EFFECT OF AGENCY BANKING ON THE GROWTH OF PROFITS OF COMMERCIAL BANKS IN KENYA

PRESENTED BY

JAMES MAINA MIMANO

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DECLARATION

This research project is my original work and has not been submitted for the award of a degree in any other university.

Signed: …………..………………………………..   Date: …………………………

James Maina Mimano

Reg. No.: D61/61749/2010

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

Signed: ………………………………………   Date: …………………………

Mirie Mwangi

Lecturer,

Department of Finance and Accounting

University of Nairobi

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DEDICATION

This work is dedicated to: my wife Peninah Wanjiru Muchai, my daughter Trayonah Muthoni Maina and my mum Mary Muthoni. Your support, sacrifice and encouragement saw me through.

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LIST OF ABBREVIATIONS

CAMEL -   Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity

CBK   -   Central Bank of Kenya

FDIC -   Federal Deposit Insurance Corporation

GDP   -   Gross Domestic Product

PCs   -   Personal Computers

PIN   -   Personal Identification Number

POS   -   Point-of-Sale

ROA   -   Return on Assets

SPSS -   Statistical Package for Social Sciences

ABSTRACT

Commercial banks play a vital role in the economic resource allocation of countries in which they operate. They channel funds from depositors to investors continuously. In order to effectively carry out the role of financial intermediation, banks need to generate necessary income to cover the operational cost they incur in the due course. In other words for sustainable intermediation, banks need to be profitable. Beyond the intermediation function, the financial performance of banks has critical implications for economic growth of countries. The Kenyan banking sector has gone through a raft of measures aimed at reforming the sector to make it more stable and increase financial inclusion. In 2009, the Central Bank of Kenya commenced measures to open up banking channels to non-bank-agents. An amendment to the Banking Act allowed banks to start using agents to deliver financial services. This research studied agency banking in Kenya with a view to determining its effect on the growth of profits of commercial banks in Kenya. An exploratory research design was used. The study used secondary data. Statistical analysis was done using the aid of the Statistical Package of Social Sciences (SPSS) software. The selected period was year 2010 to year 2013 (4 years). The target study units for this research were the 13 commercial banks that had adopted the use of agency banking to roll out financial services to their customers. The findings revealed that agency banking had a statistically significant effect on the growth of profit of commercial banks in Kenya. Based on the findings of the study, it can be concluded that that agency banking has resulted in greater uptake of financial services which has resulted in more revenues for the banks. It is therefore recommended to the management of commercial banks and the government continue to do more to increase the number of agents as a way of improving accessibility of financial services in Kenya and at the same time enhancing the financial performance of commercial banks. The researcher also noted that agency banking is lagging behind as only thirteen out of a possible forty three banks have enrolled the agency banking model, and that their reach and coverage is also poor as compared to that of mobile banking platforms such as M-Pesa, which has achieved tremendous reach and growth. The researcher therefore recommends that a further study be conducted to establish the factors hindering the growth of agency banking model in Kenya as compared to mobile banking.

CHAPTER ONE

INTRODUCTION

1.1   Background of the Study

The business environment globally has changed and it has been characterized by stiff competition among the players and the banking industry is no exception. Competition amongst the commercial banks has pushed banks towards becoming more innovative. These innovations include ATMs, credit cards, mobile banking, internet banking, youth oriented accounts, women oriented banking, Shariah compliant banking, children accounts and now most recently introduced within banking sector – agency banking (Bold, 2011).

Though commercial banks continues to invest in rolling out brick and mortar branches that are complimented by various delivery channels, the challenge of access to formal financial services remains a big impediment to financial performance. Customers (especially in remote areas) are forced to travel long distances and spend huge amounts of money on transport in order to access a branch. In addition to the cost of transport is the time spent commuting to and fro that could have been spent more productively. To curb these challenges, a number of central banks around the world have released legislation that allows commercial banks to contract third party retail networks as agents (Ivatury and Lyman, 2006).

Globally, retailers and post offices are increasingly utilized as important distribution channels for financial institutions. The points of service range from post offices in Australia where clients from all banks can conduct their transactions, to rural France where the bank Credit Agricole 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 (Ivatury and Lyman, 2006). However, agency banking can be traced to Brazil in 1999 where it exponentially grew from 1,600 agents in 2000 to 170,000 agents in 2010 (McKay, 2011).

