate the commercial banking sector in Kenya are: Kenya Commercial Bank, Barclays Bank, National Bank of Kenya Ltd, Standard Chartered Bank, Equity bank and Cooperative Bank of Kenya have also opened many branches in most areas of the country. These banks engage in the general banking system although some smaller banks tend to be rather specialized in domestic trade and others in import and export finance facilities offered by Kenya Commercial Banks (www.centralbank.go.ke).

All mainstream banks have introduced Mobile phone banking services in an effort to reach more customers at a relatively lower cost. Central Bank of Kenya (CBK) recognizes that financial inclusion is a challenge which the country faces. These challenges include the distance to bank branches in remote areas and the cost of financial services. As part of the approach of addressing these challenges, promoting innovation through such means as mobile financial services and to increase use of agency banking to address the delivery channel costs through (Central Bank of Kenya, 2010a). Kenya has
experience with and both nonbank-based agency banking and bank-based models. So as to speed up the development of the agency banking in Kenya, the CBK applied a knowledge exchange programme reinforced by the alliance for financial inclusion (AFI). With regard to branchless banking, Kenya is probably best known for its M-PESA mobile

LITERATURE REVIEW

This section presents the review of existing literature on effects of agency banking on financial performance of commercial bank, specifically it explore the theoretical review, empirical review and research gaps to be filled.

Theoretical Review

Agency banking epitomizes a new distribution channel that allows commercial banks and other financial institutions to provide financial services outside traditional bank halls. A wide range of Agency banking models is evolving (State Bank of Pakistan, 2011). This study was based on the following theories: bank focused theory, nonbank-led and bank-led theories.

Bank-Led Theory

In the bank-led theory of agency banking, a licensed commercial bank delivers financial services to its customers through a retail agents, this is where the bank develops various financial products and services which are distributed through retail agents who cater for all or most customer interaction (Lyman, Ivatury and Staschen, 2006). In the Bank led theory the bank is the main provider of financial services and is the organization in which customers maintain their accounts (Owens, 2006).

From some countries retail agents are authorized by the bank to cater for all account opening procedures for customers and even service and identify loan for customers. Nearly any outlet that involves cash and is positioned close to the customers could possibly serve as a retail agent for the bank. In all the case, the retail agent is prepared to communicate electronically with the bank for which he/she is working for. The
equipment for agency banking may be an electronic point-of-sale (POS) terminal or mobile phone that reads customers cards. Bank-led theory provides the best alternative to original branch-based banking in that customer transacts at a whole array of retail agents instead of bank branches or aided by bank employees (Lyman, Ivatury and Staschen, 2006).

This model offers the potential to greatly increase the financial services dissemination by using a different trade partner (Chain Store) having experience and target market different from traditional banks and a different distribution channel (retailers/ mobile phones) is relatively cheaper than the branch bank option. In this bank led theory customer account relationship rests with the bank (Tomášková, 2010). In this theory the agent’s related risks arise from significant subcontracting of customer contact to retail agents. From the banking sector regulator perspective, putting trust on retail customer contact to retail agents used in both the nonbank-led and bank-led theory appears more precarious than these same functions being conducted by bank tellers in a conventional banking. Some retail agents operate in dangerous areas or hard-to reach and they have inadequate physical security systems and trained employees. Inadequate expert training is a problem if retail agents’ functions go beyond the cash-in/cash-out transactions of conventional bank tellers to take in a role in credit decisions (State Bank of Pakistan, 2011). Banking regulation normally recognizes multiple classifications of risk that supervisors and bank regulators attempt to address, they include, operational risk, legal risk, credit risk, reputation risk and liquidity risk, for example of a special significance is when customers apply retail agents instead of bank branches to access services in banking (Kumar, et al. 2006). The bank lead theory is related to the study as it focus on how commercial banks deliver financial services to their customers through retail agents, where the bank is mandate to develops various financial products and services, which are distributed through retail agents who handle majority of customer interaction.
Nonbank-led Theory

