

**THE EFFECT OF AGENCY BANKING ON FINANCIAL
INCLUSION IN KENYA**

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DECLARATION

STUDENT

I, the undersigned, declare that this project is my original work and that it has not been presented in any other university or institution for academic credit.

SIGNED

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This project has been submitted for examination with my approval as a university supervisor.

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ACKNOWLEDGMENT

I wish to express my sincere thanks to my friend Kiptoo, my parents and my brothers and sister for their encouragement and moral support in my education pursuit. Sincere gratitude also goes to Mr. Cyrus Iraya for his constructive suggestions, patience, wise guidance, and encouragement and prompts feedback that contributed to the success of this study.

DEDICATION

I owe it all unto God the Almighty.

ABSTRACT

Despite the impressive performance by banks, customers continue to shoulder the heavy burden of high transactional costs. In an effort to bring down the cost of offering financial services to the Kenyan public, Central Bank together with other stakeholders have put in place a business model aimed at broadening financial inclusion to the majority of Kenyans at a lower cost. It is envisaged that this model will enable banks to leverage on additional cost and effective distribution channels to offer financial services. To achieve this, the Banking Act was amended through the Finance Act, 2009, to permit banks to contract third parties to provide certain banking services on their behalf. The study sought to find out the effects of agency banking on financial inclusion in Kenya.

The study adopted a cross sectional survey approach in research design. The population consists of six commercial banks with agency banking services in Kenya .secondary data was used since its readily available. Inferential statistical techniques were used to make a prediction about the dependent variable based on the covariance with the concerned independent variable.

From the findings it's evident that there is a strong positive relationship between financial inclusion and agency banking. The tests conducted shows that the correlation coefficient between agency banking aspects and financial inclusion was 0.727, which is enough to indicate the existence of strong relationship between the independent variables and the dependent variable. The R-square is 0.529 which means that 52.9% of the variance in the financial inclusion variable can be explained and predicted by the agency banking aspects variables. The study therefore recommends that agency banking as a means of enhancing financial inclusion is highly supported and encouraged by all players

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ABBREVIATIONS

CBK	Central Bank of Kenya
CGAP	Consultative Group to Assist the Poor
FI	Financial Institution
ICT	Information and Communication Technology
KCB	Kenya Commercial Bank
KYC	know-your-customer
MMO	Mobile Money Operator
SACCOs	Savings and Credit Cooperative Societies
SPSS	Statistical package for Social and statistical Scientist

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Changes in the banking sector, new entrants and actors on the banking markets, globalization of business and service delivery have intensified the competition on the markets and forced banks to offer customers more options to choose from. The development in technology has provided opportunities for service providers in the banking sector for the exploitation of advancement. As a consequence, banks have launched multiple service access methods via new electronic service delivery channels like Internet and mobile phones (Cohen, 2002).

Access of financial services plays a critical role in the development process through the facilitation of economic growth and reduction in income inequality. Inclusive financial systems allow the poor to smooth their consumption and insure themselves against the much economic vulnerability they face, from illness and accidents, to theft, to unemployment. It enables poor people to save and borrow to build their assets and to make educational and entrepreneurial investments to improve their livelihood. Inclusive finance is particularly important to disadvantaged groups: the poor, women, youth, and rural communities. For these reasons, financial inclusion has gained prominence in recent years as a policy objective to improve the lives of the poor (Ndebbio, 2004).

Agency theory is based on the concept of the principal agent relationship. In this relationship principals represent individuals who are in control of a set of economic

function or assets that have been delegated by the principal to agents who operate them on their behalf (Jensen and Meckling, 1976).

Over the last decade, financial inclusion (banking the poor) has made its way into the centre stage of development policy. Microfinance success stories, epitomized by the Grameen Bank, have led to an unusual convergence of interests between governments, businesses, official aid agencies, philanthropists and civil society. Underlying this consensus is a belief that access to financial services is a powerful means of reducing poverty. Consequently, many countries, both rich and poor, have adopted outreach (i.e. reaching the un-banked and under-banked population) as a core objective of financial policy (in addition to stability and supporting economic growth). In order to attain this milestone its every financial institutions dream that one day there can be effective linkages between formal and informal financial sectors to enhance service delivery, and thus the agency banking concept. Agency banking is the new innovation that banks are using to take services to the un-banked and under-banked at a cheaper rate. The concept takes customers out of the bank halls to kiosks and villages (Beck et al., 2007).

Financial inclusion of the total population of a country people is every government's goal. The world over and especially in the developing countries, governments are working on various strategies and regulatory frameworks to ensure they reach all those excluded. Every governments dream is to have an efficient and inclusive financial system for purposes of resource mobilization. In Kenya currently there are eight banks offering

agent banking. These are Equity Bank, Family Bank, Co-operative Bank, Kenya Commercial Bank, Post Bank, NIC, Eco Bank, and Diamond Trust Bank. Agent banking began in Kenya on May 2010 when CBK came up with the guidelines on agent banking after a thorough study on countries which had been engaging in the same. There being a regulatory framework, the banks moved very fast to take up the new model banking (CBK, 2010).

1.1.1 Agency Banking

According to Atieno (2001) a banking agent is a retail or postal outlet contracted by a financial institution or a bank 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 receive government benefits or a direct deposit from their employer. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices, and many more.

The proliferation of information and communication technology has brought with it tremendous innovation in the banking industry. Currently, agent banking is an integral part of modern banking in many countries. In most countries, more than half of the population already use agent banking and the market is still growing (Atman, 1993).

In some countries like in Brazil, banks have successfully expanded their outreach by hiring local "agents" or "correspondents" to offer their services. By using retail points as

cash merchants (agent banking), banks, telecom companies, and other providers can offer saving services in a commercially viable way and at the same time, reduce fixed costs and encourage customers to use the service more often, thus providing access to additional revenue sources (Atman, 1993).

The client benefit from the Agent banks with Lower transaction cost, service closer to client's home; longer opening hours, Shorter lines than in branches, More accessible for illiterates and the very poor who might feel intimidated in branches. Increased sales from additional foot-traffic, Differentiation from other businesses, Reputation from affiliation with well-known financial institution, Additional revenue from commissions and incentives, Increased customer base and market share, Increased coverage with low-cost solution in areas with potentially less number and volume of transactions, Increased revenue from additional investment, interest, and fee income, Improved indirect branch productivity by reducing congestion (Cohen, 2002).

