Abstract

The objective of the study was to investigate the effect of agency banking on financial performance of commercial banks in Kenya. Secondary data sources were used for the study. Annual reports on individual banks‟ financial performance were used to extract financial performance indicators. CBK‟s annual report and supervisory reports was also used to establish the number of agents registered and the total transactional value conducted through the agents. The variable of interests were: the cash withdrawal and deposit transactions done through agents; number of active agents; return on assets (ROA) to measure profitability; cost to income ratio (to measure cost efficiency in using agency banks); and, staff cost to revenue ratio to measure the reduction of human resource cost due to agency banking. The data was collected for the three-year period: 2010 to 2012. The findings indicated that out of all the banks that have rolled up the service, Equity bank, Co-operative bank and Kenya Commercial Bank show significant performance index. The findings further showed that yearly performance improved significantly. This implies that agency banking is continuously improving leading to significant increased financial performance in those banks that have rolled up the service due to its convenience and efficiency in operation. The study revealed a positive strong effect between agency banking and financial performance. The study further recommends that commercial banks should fully embrace agency banking through adoption of improved technology for information security to make it more reliable to customers.