In the nonbank led theory, the customer does not contend with a bank, nor do they have a bank account, customers take their dealings with a Non-Bank institution, like a prepaid card issuer or mobile network operator and retail agents, who serve as the point of customer contact. In this theory customers exchange their cash for electronic money, which is stored in a virtual electronic account on the non-bank’s server, where the server are not connected to the bank and is not connected to any bank account in the name of the customer’s (Kumar, et al. 2006). Nevertheless the non-bank theory is more viable after regulators have increased sufficient capability in alleviating agent related risks using bank led theory and need to think about alleviating only electronic money related risks (Kapoor, 2010). In order to avoid insolvency, these institutions may be necessary to deposit their net electronic-banking excess funds with scheduled banks attaining certain

Empirical Review

The importance of the financial system is their presence and affordability. In this regard there is potential of using agency banking to enhance financial inclusion to the unbanked community (Arora and Ferrand, 2007). Technology systems have been associated with data and network security risks which make them vulnerable for conducting financial transactions. Technology risks related to customer’s information and information security associated with agency banking has been reported therefore creating doubt to the customers (Owens, 2006).

Agency Banking Regulations

According to a report by CGAP (2010), policymakers around the world need to design policies aimed at increasing provision of financial services to the under-banked and unbanked poor people, they need to implement policy frameworks that enable the spread of cost-effective branchless banking while at the same time protecting customers against fraud. This seems a hard balance to strike, especially when it comes to regulation of agents, who typically play a vital role in the financial transaction on behalf of commercial
banks (CGAP, 2010). According to World Bank Report (2010), agency banking is regulated to take place under licensed deposit-taking financial institutions (non-bank and bank) or their agents. Moreover, all financial institutions (FIs) undertaking agency banking activities are required to be uniquely recognized. In all the case, customer account relationship must reside with the commercial banks and each customer transaction must be reflected in actual customer account. Commercial Banks and their agents must adhere with the Anti-Money Laundering Act (2008) as well as the international standards set by the Financial Action Task Force (World Bank, 2010). The provider of financial services should keep detailed transaction records for at least five years; commercial banks should report any doubtful transactions promptly to the AML/CFT authority (World Bank, 2010)
Bold (2011) observed that some countries limit the location of agents, though such limitation are sometimes removed when regulators recognizes that such regulations create hindrances to financial inclusion. For example, in Brazil the regulator initially allowed agents only in municipalities that did not have any bank branches, which was aimed at easing competition between agents and banks branches. The policy was intended to enhance supervision of agents by the bank; this policy restricted the use of agents by banks with only a few branches (Bold, 2011). Experience has shown that excessively restraining location requirements complicate agency banking business for feasible agent-based banking and eventually work against financial inclusion goals (Tarazi and Breloff, 2011).

It is argued that guidelines often enforce some form of “fit and proper” requirements, requiring that a form of agent due diligence s done by commercial banks to verify whether the agents have good character, no criminal records, and no history of financial crimes or bankruptcy. It is contended that Central bank’s regulations on agency banking hamper the growth of agency banking. These regulations slow down the penetration of the agency banking which negatively affect the performance of commercial banks (Tarazi and Breloff, 2011).

**Agency Banking Staff Skills And Competencies**

Bean, (2009), states that agency banking has reduced cost and enhanced efficiency in the financial sector with a possibility and availing banking services at much lower cost to customers (Bean, 2009). Agency banking means commercial outlets like shops and supermarkets acting in some capacity on behalf of formal banks (Hogan, 1991).

**Marketing Strategies**

In order to remain competitive in the global business, banks must develop strategies to simplify the provision of financial services to their customers while unifying their customer relations with agents (Ramamurti, 2003). According to Narula & Dunning (2000) the distribution channel for conventional bank is usually responsible for agent
supervision and the design of the marketing strategy. Although some large banks manage this trade-off with sizeable difficulty, frequently the delegation of marketing strategy to what is basically a distribution organization culminates in underperformance of the banks, as nobody formulated a marketing strategy (Llewellyn, 2000).

**Agency Banking Monitoring And Evaluation**

Owens, (2006), states that financial Institutions are needed to plan for long term development and accomplishments of their agents for them to reach the targeted customers at a set population. As the technology changes rapidly, banks have been greatly affected in their operations. The application of technology ensures quick and effective services to clients. However, banking agents do not change their systems as frequently 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.