1.1.1   Agency Banking

An agency bank is a company or organization that acts in some capacity on behalf of another bank, it, thus, cannot accept deposits or extend loans in its own name; it acts as agent for the parent bank. An example is a retail outlet contracted by a financial institution or a mobile network operator that processes 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 (Siedek, 2008).

Retail outlets are forced to extend their limited sources of financing in a bid to meet the regulations so as to fulfill the legal requirements necessary to operate as banking agents. Such requirements usually involve having a specific level of capital investment to assure the regulators of the sustainability of the venture. Inability of the retail outlets to fulfill

these requirements prevents the expansion of retail banking to areas of low income earners. Unless the tight regulations are eased, few retail outlets would be able to meet the standards required by the policy makers (Ivatury and Lyman, 2006).

Financial institutions can only be allowed to work through retail outlets if the laws permit it. Regulators determine what kind of, if any, financial institutions are permitted to contract banking agents, what products can be offered at the retail outlets, how financial institutions have to handle financial transactions and all aspects regarding the operation of agency banking. Without the approval of the lawmakers, agent banking would not be operational. Lawmakers also provide guidelines and alterations of the policies regarding operations of agent banks from time to time, which necessitates the bank agents to change their operations to be in line with the prevailing laws of the land (Ivatury and Mas, 2008). Without the support of the regulatory authorities, agent banking would not be facilitated. For example, the Filipino government's commitment to extending financial services to unbanked low-income populations has immensely contributed to making the Philippines a world leader in branchless mobile banking services (Seltzer, 2010).

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

investment in acquiring the technological equipment which is a challenge to the retail outlets that have limited capital (Ivatury, 2006).

1.1.2 Growth of Profits in Commercial Banks

Commercial banks are profit seeking organizations and growth is an integral part of commercial bank metrics. Growth refers to a positive change in the size of a bank's assets and operations, often over a period of time. Banks report their performance in terms of various growth indicators. The way the commercial banks manage their portfolio determines the level of profits and growth. Portfolio management basically refers to how the commercial banks handle their assets and liabilities. Portfolio growth refers to the growth of assets and liabilities. Practically, profitability and liquidity are effective indicators of the corporate health and performance of not only the commercial banks, but all profit-oriented ventures. These performance indicators are very important to the shareholders and depositors who are major stakeholders of a bank. As the shareholders are interested in the profitability level, the depositors are concerned with the liquidity position which determines a bank's ability to respond to the withdrawal needs which are normally on demand or on a short notice as the case may be (Andreas and Gabrielle, 2010).

The traditional measures of the profitability of any business are return on assets (ROA) and return on equity (ROE). Assets are used by businesses to generate income. Loans and securities are a bank's assets and are used to provide most of a bank's income. However, to make loans and to buy securities, a bank must have money, which comes primarily

from the bank's owners in the form of bank capital, from depositors, and from money that it borrows from other banks or by selling debt securities (Lamido, 2010). Profit is the ultimate goal of commercial banks. All the strategies designed and activities performed thereof are meant to realize this grand objective. However, this does not mean that commercial banks have no other goals. Commercial banks could also have additional social and economic goals. To measure the profitability of commercial banks, there are variety of ratios used of which Return on Asset, Return on Equity and Net Interest Margin are the major ones (Murthy and Sree, 2003).

1.1.3   Agency Banking and Growth of Profits of Commercial Banks

A review of existing theories suggests that agents who have been recruited by banks to handle all or most customer interactions presents benefits as compared to delivery of banking services through brick and mortar channels. Therefore, agency banking is assumed to have a positive relationship with a bank's profitability (Lyman, Ivatury and Staschen, 2006). Specifically, the bank led theory of agency banking argues that agency banking has enabled bank customers to access the basic banking services such as; deposits, withdrawals, loan disbursement, loan repayment, payment of bills, transfer of funds, balance enquiry, generation and issuance of mini bank statements, collection of documents in relation to account opening, loan application and credit and debit card applications (Lyman, Ivatury and Staschen, 2006). The concept of deepening access to financial services is gaining currency in developing economies, where one third of the population still lacks access to formal banking services (Neil and Leishman, 2010).

Theory also suggests that agency banking poses risks that erode the growth of commercial banks' profits. These risks include insecurity of cash held as well as insecurity of customers. Such risks may impact negatively on profitability of commercial banks through damaged reputation. The main theory that suggests this is the bank led theory of agency banking (Aduda, 2013).

1.1.4 Commercial Banks in Kenya

The Kenyan banking sector comprise 43 commercial banks, 1 mortgage finance company, 9 deposit taking microfinance institutions, 7 representative offices of foreign banks, 106 foreign exchange bureaus and 2 credit reference bureaus for the year ended 2013 (Central Bank of Kenya, 2013).