For the last one decade, the banking environment in Kenya has been very dynamic. There has been a shift from stable, non-volatile and predictable business environment to one which is quite volatile, unpredictable and competitive. Up to the very late 1990's, many banks in Kenya enjoyed unchallenged monopolies and government protection (Kaskende, 2008).

Globalization has spearheaded the integration of the Kenyan economy with other world class economies such as Singapore, which is now part of the global village. The power of information and technology de-regulation, globalization of markets and stiff competition has made entrepreneurs better educated, more inquisitive, sophisticated and deciding. The banking environment has changed tremendously thereby posing serious implications and challenges to the survival and profitability of banks (CGAP, 2003).

1.1.2 Financial Inclusion

Financial inclusion can be described as the process of provision and ensuring timely access to a range of financial products and services at affordable costs by sound institutions in a fair and transparent manner to all sections of the society especially to the vulnerable groups such as weaker sections and low income groups (Joshi, 2010).

The importance of access to financial services was recognized by the world leaders in the outcome document adopted at the 2005 world summit. The designation of 2005 as the International Year of Micro credit helped to raise global awareness of the pivotal role that more inclusive finance can play in achieving the Millennium Development Goals. Financial inclusion has indeed far reaching positive consequences, which can facilitate many people to come out of the abject poverty conditions. It is widely believed that financial inclusion provides formal identity, access to payments system and deposit insurance, and many other financial services. Universally, it is accepted that the objective

of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit the people with low incomes (Cohen, 2002).

The concept of inclusive financing is dynamic and has evolved significantly since its inception. Once viewed as means to tackle poverty and reduce income inequality, today the concept has developed into an important pre-requisite for financial stability and economic development. Inclusive financial systems allow producers and households to smoothen their production and consumption of goods and services through which income is generated in an economy. Thus, financial inclusion drives income generation through increasing productive capacity especially among those without assets to start with and facilitates inclusive growth. The over-reaching and cross-cutting nature of financial inclusion has made it one of the main pillars of the development agenda. Distress in the advanced economies has increased vulnerability of the poor and brought the needs for safety nets into even sharper focus. The efforts on financial inclusion will only be successful if they are supported by reliable data and common indicators (Wainaina, 2009).

The government of Kenya through CBK is among the most active in the developing countries in efforts to enhance financial inclusion. In Africa, Kenya is second after South Africa in terms of financial inclusion (National Financial Access Survey, 2009). Various initiatives have been undertaken to enhance this including developing a framework under which banks would carry on agent banking and licensing of deposit taking micro-finance institutions among others.

1.1.3 The Effect of Agency Banking on Financial Inclusion

Financial inclusion of the total population of a country's people is every government's goal. The world over and especially in the developing countries, governments are working on various strategies and regulatory frameworks to ensure they reach all those excluded. Every governments dream is to have an efficient and inclusive financial system for purposes of resource mobilization. The agent banking model is a continuously improving and growing system, and as it grows, the level of financial inclusion grow proportionately. Thus agent banking has the effect of increasing the level of financial inclusion and should be supported and encouraged by all players- the banks, government, and licensing bodies especially local authorities; so as to reduce the high gap of the unbanked (World Bank, 2008).

The Kenyan economy in general and financial services in particular has made rapid strides in the recent past. However, a substantial section of the rural population, particularly the weaker sections and low-income groups continue to remain excluded from even the most basic opportunities and services provided by the financial sector. Though the largest in East Africa, it has failed to provide adequate access to banking services to the bulk of the population and lending is skewed in favor of large private and public enterprises in urban areas. In order to address the issue of such financial exclusion in a holistic manner, it is necessary to make sure that a range of financial services is available to every individual in the country (Ndebbio, 2004).

According to the governor of the CBK (CBK, 2010) the traditional banking methods, limited reach of people to the bank branches located mainly in highly populous towns.

Sections of population have been left out of the formal financial sector, for the mere reason that they are not located in densely populated areas. Such population has been left out and as a way to address this exclusion; the government through the CBK has come up with agency banking. Agent banking increases the reach of banks to the people from the traditional branch network which is limited in growth by several factors such as the cost including the staffing costs and other costs which when compared to the benefits that is, the cost benefit analysis of setting up branches in such areas is negative. Agency banking is expected to be the solution to this problem since banks will expand rapidly riding on the infrastructure and manpower of third parties (CBK, 2010).

One of the main obstacles to financial inclusion is cost: both the cost to banks involved in servicing low-value accounts and extending physical infrastructure to remote rural areas, and the cost (in money and time) incurred by customers in remote areas to reach bank branches. Agent banking is rapidly evolving and its regulation plays a central role in enabling (or sometimes limiting) its spread (Flaming, 2011).

In the last decade, there has been an explosion of different forms of remote access financial services, i.e., beyond branches technology in the banking sector. These have been provided through a variety of different channels, including mobile phones, automatic teller machines (ATMs), point-of-sale (POS) devices and banking correspondents (agency banking). In many countries, these branchless channels have made an important contribution to enhancing financial inclusion by reaching people that traditional, branch-based structures would have been unable to reach (Levine, 1997).

1.1.4 Banking Industry in Kenya

According to CBK (2010) a bank means a company which carries on, or proposes to carry on, banking business in Kenya and includes the Co-operative Bank of Kenya Limited but does not include the Central Bank of Kenya (CBK). Commercial banks are licensed and regulated by the Central Banks of the jurisdictions (countries) in which they operate. In Kenya, the Central Bank of Kenya (CBK) licenses, supervises and regulates commercial banks, as mandated under the Banking Act (Cap 488).

Commercial Banks and Mortgage Finance Institutions are licensed and regulated pursuant to the provisions of the Banking Act and the Regulations and Prudential Guidelines issued there under. They are the dominant players in the Kenyan Banking system and closer attention is paid to them while conducting off-site and on-site surveillance to ensure that they are in compliance with the laws and regulations. Currently there are 43 licensed commercial banks and 1 mortgage finance company. Out of the 44 institutions, 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise 3 banks with significant shareholding by the Government and State Corporations, 27 commercial banks and 1 mortgage finance institution (CBK, 2010).

The banking model was started in May 2010 after Kenya changed its laws to allow commercial banks to offer their services through third-party businesses. The agents are conveniently located at commercial outlets like shopping malls, post offices, petrol stations, laundry shops, cybercafés, chemists, eateries and supermarkets. It was believed majority of people will deposit cash, withdraw and open accounts, services that most people seek in banks, through agents (CBK, 2010).