Agency banking contributes to financial inclusion that 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 of availing financial services at much lower cost to consumers (Bean, 2009).
Conceptual Framework

In this study, the independent variables was Central Bank Regulation, low transaction cost, financial service accessibility and market share while the dependent variable was the financial performance of commercial banks.

Independent Variables

Figure 1.1: Conceptual Framework

This section reviews the research methodology that was used to carry out the study. The research design, target population, sampling procedure and sample size, data collection procedure, piloting and data analysis and presentation is reviewed. The specific
objectives included: Firstly, to establish the effect of agency banking regulations on performance of commercial banks in Kenya; Secondly, to determine the effect agency banking staff skills and competencies on performance of commercial banks in Kenya; Thirdly, to establish the effect of marketing strategies used in agency banking on performance of commercial banks in Kenya; and Lastly, to find out the effect of agency banking monitoring and evaluation on performance of commercial banks in Kenya.

The study tested the following hypotheses as related to Commercial Banks in Machakos County: H$_{1.1}$ There is a relationship between agency banking regulations and performance of commercial banks in Kenya; H$_{1.2}$ There is a relationship between agency banking staff skills and competencies and performance of commercial banks in Kenya; H$_{1.3}$ There is a relationship between marketing strategies used in agency banking and performance of commercial banks in Kenya; and H$_{1.4}$ There is a relationship between agency banking monitoring and evaluation and performance of commercial banks in Kenya.

**Research Design**

The research problem was studied through descriptive and inferential research design. This research design is designed to gain more information about variables in the study. This descriptive survey research design was used because the study was seeking to determine the effects of agency banking on performance of commercial banks in Kenya. The general objective of the study is to determine the effects of agency banking on performance of commercial banks in Kenya.

**Target Population**

Target population is the specific population which the study seeks the desired information. The target population of the study was 9 commercial banks offering agency banking in Kenya as shown in Appendix II. In this study data was collected from 9 Commercial banks offering agency banking, where the respondents of the study were senior employees in the agency banking department.
Table 3.1 Target Population of employees

No. of Employees

<table>
<thead>
<tr>
<th>Bank</th>
<th>No. of Employees</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya Commercial Banks</td>
<td>43</td>
<td>26.4</td>
</tr>
<tr>
<td>Co-Operative Bank Of Kenya</td>
<td>35</td>
<td>21.5</td>
</tr>
<tr>
<td>Chase</td>
<td>15</td>
<td>9.2</td>
</tr>
<tr>
<td>Post Bank</td>
<td>25</td>
<td>15.3</td>
</tr>
<tr>
<td>Equity</td>
<td>45</td>
<td>27.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>163</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source, Bank HRM Records (2014)

Table 3.2 No. of Agents

<table>
<thead>
<tr>
<th>Bank</th>
<th>No. of Agents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya Commercial Banks</td>
<td>5</td>
<td>14.3</td>
</tr>
<tr>
<td>Co-Operative Bank Of Kenya</td>
<td>11</td>
<td>31.4</td>
</tr>
<tr>
<td>Chase</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Post Bank</td>
<td>4</td>
<td>11.4</td>
</tr>
<tr>
<td>Equity</td>
<td>15</td>
<td>42.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>35</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source, Bank HRM Records (2014)

Sampling Procedure and Sample Size

In course of conducting research, it is often hard or too expensive to collect data from target population included in the research problem. Stratified random sampling technique was applied to choose the sample. Cooper & Schindler (2006) argues that if aptly chosen, samples of about 10% of a population can offer good reliability. The study used stratified
sampling, (Kothari, 2004). This generated a sample of 150 respondents (115 employees of the banks and 35 agents) which the study sought information from.

Table 3.3: Distribution of Bank employees in the sampling

<table>
<thead>
<tr>
<th>Bank</th>
<th>No. of Employees</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya Commercial Banks</td>
<td>30</td>
<td>26.4</td>
</tr>
<tr>
<td>Co-Operative Bank Of Kenya</td>
<td>25</td>
<td>21.5</td>
</tr>
<tr>
<td>Chase</td>
<td>11</td>
<td>9.2</td>
</tr>
<tr>
<td>Post Bank</td>
<td>18</td>
<td>15.3</td>
</tr>
<tr>
<td>Equity</td>
<td>31</td>
<td>27.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>115</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Table 3.4 Distribution of Agents in the sampling

**No. of Agents**

For agents census survey was used hence sampling all the agents in the area.