Following the roll out of the agent banking model in May 2010, commercial banks have continued to contract varied retail entities to offer basic banking services. These entities that include security companies, courier services, pharmacies, supermarkets and post offices act as third party agents to provide cash- in -cash-out transactions and other services in compliance with the laid down guidelines. As at 31st March 2014, there were 14 commercial banks that had contracted 24,645 active agents facilitating over 92.6 million transactions valued at Ksh. 499.0 billion (CBK, 2014).

The Kenyan banking sector continues to register enhanced growth in profitability over the years with an increase in the size of total assets, the number of bank customers, deposits and loan accounts. The Central Bank of Kenya (CBK) sector report for 2013 showed that total pre-tax profit for the banks rose to KSh124.5 billion in 2013 from KSh107.8 billion in 2012. Deposits with the banks are on the verge of crossing the KSh2 trillion mark, currently at KSh1.98 trillion. CBK said the banks' interest income on loans fell by 3.57 per cent in 2013 to KSh211 billion, while interest expenses on deposits fell by 27.4 per cent to KSh72.13 billion in the same period; this despite the faster growth in banks' deposit base. The drop in interest paid to savers resulted in a 4.7 per cent drop in total expenses to KSh233 billion. Total income increased by 1.5 per cent indicating that the profit growth was largely driven by the cut in interest expense (FSD Kenya, 2014).

1.2   Research Problem

Growth of commercial banks in Kenya is important since it has implication as far as financial deepening and inclusion is concerned. Financial inclusion is a big challenge in Kenya: only 22.6% of the adult population had a bank account (FSD Kenya, 2009). Agency banking as an innovation is supposed to remedy the problem of financial inclusion. The access to financial services (financial deepening) in Kenya is expected to facilitate the growth of the economy in line with Vision 2030. The growth of the economy is expected to trickle down to the masses in form of better incomes and living conditions.

A review of existing studies reveals divergent findings on the relationship between agency banking and growth of profits of commercial banks (Aduda, 2013, Mwando, 2013; Kamau, 2012). However, the most common position is that agency banking has a positive relationship with growth of profits of commercial banks. Podpiera (2008) argues that agent banking does improve the economics for financial institutions compared with branches, especially for high-transaction, low-balance accounts that are common among poor users. Some of the benefits that commercial banks gain from agency banking are: large savings on cost of construction of bank premises and leasing costs when banks are using the agents premises; reduced human resource expenses as banks do not have to employ new staff to manage the agency, minimal cost of training; savings on equipment like furniture and computers (Kumar, Nair, Parsons and Urdapilleta, 2006; Kitaka, 2001).

On a global scale, few studies on agency banking exist. These incude Auta (2010); Bakar and Tahir (2009). Majority of the global studies seem to focus on mobile banking probably because agency banking is most beneficial to developing economies with poorly deepened financial markets. For instance, studies by Sultana(2009) Shehzad, De Haan and Scholtens (2013) and Andreas and Gabrielle (2010) focus on m-banking and failed to focus on agency banking.

Kamau (2012) studied the relationship between agency banking and financial performance of the banks in Kenya. The study found that there was negative and weak correlation between agency banking and financial performance of banks as measured by return on equity. Waithanji (2012) sought to establish effect of agent banking as a

financial deepening initiative in Kenya. The findings revealed lack of connection between agent banking and financial deepening. Aduda (2013) found out that agency banking does not solely contribute to increased profitability in Kenyan banks as per the secondary data reviewed for 2010 and 2011.

The above studies have used a number of study variables, for example; the 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. In contrast, this study used a set of different variables as follows; the dependent variable (growth in profits) were measured in terms of the proportionate growth in profit before tax, while the independent variables included the number of agency branches, the value of withdrawal transactions, the value of money transfer transactions, the value of deposit transactions and the number of new accounts opened through agents

The above studies were inconclusive, and the variables of interest differ from those to be used in this study, and hence a clear research gap exists. The question the study sought to answer was: what is the effect of agency banking on the growth of profits of commercial banks in Kenya?

1.3   Research Objective

The objective of the study was to establish the effect of agency banking on the growth of profits of commercial banks in Kenya.

1.4   Value of the Study

The findings of this study informed theory building in financing. At the core of the study, is the theory of financial intermediation. The findings would either confirm or disagree with this theory. Validation of the theory took place through empirical findings. The findings also validated agency theory as it is argued that agents if managed properly can lead to growth of a bank's profitability.