In February 2011, the Central Bank of Kenya (CBK) released regulations allowing banks to offer services through third party agents approved by the CBK. Such agents can be telecom outlets, SMEs, retail chains, savings and credit co-operatives (SACCOs), or even corner shops – the main qualifications are that it must be a profit-making entity that had been in business for at least 18 months and can afford a float account.

In its Banking Sector Report for the Quarter Ended March 31 released early this year, Central Bank of Kenya (CBK) noted there are 16,333 active agents in the East Africa nation facilitating over 38 million transactions valued at Sh195.8 billion. The agents contracted by eight banks made transaction worth 762 million dollars in the period under review. Leading in the number of agents is Equity Bank with over 6,200 agents, then KCB with over 5,035 and Co-operative Bank with about 3,234 agents. Other banks that have agents include Post Bank, Chase Bank, NIC, DTB and Family Bank.

1.2 Research Problem

Financial security through saving is a key component in any development endeavor as it is believed to be the surest way of increasing income and boosting productivity in an attempt to break through the vicious cycle of poverty. The World Bank estimates that in many countries over half the population has never had a bank account. The poor tend to be terrified of banks since they are often humiliated or ignored when they try to enter them. That means they cannot leave their savings anywhere safe pay a bill without walking with the cash to the office or prove that they are credit worthy (CGAP, 2010).

Despite the impressive performance by banks, customers continue to shoulder the heavy burden of high transactional costs. This historical burden has to be dislodged now. In an effort to bring down the cost of offering financial services to the Kenyan public, Central Bank together with other stakeholders have put in place a business model aimed at broadening financial inclusion to the majority of Kenyans at a lower cost The Agent Banking Model. (Finaccess survey, 2009).

In Kenya, economic and social development is premised on a safe, efficient and inclusive financial systems where savings and investment rates will more than double (vision 2030). The financial sector is expected to play a pivotal role in mobilizing the substantial resources required to finance the envisaged flagship projects. The government through the central bank has therefore been working on getting innovative models that will include all in Kenya's formal financial sector to support savings and investment growth.

Many studies have been done on agency banking, but the studies are not exhaustive because agency banking is still at its formative stages and a lot of new developments and new changes are coming up on day to day. Ndome (2011) in a study of agent banking and its adoption in Nairobi focused on low end residential area within the city and it was evident that the services and not financial inclusion but the high utilization of agent services was an indicator of some level of exclusion that was existent and which no one paid attention to. The CBK and financial sector development did a study on measures to open up banking channels to non-bank agents using leading internal firms in this area (Bankable Frontier Associates). The study (Regulation and supervision of bank channels:

policy options for Kenya) re-examined the role of branches and also looked into the policy options for future regulation of commercial banking channels. The findings were that agent banking could effectively reduce the cost of setting up branches and operational costs would be significantly reduced and some costs eliminated totally (CBK, 2010).

In most countries agency banking is in the definition stages where regulators are also learning more about it and sealing loop holes and addressing issues as they arise. There are lots of changes and most central banks are going through stages where there is need to review their guidelines to flex a bit where they have been too tight and also tighten regulations particularly where issues of fraud may arise. With these changes and the stage at which agency banking in the country is, the impact of agent banking on financial inclusion has not been studied exhaustively. The research question therefore is: What is the effect of agency banking on financial inclusion in Kenya?

1.3 Research Objective

To analyze the effect of agency banking on financial inclusion in Kenya

1.4 Value of the Study

The study sought to find out the various barriers in financial inclusion; that is, why some section of the population is excluded. The study shows how agency banking has helped to enhance financial inclusion by reaching the frontiers that wouldn't have been reached had it not for agency banking. This will increase and build on existing theory and knowledge and also update this theory on the changes that agent banking is going through as it develops.

The study is of great value in policy formulation. It is of great interest and importance to the government since it will help in the formulation and modification of the various policies and methods such as increasing incentives to motivate further inclusion and changing or modifying the regulatory framework to further enhance inclusion (Waihenya, 2012).

In practice, this study is of more importance to the banks because they will know how much they are gaining through agency banking by reaching out to that extra person they will not have reached had they not engaged agent to help on agent banking. This study provides information to the public and all players; the agents, customers, banks, the regulator (CBK) on the impact of agent banking on reaching the previously unreachable segments of the society. It also assists existing and potential investors to make investment decisions when being contracted as bank agents based on many variables. These variables included not only the fundamental and the technical aspect, but also the psychological factors that are in play within the investor and also the mar

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature on the agency banking related theories, the various financial innovation and financial inclusion and studies that have been propagated by different authors, scholars and researchers of agency banking benefits on financial inclusion.

2.2 Theoretical Framework

Theories have guided some of the research on agency banking - based on financial institution development. They include: Agency theory, Silber's Constraint Theory of Innovation, Finance growth theories and Financial Intermediation Theories.

2.2.1 Agency Theory

Agency theory is part of the positive group of theories which is derived from the financial economic literature. It postulates that the firm consists of a contract between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources (Lambert, 2002).

The theory of agency was first explicitly modeled by Jensen and Meckling (1976) in their study of the structure of the firm. Agency theory addresses all exchanges involving cooperative effort and delegation of work and decision making by one party (called the principal) to another (called the agent). Jensen and Meckling describe an agency relationship as a contract (implicit or explicit) in which one or more persons, the principal(s), engage another person, the agent(s), to take actions on behalf of the

principal(s) which involves the delegation of some decision-making authority to the agent. It is taken as unquestionable that an uninformed principal can benefit from this delegation to an informed agent and that it is in fact optimal for an informed principal to do so given their lack of skills, information, qualifications, knowledge and experience (Bendor et al. ,2001).

According to Brigham and Gapenski (1993) agency theory is based on the premise that agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor effectively whether their interests are being properly served by s agents. It also assumes that principals and agents act rationally and that they will use the contracting process to maximize their wealth. In the simplest agency models, the organization is reduced to these two contracting characters: the principal and the agent. The principal's roles are to supply capital, to bear risk, and to construct incentives, while the role of the agent are to make decisions on the principal's behalf and to also bear risk (Lambert, 2002).