<table>
<thead>
<tr>
<th>Bank</th>
<th>No. of Agents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
<tr>
<td>Co-Operative Bank Of Kenya</td>
<td>11</td>
<td>31.4</td>
</tr>
<tr>
<td>Chase</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Post Bank</td>
<td>4</td>
<td>11.4</td>
</tr>
<tr>
<td>Equity</td>
<td>15</td>
<td>42.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>35</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The study made use of semi structured questionnaire to ensure collection of data from many respondents within a brief time and respondents are free to offer relevant information since they are guaranteed of their anonymity (Mugenda and Mugenda, 2003).

**Piloting**

Pilot test was carried out to pretest and validate the research instrument. Cronbach’s alpha methodology was used to measure the internal consistency of the research
instruments. Cronbach’s alpha measures the average of measurable items and its correlation.

Validity

Cooper & Schindler (2006) refers validity of the research instrument as consistency of measurement and is frequently assessed using experts opinion. To establish the validity of the questionnaire the study pursued opinions of experts in the field of study to establish content validity and relevancy for the study. This enabled the necessary modification and revision of the research instrument thereby improving validity.

Reliability

Cooper & Schindler (2006) state that reliability of research instrument is focused on the question of whether the results of a study are repeatable. So as to check reliability of the results, the study used Cronbach’s alpha methodology, which is based on internal consistency of the research instruments. SPSS was used to verify the reliability of collected data. Overall scales’ reliability was tested by Cronbach's alpha, which should be above the acceptable level of 0.70 (Kothari, 2006).

Data Analysis and Presentation

Before coding the questionnaire in the Statistical Package For Social Science (SPSS), the filled questionnaires were edited for consistency and completeness. Quantitative data collected was analyzed by the utilization of descriptive statistics such as mean, standard deviation, frequency and percentage and presented through frequency tables, bar charts and pie charts. The hypotheses were tested using ANOVA at 0.05 level of significant. Test of significance was done and the coefficient of determination (R^2) was used to determine the effects of agency banking on performance of commercial banks of Kenya.

Reliability Analysis

Table 4.10 shows the reliability of the study
Table 4.1: Reliability Analysis

<table>
<thead>
<tr>
<th></th>
<th>Cronbach's Alpha</th>
<th>Number of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency Banking Regulation</td>
<td>0.921</td>
<td>6</td>
</tr>
<tr>
<td>Agency banking staff skills and competencies</td>
<td>0.810</td>
<td>4</td>
</tr>
<tr>
<td>Agency banking marketing strategy</td>
<td>0.806</td>
<td>4</td>
</tr>
<tr>
<td>Agency banking monitoring and evaluation</td>
<td>0.813</td>
<td>4</td>
</tr>
<tr>
<td>performance of commercial banks in Kenya</td>
<td>0.838</td>
<td>4</td>
</tr>
</tbody>
</table>

Cooper & Schindler (2008) has indicated 0.7 to be an acceptable reliability coefficient. Table 4.2 shows that Agency Banking Regulation had the highest reliability ($\alpha=0.921$) followed by Agency banking monitoring and evaluation ($\alpha=0.813$), then Agency banking staff skills and competencies ($\alpha = 0.810$) and Agency banking marketing strategy ($\alpha = 0.806$) and by performance of commercial banks in Kenya Agency ($\alpha=0.838$). This illustrates that all four scales were reliable as their reliability values exceeded the prescribed threshold of 0.7.

4.5 Regression Analysis

Table 4.2: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.808(a)</td>
<td>.653</td>
<td>.633</td>
<td>.69440</td>
</tr>
</tbody>
</table>

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 Table 4.12 the value of adjusted R square was 0.633 an indication that there was variation of 63.6% on the performance of commercial banks due to changes in agency banking regulations, agency banking staff skills and competencies, agency banking marketing strategy, and agency banking monitoring and evaluation at 95% confidence interval.

Table 4.3: Regression analysis for Individual variables
<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>STD. Error of estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency Banking Regulations</td>
<td>.119a</td>
<td>.014</td>
<td>.013</td>
<td>.96524</td>
</tr>
<tr>
<td>Agency Banking Staff skills and competencies</td>
<td>.115a</td>
<td>.013</td>
<td>.012</td>
<td>1.70099</td>
</tr>
<tr>
<td>Agency Banking marketing strategies</td>
<td>.155a</td>
<td>.024</td>
<td>.021</td>
<td>1.21569</td>
</tr>
<tr>
<td>Agency Banking monitoring and Evaluation</td>
<td>.144a</td>
<td>.021</td>
<td>0.17</td>
<td>6.02019</td>
</tr>
</tbody>
</table>

**Agency Banking Regulations**

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 0.013 an indication that there was variation of 13% on the performance of commercial banks due to changes in agency banking regulations, at 95% confidence interval. This shows that 13% changes in commercial banks performance could be accounted to changes in agency banking regulations.

**Agency Banking Staff Skills and Competencies**

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 0.012 an indication that there was variation of 12% on the performance of commercial banks due to changes in Agency Banking Staff Skills And Competencies, at 95% confidence interval.

**Agency Banking Marketing Strategy**

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 0.21 an indication that there was variation of 21% on the performance of commercial banks due to changes in changes in...
Agency Banking Marketing Strategy at 95% confidence interval. This shows that 21% changes in commercial banks performance could be accounted to changes in Agency Banking Marketing Strategy

**Agency Banking Monitoring and Evaluation**

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 0.17 an indication that there was variation of 17% on the performance of commercial banks due to changes in changes in Agency Banking Monitoring and Evaluation at 95% confidence interval. This shows that 17% changes in performance could be accounted to changes in Agency Banking Monitoring and Evaluation

**Table 4.4: Regression Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Constant</td>
<td>1.298</td>
<td>.453</td>
<td>2.865</td>
</tr>
<tr>
<td></td>
<td>Agency Banking Regulations</td>
<td>-.237</td>
<td>.160</td>
<td>-.198</td>
</tr>
<tr>
<td></td>
<td>Agency Banking Staff Skills And Competencies</td>
<td>.231</td>
<td>.126</td>
<td>.245</td>
</tr>
<tr>
<td></td>
<td>Agency Banking Marketing Strategy</td>
<td>.239</td>
<td>.145</td>
<td>.008</td>
</tr>
<tr>
<td></td>
<td>Agency Banking Monitoring And Evaluation</td>
<td>.281</td>
<td>.114</td>
<td>.031</td>
</tr>
</tbody>
</table>

From the above regression equation it was revealed that holding agency banking regulations, agency banking staff skills and competencies, agency banking marketing strategy and agency banking monitoring and evaluation to a constant zero, performance of commercial banks would be at 1.298, a unit increase in agency banking regulations would lead to decrease in performance by a factors of 0.237, a unit increase in agency banking staff skills and competencies would lead to increase in performance by factors of 0.231, a unit increase in agency banking marketing strategy would lead to increase in
financial performance by a factor of 0.239 and unit increase in agency banking monitoring and evaluation would lead to increase in financial performance by a factors of 0.281.

**Summary of Findings**

This study findings goes hand in hand with those of Ivatury & Lyman,(2006) who stated that 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. Inability of the retail outlets to fulfill these requirements prevents the expansion of retail banking to areas of low income earners. Also the study established that financial institutions can only be allowed to work through retail outlets if the laws permit it and that without the approval of the lawmakers, agent banking would not be operational thus establishing that without the support of the regulatory authorities, agent banking would not be facilitated.