2.2.2 Silber's Constraint Theory of Innovation

Silber (1975) attributes financial innovation to attempts by profit maximizing firms to reduce the impact of various types of constraints that reduces profitability. The theory points out that the purpose of profit maximization of financial institutions is the key reason of financial innovations. Silber notes that there are some restrictions (including external handicaps and internal handicaps such as organizational management) in the process of pursuing profit maximization. Although these restrictions not only guarantee

the stability of management they reduce the efficiency of financial institutions so the institutions strive to cost them off.

Research literature has shown that firms that are less profitable in their respective sector are disproportionately innovative. Moreover, their decrease in profitability, which can be attributed to external competition or government regulation, has provided these firms with the necessary motivation to innovate in a bid to increase profitability. This finding is consistent with the suggestion in the work of Silber that investment in innovation is a rational response to an unfavorable competition positive (Silber, 1975, 1983). The theory discusses financial innovation from a micro- economics perspective.

2.2.3 Finance-Growth Theories

Theories on the finance growth nexus advocate that financial development creates a productive environment for growth through ‘supply leading’ or ‘demand-following’ effect. Theories also perceive the lack of access to finance as a critical factor responsible for persistent income inequality as well as slower growth. Therefore, access to safe, easy and affordable source of finance is recognized as a pre-condition for accelerating growth and reducing income disparities and poverty which creates equal opportunities, enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protect themselves against economic shocks (Serrao et al., 2012).

Theoretical disagreements do exist about the role of financial systems in economic growth. Some economists see the role as minor or negligible while others see it as significant. The demand following view is supported argues that the financial system

does not spur economic growth; rather the financial system simply responds to development in the real sector. The supply leading proponents contrasts the former view. The origin of the finance-led growth hypothesis can be traced back to Bagehot (1873). Those who favor the finance-led growth hypothesis argue that the existence of an energetic financial sector has growth-enhancing effects. Schumpeter in 1911 posited that banks enable an economy to grow by providing efficient markets for funds. Goldsmith (1969), McKinnon (1973), Levine and Zervos (1996), and others also emphasized the positive role of financial systems in economic growth as cited by Ndebbio (2004). The main argument of proponents of the supply leading theory is that, financial markets evolve in response to increased demands for financial services from an already budding economy. Therefore, the development of financial markets is a reflection of growth in other sectors of the economy.

2.2.4 Financial Intermediation Theories

Financial intermediation is seen as the extent to which financial institutions bring deficit spending units and surplus spending units together (Ndebbio, 2004). An important question that theories try to answer is why do investors first lend to banks who then lend to borrowers, instead of lending directly? Arguments point out to the fact that banks are able to effectively monitor borrowers and thus play the role of delegated monitoring (Diamond, 1984). Diamond shows that reduced monitoring costs are a source of this comparative advantage. Diamond posits that intermediaries provide services by issuing secondary financial assets to buy primary financial assets. If an intermediary provided no services, investors who buy the secondary securities issued by the intermediary might as well purchase the primary securities directly and save the intermediary's costs.

Financial market frictions can be the critical mechanism for generating persistent income inequality or poverty traps. These market frictions include information asymmetry and transaction costs and play a central role, influencing key decisions regarding human and physical capital accumulation and occupational choices. For example according to (Demirgüç-Kunt, Asli, Beck, and Honohan. 2008) in theories stressing capital accumulation, financial market imperfections determine the extent to which the poor can borrow to invest in schooling or physical capital. In theories stressing entrepreneurship, financial market imperfections determine the extent to which talented but poor individuals

In conclusion, majority of the theories have established a positive link between financial development and economic growth.

2.3 Measure of Agency Banking and Financial Inclusion

2.3.1 Agency Banking

One of the primary challenges to providing financial services to the poor through branches and other bank-based delivery channels is the high costs of these traditional banking methods. In order for Commercial banks to serve poor customers with a small balance and conducting small transactions, it costs way too much to make them viable. But on the other hand, when banks do not have branches that are close to the customer, the customer will be more reluctant to use and transact with their service. In some countries, like in Brazil, banks have successfully expanded their outreach by hiring local

“agents” or “correspondents” to offer their services. By using retail points as cash merchants (agent banking), banks, telecom companies, and other providers can offer saving services in a commercially viable way and at the same time, reduce fixed costs and encourage customers to use the service more often, thus providing access to additional revenue sources (Beck et al. , 2007).

The use of bank agents has the potential to significantly increase financial access by poor and underserved populations to a range of formal financial services, including savings, payments and transfers, and insurance (Bold, 2011). Agents may engage in different activities, depending on applicable regulation and the terms of the agency agreement. Some agents provide only cash-in/cash-out services (these agents are often called “cash merchants”). Some agents also enroll customers and provide a wider array of banking services.

According to Flaming (2011), generally the services by bank agents can be divided roughly into four categories: Transmitting information, Processing information, Cash handling and Electronic funds transfer. Information transmission consists primarily of providing the customer with account information (e.g., balance inquiries and bank statements) and receiving account and loan applications, including transmitting know-your-customer (KYC) information. Information processing includes processing account and loan applications (and in some cases, opening accounts), analyzing the credit and other personal information of loan applicants, conducting KYC procedures (i.e., verification) for account opening applications and transactions, record keeping, and selling micro insurance. Cash handling refers to deposits (or “cash in”) and withdrawals (or “cash out”), often limited to small values, to or from a customer’s own account.

Finally, electronic funds transfer may involve making bill payments, disbursing government benefits, and effecting payments (e.g., salary payments). Some countries permit agents to engage in all such activities; other countries are more restrictive.

2.3.2 Financial Inclusion

Financial inclusion, of late, has become the buzzword in academic research, public policy meetings and seminars drawing wider attention in view of its important role in aiding economic development of the resource poor developing economies (Agarwa, 2010).

The size of the financially excluded population in the world is enormous according to the United Nations, approximately three billion people around the globe lack access to formal financial services- such as bank account, credit, insurance, a safe place to keep saving and a secure and efficient means to receive social benefit payments- through a registered financial institution (Chibba, 2008). This sizeable population of the world particularly poor, low income and vulnerable group remain excluded from the most basic financial services provided by financial sector. It has been universally accepted that developing financial sector and improving access to financial services accelerate economic growth and helps to achieve inclusiveness growth.

Rangarajan Committee (2008) on financial inclusion stated that: “Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.” The financial services include the entire gamut of savings, loans, insurance, credit, payments, etc. The financial system is expected to provide its function of transferring resources from surplus to deficit units, but both deficit and

surplus units are those with low incomes, poor background, etc. By providing these services, the aim is to help them come out of poverty.

One common measure of financial inclusion that is by and large accepted universally is the percentage of adult population having bank accounts. The number of savings accounts as percent of number of households is considered to be a better indicator of banking penetration than other deposit accounts as percent of number of households, (Agarwal, 2008). In understanding the extent of financial inclusion, it is imperative to know the coverage of population by bank offices in both rural and urban areas. Greater financial inclusion by itself does not imply greater welfare. The underlying assumption is that access to formal financial services is less taxing on vulnerable groups who have to pay much higher cost for informal services – this is something that could be tested.

According to Kempson et al. (2004), financial inclusion can be measured through three basic dimensions; banking penetration, and availability of the banking services and usage of banking system. The variables include; the size of the, banked population, i.e. the proportion of people having a bank account is a measure of the banking penetration of the system, number of branch per 1000 km², number of bank ATM per 1000km², average size of loan to GDP per capita, number of deposits per 1000 people, average size of deposits to GDP per capita and total deposits as a percentage of GDP. In the present index, they have provided the following weights–1 for the index of banking penetration, 0.5 for the index of availability and 0.5 for the index of usage.

Financial inclusion should also be measured not only by the number of bank accounts held by the weaker sections, but also by the amounts borrowed by them.

2.4 Empirical Review

Financial services are capable of distributing opportunities more evenly to poorer households and economically disadvantaged geographical regions. Consequently, as the major players in the financial system, financial institutions occupy a significant place in the economy of every nation as revealed by Olugbenga and Olankunle (1998) and deliberate effort is needed to facilitate access to financial services by all. This deliberate effort is done through financial inclusion initiatives.

A banking agent is a retail or postal outlet contracted by a financial institution or a bank 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 receive government benefits or a direct deposit from their employer. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices, and many more (Atieno, 2001).

Globally, these retailers and post offices are increasingly utilized as important distribution channels for financial institutions. The points of service range from post offices in the Outback of Australia where clients from all banks can conduct their transactions, to rural France where the bank Credit uses corner stores to provide financial services, to small lottery outlets in Brazil at which clients can receive their social payments and access their bank accounts (Berger & Humphrey, 1998).

Research Centre (2010) note that, when an agent can both open accounts and facilitate transactions, it not only offers greater incentive for the agent to provide the service to

customers, but it encourages customers to use the service as well. If customers cannot transact immediately upon opening an account, they lose the instant gratification of being able to use the account.

Tarazi (2010) points out that, when agents provide a range of services, that is, account opening, deposits, withdrawals and bill payments, they are able to generate transaction volume and balance liquidity. An agent must maintain adequate cash and e-money float balances to meet customer cash-in/cash-out requests. If too much cash is taken in, the agent may run out of e-float and not be able to accept more deposits. If there are too many withdrawals, the agent will accumulate e-float but run out of cash. In either case, customers will get discouraged if the agent cannot provide the services they need when they need them. In addition, a secure mechanism needs to be in place to transport cash needs to and from an agent. It is therefore important to have the agents trained in the field of banking to create an enabling environment for the bank to realize its objectives in the financial world.

Agents have provided the banks with a useful channel for distributing these payments to remote areas. In general, banks have been keen to use agents as a means of cost-cutting (agents have become the cheapest way to reduce congestion in branches and avoid the fines that are imposed when customers are left waiting in line for more than a certain amount of time) and to increase their client base through geographic expansion (CGAP, 2010e).

According to CGAP (2010), Brazilian agents handle around 3 billion transactions per year. This comprises just 7% of transactions flowing through the Brazilian banking

system but it includes large flows of transactions which are particularly interesting for financial inclusion. Therefore, Brazil has managed to utilize the opportunities which accrue from agency banking.

According to the works of King and Levine (1993) and Levine and Zervos (1998), at the cross-country level, evidence indicates that various measures of financial development (including assets of the financial intermediaries, liquid liabilities of financial institutions, domestic credit to private sector, stock and bond market capitalization) are robustly and positively related to economic growth.

According to CGAP Technology program (2007) in the paper : Banking agents to reach the unbanked, which described the different approaches pioneers in Latin America have taken in establishing and managing a network of banking agents and the benefits to the different actors involved. It was observed that banking agents increase convenience of existing customers since very poor, remote clients often do not trust banks, improves indirect branch productivity and efficiency by offering additional points of sale, expanding customer base outside the existing branch network and reducing upfront cost by leveraging existing infrastructure. The study also observed that the cost of establishing and operating one branch is equal to 40 banking agents. The survey also observed that the benefits of using a bank agent to the client included; access since seemingly no problem of illiterates and the bank agents operate shops and kiosks within the vicinity of the villages or estates, in Brazil, access to finance was increased from 2,623 to 4,444 municipalities (89%). Convenience, since less transaction cost to reach point of service, the opening hours of the agent bank are flexible and more than the bank branches. Comfort since there is no need to enter a branch.

Wambugu (2011), in his study on factors influencing the adoption of agency banking by commercial banks in Kenya. The objective of the study was to explain the factors influencing Kenyan commercial banks to have agents. The research adopted a descriptive study approach focusing on the commercial banks in Kenya that were operating agency banking model. The population of the study consisted of four (4) commercial banks, with a target respondent of 45(staff) members. The study indicated that the factors that influenced the adoption of agency banking included; increasing customer coverage, enhancing revenue ,expanding customer base outside the existing branch network high penetration to the unbanked and diverting customers from the crowded banking halls. This was inferred by the researcher to mean that, the major driving forces of commercial banks while adopting agency banking is increasing the banks operational capacity, while increasing revenues but at the same time reducing the operation cost.

Agboola (2006), in his study on Information and Communication Technology (ICT) in Banking operations in Nigeria using the nature and degree of adoption of innovative technologies; degree of utilization of the identified technologies; and the impact of the adoption of ICT devices on banks, found out that technology was the main driving force of competition in the banking industry. During his study he witnessed increase in the adoption of ATMs, EFT, smart cards, electronic home and office banking and telephone banking. He indicates that adoption of ICT improves the banks' image and leads to a wider, faster and more efficient market. He asserts that it is imperative for bank management to intensify investment in ICT products to facilitate speed, convenience, and accurate services, or otherwise lose out to their competitors.