The study revealed that; Kenyan government should hold banks liable for the conduct of their agents, promotion of public understanding of the financial system, the government of Kenya allow scope for different means of compliance so as not to unduly restrict market participants from launching new financial products and services, efficiency maintain confidence in the financial system and that agency banking regulation by Central Bank of Kenya protect consumers of financial services and reduce financial crime. Further the study established that 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. Inability of the retail outlets to fulfill these requirements prevents the expansion of retail banking to areas of low income earners. Also the study established that financial institutions can only be allowed to work through retail outlets if the laws permit it and that without the approval of the lawmakers, agent banking would not be operational thus establishing that without the support of the regulatory authorities, agent banking would not be facilitated.
Agency Banking Staff Skills and Competencies

The study unfolded that; agents prior experience with the banks customers is positively related to both performance and survival, skills of both staff and management have an impact on performance of the banks, Service available and when necessary improve coordination of the banking industry, employees skills involved in agency banking positively influence performance of commercial banks. In addition the study revealed that agency banking involves the use of a number of technologies to enable the financial institutions to keep track of the financial transactions done by their agents, the technology used through agency banking includes; barcode scanners to scan bills for bill payment transactions, point-of-sale (POS) card readers, mobile phones, personal computers (PCs), Personal Identification Number (PIN) pads that connect with the commercial banks server using a personal dial-up or other data connection technology.

Marketing Strategies

The study findings goes hand in hand with those of Narula & Dunning (2000) who stated that the distribution channel for conventional bank is usually responsible for agent supervision and design the marketing strategy. On marketing strategies the study revealed that; communication platforms as a marketing strategy on aspects of national strategy enhance performance of the banks, target customer selection as an aspect of national strategy enhances the performance of the banks, market potential and growth enhances the performance of the banks. To add the study also established that the distribution channel for conventional bank is usually responsible for agent supervision and design the marketing strategy.

Regarding the effects of agency banking marketing strategies on performance of commercial banks in Kenya the study revealed that; activities are coordinated and integrated across multiple markets, the marketing strategies follow a hierarchy of decisions from country assessment and performance measurement decisions, strategies ensures marketing mix allocations and programs and also that marketing strategies focuses on managing country-level trends in the economy or government.
Further the study established that financial institutions are needed to plan for long term development and accomplishments of their agents for them to reach the targeted customers at a set population. Also the study revealed that in due time technology was changing rapidly and that banks have been greatly affected in their operation, whereby the application of the technology ensured quick and effective services to the clients and also that majority of banking agents did not change their system as frequent often leading to system failure and the consequent delays in transaction execution.

**Agency Banking Monitoring and Evaluation**

The study findings are in line with that of (Ramamurti, 2003). He stated that in order to remain competitive in the global business, banks must develop strategies to simplify their provision of financial service to their customers while unifying their customer relation with agents. Further the study established that on agency banking monitoring and evaluation affect the performance of commercial banks in Kenya whereby application of the technology ensures quick and effective services to the clients. However, banking agents do not change or modern their systems frequently leading to system failure and the consequent delays in transaction execution. This leads to customer inconvenience and lack of trust over the safety of the transaction lodged with agency banks. Moreover, these constant systems failure make transactions with banking agents vulnerable to fraud if there is inadequate monitoring and evaluation.

**Conclusion**

The study revealed that 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 thus ensuring smooth performance of commercial banks. The study revealed that agency banking regulations negatively affects performance of commercial banks in Kenya.
The study established that better staff skills and competencies ensured that agents were in a better position to offer services accordingly as competencies reduces the cost and enhances efficiency in the financial sector with a possibility and availing banking services at much lower cost to customers. The study established that agency banking staff skills and competencies positively affects performance of commercial banks in Kenya.

From the findings it was revealed that the distribution channel in commercial banks is usually responsible for agent supervision and designs the marketing strategy. However the distribution management in the regions where commercial banks operate is largely concerned with the execution of pre-existing marketing strategies for instance communication media and target customer selection in order to achieve the set targets of the banks. The study found that marketing strategies used in agency banking positively affects the performance of commercial banks in Kenya.

On agency banking monitoring and evaluation the study established that commercial banks have developed strategies to simplify their provision of financial service to their customers while unifying their customer relation with agents and this comes hand in hand with all this contributes to a positive performance of the bank in its operations. The study revealed that agency banking monitoring and evaluation positively affected performance of commercial banks in Kenya.

**Recommendation**

From the summary and conclusions the study recommends that central bank consider coming with a clear urgency 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 there financial institutions should continue offering low transaction rates within their local agency points, this will lure customers to adopt the is as 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 this will ensure services accessibility by customers and thus improving financial performance.

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