Bank for International Settlement (BIS) in their study recognized that safe and efficient retail payment systems enhance the effectiveness of the financial system, boost consumer confidence and facilitate the functioning of commerce (BIS, 2003). Conceptionally, payment systems are coined as being two-sided markets (Rochet and Tirole, 2006). Virtually every economic transaction involves the use of a payment instrument, such as cheques, electronic funds transfers, and so on. (Berger, 2003). Hasan, Schmiedel and Song (2009) in their study to provide a combined and integrated view of the importance and significance of retail payments for bank performance using country level retail payment service data across 27 EU markets found out that countries with more developed retail payment services, banks perform better, in terms of both their accounting ratios and their profit and cost efficiency. They further found that the relationship is stronger in countries with higher levels of retail payment transaction equipment, like ATMs correspondence (Agency) banking and POS terminals.

Sharma (2008), through cross country empirical study examined a close relationship between financial inclusion and development. Further, the study found a positive relation between financial inclusion and different socio-economic variables like income, inequality, literacy, physical infrastructures.

Beck et.al, (2000), in their paper tried to evaluate empirically the relationship between level of financial intermediary development and economic growth. They observed a positive impact of financial intermediary development on the growth of total factor productivity which will lead to economic development.

A study by Halwe (2010) to understand the saving pattern and credit needs of the tribal families of Maharashtra and Gujarat State of India revealed that indeed the poor take financial intermediation seriously and devote considerable effort to finding workable solutions. The study revealed that the poor persistently engage in number of multifaceted financial transactions mostly outside the formal financial system which offers convenience and flexibility in terms of service and products unmatched by formal intermediaries.

Burgess and Pandey (2007) provide further evidence that by opening branches of commercial banks through state-led policies was associated with poverty reduction in rural unbanked locations of India. This study despite being insightful did not look at the usage of the products or services but merely the presence of bank branches which studies have shown does not give a complete picture of financial inclusion. The study does not depict the channel through which increased bank presence reduced poverty. Currently other models of financial inclusion like nongovernmental organizations (NGOs) and private financial institutions are applied. Studies can be done to establish their efficacy so as to know the best model.

Sahoo et.al, (2008), had attempted to develop index of financial inclusion to examine the progress of financial inclusion and various determinants of financial inclusion using secondary data from various sources. In their study, they observed a positive impact of infrastructure development, education; self help group formation on financial inclusion both from financial widening and deepening perspectives.

The financial system in Kenya has grown rapidly in the last decade. Though the largest in East Africa, it has failed to provide adequate access to banking services to the bulk of the population and lending is skewed in favor of large private and public enterprises in urban areas. This is evidenced by distribution of bank branches at 93 percent in urban and rural areas and 7 percent in arid and semi-arid areas (Beck, Cull, Fuchs, Getenga, Gatere, Randa, Trandafir, 2010). This data demonstrates that there is exclusion and that the poorer section of the society, who are found in rural and arid and semi arid areas have not been able to access adequately financial services.

Another study in Western Province of Kenya by Dupas, Green, Keats and Robinson (2012) revealed that simply expanding banking services is not likely to massively increase formal banking use among the majority of the poor unless quality can be ensured, fees can be made affordable, and trust issues are addressed. The study focused on the demand side and ignored the supply side. Studies should be conducted on the supply side to find out how they address the inhibiting factors mentioned and any other relevant factors.

The findings of a study by Mutua and Oyugi (2007) indicate that Kenya rural financing programmes have a positive impact on poverty reduction among the poor. The study also reveals that the saving mobilization of the rural poor, utilisation potential and their unique banking needs have not been exploited and catered for adequately.

2.5 Summary of Literature

This section highlights findings that have emerged as a result of the empirical work on the study of agency banking. The studies concludes that because finance is about exchanging the cash people need on a daily basis for return of value, and vice versa, proximity is objective number one. And because these promises need to be maintained if people are going to find finance at all useful ,trust become second important objective. Enter technology; if a customer agent bank and banks are linked by a common secure technology platform, they can transact with sufficient certainty that they are dealing with whom they think they are; that transactions will be recorded and that promises will be kept. Also enter regulation; the government will be looking over the banks shoulder to make sure that it is doing right by the small depositor in the rural village.

Agent banking should therefore provide the previously unbanked and under-banked with affordable, accessible and appropriate financial products. These criteria are particularly important in order to increase financial inclusion. Products being offered by banks, via agents, should be cheap enough for poorer people to afford them (i.e. prohibitive charges should be avoided); they should be fairly easy for people in remote areas to access (i.e. not just available in bank branches but through a variety of branchless banking mechanisms) and they should be appropriate to lower-income groups (e.g. not targeted at people with a particular salary level and offering a mixture of financial services, including savings accounts).

A banking agent should therefore be viewed as a precursor to a more robust framework designed to increase access to credit as this is the key that will unlock economic activities in remote areas. It will also enhance opening of accounts to the unbanked and increase

financial literacy by aiding people to have a better appreciation of and consumption of financial services. Agency banking also helps financial institutions to divert customers from crowded banking halls. Banks stand to benefit more as it allows the roll out of a much more granular distribution network without incurring the large set up and operational cost of branch and ATM networks, additional delivery channels will make it easier to tap more deposits and transactions based income. Since retail agents are typically remunerated on a per transaction cost of the provider is largely variable. For the customers, agents further reduce the cost of accessing financial services by cutting down on travel time at bank outlets.

Fraud and money laundering are the major challenges within the use of agency banking. Thus measures guidelines and stringent regulatory framework is necessary to counter this challenge.

Financial exclusion will require a holistic approach on the part of the banks in creating awareness about financial products, education, and advice on money management, debt counseling, savings and affordable credit. The banks would have to evolve specific strategies to expand the outreach of their services in order to promote financial inclusion. One of the ways in which this can be achieved in a cost-effective manner is through forging linkages with microfinance institutions and local communities. Banks should give wide publicity to the facility of no frills account. Technology can be a very valuable tool in providing access to banking products in remote areas

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This chapter discusses the methods and procedures that were used in this research study. The chapter is organized in the following sections: - Research design, Population and sampling, Data collection methods and Data analysis methods.

3.2 Research Design

The study adopted a cross sectional survey approach in research design that sought to investigate the study variables without manipulating any of them or tampering with them in an attempt to understand, describe and explain well the effects of agency banking on financial inclusion in commercial banks in Kenya. A research design is the conceptual structure within which research is conducted. According to Mugenda et al., (2003), this design is a systematic inquiry into which the researcher does not have direct control of the independent variables because their manifestation has already occurred. The study used a descriptive design where measures of the proposed determinants of acceptance were taken once in a cross sectional study of the respondents (Hopkins, 2000).

3.3. Target population

The population for this study constituted data of banks with agents operating in Kenya. There are currently eight banks licenced by CBK to operate agency banking but six are active. Since data on the banks and their performance is readily available from the Central Bank of Kenya, then the researcher used the six banks that are active.

3.4 Data Collection

This section sets out how data for the study was collected. Secondary data was used for this study since it was easily available, cheaper and for this case very accurate. The CBK guideline on agent banking requires that all banks offering agency banking must furnish the Central Bank of Kenya with data and other information on agency operations, including the number of transactions from the agents of each bank, money flowing from each agent, incidents of fraud, theft or robbery, Customer complaints and remedial measures taken to address customer complaints. Failure to submit this data accurately and on time not later than the tenth day of the following month attracts administrative sanctions.

3.5 Data analysis

Inferential statistical techniques (regression analysis), were used to make a prediction about the dependent variable based on the covariance with the concerned independent variables. A regression analysis for Financial Inclusion as the dependent variable was conducted against the measures of agency banking to determine the relationship of the two variables. The regression equation assumes the following expression:

$$y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + E$$

Where:

y = financial inclusion

α = constant/ the intercept (FI) is not only influenced by agent banking. E represents financial inclusion influenced by other factors not related to agent banking.

X₁, the number of agents per month from each bank.

X₂, number of transactions per month from the agents of each bank.

X₃, volume of money flowing from the agents per month for each bank.

b₁, b₂ and b₃ = coefficient indicating the various levels of importance (weights of each factor). The statistics were obtained from the CBK over a period of 12 months and the increment average obtained per variable which is represented as X₁, X₂ and X₃.

Y (Financial inclusion) is a function of;

$$Y = a + b^1 N_1 + b^2 N_2 + b^3 N_3$$

Where;

a = the intercept

N₁ = number of bank accounts as a percentage of adult population

N₂ = number of bank Branch per 1000 km²

N₃ = total deposits as a percentage of GDP

b¹, b² and b³ = weights of each factor.

b¹ = 1, index of banking penetration,

b² = 0.5 the index of availability

b³ = 0.5 for the index of usage

Source: (kempson et al, 2004)

The data collected from this study was edited for accuracy, uniformity, consistency, completeness and arranged to enable coding and tabulation before final analysis, (Cooper and Emory, 1998). Further the data was analyzed using Statistical package for Social and statistical Scientist (SPSS) Version.16 and R-statistics and presented with summarized percentages, with the mean scores and standard deviations also being evaluated.

Inferences and suggestions were made based on the findings. The presentations are in the form of tables accompanied with explanations.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter covers data analysis in a description and inferential manner.

4.2 Descriptive Statistics on Commercial Banks Agency Banking Performance

The study sought to evaluate the performance of commercial banks in regard to agency banking by establishing the number of agencies each bank had rolled out.

Table 4.1 Descriptive Statistics on Agency Banking Performance

	N	Mean	Std. Deviation
Kenya commercial bank	6	116.7353	40.32279
Co-operative bank	6	88.6912	34.37415
Equity bank	6	77.5147	28.31004
Diamond trust bank	6	13.3088	10.54782
Chase bank	6	8.9118	4.39011
Post bank	6	6.2059	2.56032
Aggregated Total	6	57.1967	30.4042

Source: Survey (2013)

From table 4.1 above it is evident that the agency banking in commercial banks in Kenya had an average score with a mean of 57.1967. The standard deviation from its column above is 30.4042 meaning that the findings had a slight deviation when compared to each individual banks performance.

4.3 Inferential Statistics

4.3.1 Correlations

Further statistical tests were carried out to determine whether there were any significant there is a relationship between agency banking and financial inclusion. The results are as shown in differences in financial inclusion variables. Correlation analysis was used to determine if Table 4.2

Table 4.2: Relationship between Agency Banking and Financial Inclusion

		Agency Banking	Financial Inclusion
Agency Banking	Pearson Correlation	1.000	.277
	Sig. (2-tailed)	.	.001**
	N	142	142
Financial Inclusion	Pearson Correlation	.277	1.000
	Sig. (2-tailed)	.001	.
	N	6	6

** Correlation is significant at the 0.01 level (2-tailed); ($r=0.277$, $p=0.01$, $\alpha=0.05$)

4.3.2 Regression Analysis

The study used the multiple regression method to analyze our model and test the variables of agency banking measure. SPSS was used for the ordinary least squares (OLS) regression. The OLS method is used for estimating the unknown parameters in a linear regression model. The results of the test are presented and analyzed. All tests were carried out at ≤ 0.05 level of significance. The common collinearity assessment measures are tolerance and the Variance Inflation Factor (VIF). The collinearity test of the components of agency banking and financial inclusion (i.e. total deposits, number of bank Branch and number of bank accounts as a percentage of adult population) was performed and all VIF values were less than 5. The results of regressing agency banking and financial inclusion contained in the scale point out that the independent variables falling within acceptable limits ($VIF < 5$), suggesting that the independent variables, while correlated, are distinct constructs and does not suggest a problem of highly collinear variables.

Table 4.3 Regression coefficient for penetration, availability and usage

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	Penetration X ₁	1.983	.876		2.264	.028					
	AvailabilityX ₂	-.038	.126	-.040	-.302	.764	-.065	-.042	-.040	.992	1.008
	Usage X ₃	.172	.125	.187	1.374	.175	.230	.189	.182	.945	1.058

Table 4.4: Multiple Regression Analysis Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.727(a)	.529	.519	.36126

Predictors: (Constant), *total deposits, number of bank Branch and number of bank accounts as a percentage of adult population.*

Table 4.4 shows the results of applying the multiple regression analysis to test for the impact of agency banking aspects on and financial inclusion. It shows that the correlation coefficient between agency banking aspects (the independent variables) and financial inclusion (the dependent variable) was 0.727, which is enough to indicate the existence of strong relationship between the independent variables and the dependent variable. The R-square (coefficient of determination) is 0.529 which means that 52.9% of the variance in the financial inclusion variable can be explained and predicted by the agency banking aspects variables.

4.4 Extent of Use of Agency Banking Services

Chi-square tests and ANOVA tests were conducted to establish if there were any significant differences between the commercial banks in their agency banking roll out model and the extent of usage in the services by the public. The Chi-square tests for the various banks against the level of usage of agency banking system are shown in table 4.5

Table 4.5: Relationship between various banks and extent of use.

	Extent of Use of agency banking	KCB	Co-op Bank	Equity Bank	Diamond Trust Bank	Chase Bank
Chi-Square	64.282	2.282	34.343	41.176	4.451	130.535
df	6	6	6	6	6	6
Asymp. Sig.	.000	.131	.000	.000	.108	.000

For the various Chi-square tests, the findings were as follows: - KCB (Chi-square 2.282, $p=0.131$, $\alpha=0.05$); Co-op bank (Chi-square=34.34, $p=0.000$, $\alpha=0.05$); Equity bank (Chi-square=41.18, $p=0.000$, $\alpha=0.05$); Diamond trust bank (Chi-square=4.45, $p=0.108$, $\alpha=0.05$); Chase bank (Chi-square=130.54, $p=0.000$, $\alpha=0.05$) at 95% confidence level.

Table 4.6: ANOVA- Relationship between Commercial Banks in Their Agency Banking roll out model and extent of use.

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	504200000	8	84040000	13.133	0.000
Residual	551000000	36	6398927.157	-	-
Total	1.06E+09	44	90438927.157	13.133	0

Table 4.6 shows the overall significance of the regression estimation model. It indicates that the model is significant in explaining the relationship between banks with agency banking services and those without a 5% level of significance. The analysis of variance of the predictors of the model have a significance is .0000.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section refers to the organized, presented and analyzed data in the preceding chapters. The Summary and Conclusions are drawn from the discussed findings, in line with the objectives of the study

5.2 Summary

Inclusive financial systems allow producers and households to smoothen their production and consumption of goods and services through which income is generated in an economy. Thus, financial inclusion drives income generation through increasing productive capacity especially among those without assets to start with and facilitates inclusive growth. The over-reaching and cross-cutting nature of financial inclusion has made it one of the main pillars of the development agenda. Distress in the advanced economies has increased vulnerability of the poor and brought the needs for safety nets into even sharper focus. The efforts on financial inclusion will only be successful if they are supported by reliable data and common indicators.

From the findings it's evident that there is a strong positive relationship between financial inclusion and agency banking. The tests conducted shows that the correlation coefficient between agency banking aspects (the independent variables) and financial inclusion (the dependent variable) was 0.727, which is enough to indicate the existence of strong relationship between the independent variables and the dependent variable. The R-square (coefficient of determination) is 0.529 which means that 52.9% of the variance in the financial inclusion variable can be explained and predicted by the agency banking aspects

variables. Therefore the effect of agency banking on inclusive financing cannot be ignored but should be embraced by all the stakeholders as it's a measure of reducing poverty.

Every governments dream is to have an efficient and inclusive financial system for purposes of resource mobilization. The agent banking model is a continuously improving and growing system, and as it grows, the level of financial inclusion grow proportionately. Thus agent banking has the effect of increasing the level of financial inclusion and should be supported and encouraged by all players- the banks, government, and licensing bodies especially local authorities; so as to reduce the high gap of the unbanked.

5.3 Conclusion

The studies concludes that because finance is about exchanging the cash people need on a daily basis for return of value, and vice versa, proximity is objective number one. And because these promises need to be maintained if people are going to find finance at all useful. Agent banking should therefore provide the previously unbanked and underbanked with affordable, accessible and appropriate financial products, in order to increase financial inclusion. As a precursor to a more robust framework designed to increase access to credit as this is the key that will unlock economic activities in remote areas agency banking will also spur and enhance opening of accounts to the unbanked and increase financial literacy by aiding people to have a better appreciation of and consumption of financial services.

Financial inclusion of the total population of a country's people is every government's goal. The world over and especially in the developing countries, governments are working on various strategies and regulatory frameworks to ensure they reach all those excluded. The concept of inclusive financing is dynamic and has evolved significantly since its inception. Once viewed as means to tackle poverty and reduce income inequality, today the concept has developed into an important pre-requisite for financial stability and economic development.

5.4 Recommendations

Agency banking has enabled cost saving and accessibility of financial services by banks and customers as well. Banks have made huge savings on operational costs and infrastructure costs by using banking agents. Customers are able to access the basic banking services as opposed to the traditional banking. However, despite these achievements, cash availability and security are most critical factors in agency banking and they influence the performance of banks. It's therefore recommended that:

- i. Banks should adopt a risk – based approach to the supervision and regulation of agency banking. Enough security measures should be put in place.
- ii. The commercial Banks should establish training centre where employees working in agent banks and entrepreneurs come for short courses in order to improve their performances.

5.5 Limitations of the study

Most of the banks in Kenya have not enrolled for agency banking. It was therefore difficult accessing secondary financial data on performance of these banks and the impact of agency banking on financial inclusion in Kenya. Only six out of the 44 banks in the country actively operate agency banking fully hence not significant enough to give a conclusive result. The study used a small sample of banks and since the population of the study is big, it may be necessary to see whether the results from the research can be confirmed by expanding the study to cover the individual agents.

The other challenge in the study is the use of only secondary data. This data has been presented by the banks with agency banking services to the CBK hence cannot be validated. Primary data could have also been used as first hand information is obtained from the users of the service and the impact it creates in their lives.

Also, the study was analyzed for only a period of one year hence not bringing out the clear impact of agency banking on the lives of the users and its penetration in the society. This means that not full comparison was done on the variables to give out a clear picture of the impact of agency banking on inclusive financing.

Agency banking is still new in the country as it was commissioned in the year 2010. Therefore it was difficult getting empirical evidence on studies that have been done locally as there is no much data on local studies so far.

5.6 Recommendation for Further Research

Further research should be carried on the impact of agency banking on the economic development of a country. This will help the stakeholders to know how important this model is and if at all it will aid in the economic empowerment of the country.

Further research should be conducted on the quality of service the agents offer to its clients and the security measures that are put in place by the banks to ensure for the security of both the customers and the agents carrying on services on their behalf.

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Appendix I:

List of Commercial Banks Operating Agency Banking In Kenya

No.	Banks	Name of agency
1.	Equity bank	Equicash agents
2.	KCB	KCB mtaani
3.	Cooperative bank	Co-op kwa jirani
4.	Chase bank	Chase popote
5.	Family bank	
6.	Post Bank	
7.	NIC bank	
8.	Diamond Trust Bank	

Source: (Central Bank of Kenya 2013)