The study findings were relevant to the practice of finance. This study informed Kenyan commercial banks on the actual contribution of agency banking to their performance with a view of sustaining the gains thus make and address any weaknesses that may be observed. The banks would also be able to lobby for appropriate policy formulation and strategies that would fully exploit agency banking opportunities that are feasible in Kenya. The information gathered would encourage financial institutions to use agents in the provision of banking services so as to reduce the cost of financial services and to foster financial inclusion, reach and depth.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses theories relevant to the study. Literature related to the study was also reviewed with the aim of identifying literature gaps. The literature review also guided the relevance of the study findings.

2.2 Theoretical Review

This section contains review of theories relevant to the study.

2.2.1 Agency Theory

Agency theory is a concept that explains why behavior or decisions vary when exhibited by different members of a group. Specifically, it describes the relationship between one party called the principal that delegates work to another party called the agent. It explains differences in their behavior or decisions by noting that the two parties often have different goals and, may have different attitudes toward risk. The interests of the directors and managers of a given firm may differ from those of the owners of the firm, and the concepts of agency and principal can be used to explain the origins of those conflicts (Murtishaw and Sathaye, 2006).

The theory essentially acknowledges that different parties involved in a given situation with the same given goal will have different motivations, and that these different motivations can manifest in divergent ways (Andresson and Emander, 2005). It states that there will always be partial goal conflict among parties, efficiency is inseparable from effectiveness, and information will always be somewhat asymmetric between principal and agent. The theory has been successfully applied to myriad disciplines including accounting, economics, politics, finance, marketing, and sociology (Nikkinen and Sahlström, 2004).

Agency theory analyzes the relationships between a business firm's owners and its managers who, under law, are agents for the owners. In agency banking, the retailers are agents and the bank is the principal.

2.2.2   Intermediation Theory

In the traditional Arrow Debreu model of resource allocation, households interact with markets and financial intermediaries play no role. When markets are perfect and complete, the allocation of resources is Pareto efficient and there is no scope for intermediaries to improve welfare. Moreover, the Modigliani Miller theorem applied in this context asserts that financial structure does not matter: households can construct portfolios which offset any position taken by an intermediary and intermediation cannot create value (Fama, 1980 and McDonald, 2011).

The intermediation theory attempts to explain the roles played by financial institutions. The theory has been built on the models of resource allocation by suggesting that it is frictions such as transaction costs and asymmetric information that are important in understanding intermediation. Gurley and Shaw (1960) and many subsequent authors have stressed the role of transaction costs. For example, fixed costs of asset evaluation mean that intermediaries have an advantage over individuals because they allow such costs to be shared.

Looking for frictions that relate more to investors' information sets, numerous authors have stressed the role of asymmetric information as an alternative rationalization for the importance of intermediaries. One of the earliest and most cited papers, Leland and Pyle (1977), suggests that an intermediary can signal its informed status by investing its wealth in assets about which it has special knowledge. In another important paper, Diamond (1984) has argued that intermediaries overcome asymmetric information problems by acting as ``delegated monitors.''

2.2.3   Bank-led Theory

In the most basic version of the bank-led theory, a licensed financial institution (typically a bank) delivers financial services through a retail agent. The bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction (Lyman, Ivatury and Staschen, 2006). The bank is the ultimate provider of financial services and is the institution in which customers maintain accounts. Retail agents have face-to-face interaction with customers and perform cash in/ cash-out

functions, much as a branch-based teller would take deposits and process withdrawals (Owens, 2006). In some countries, retail agents also handle all account opening procedures and, in some cases, even identify and service loan customers. Virtually any outlet that handles cash and is located near customers could potentially serve as a retail agent. Whatever the arrangement, each retail agent is outfitted to communicate electronically with the bank for which it is working. The equipment may be a mobile phone or an electronic point-of-sale (POS) terminal that reads cards.

The bank-led model offers a distinct alternative to conventional branch-based banking in that customers conduct financial transactions at a whole range of retail agents instead of at bank branches or through bank employees (Lyman, Ivatury and Staschen, 2006). This model promises the potential to substantially increasing the financial services outreach by using a different delivery channel (retailers/ mobile phones), a different trade partner (chain store) having experience and a target market distinct from traditional banks, and may be significantly cheaper than the bank based alternatives. In this model customer account relationship rests with the bank (Tomašková, 2010).

Agents related risks arise from substantial outsourcing of customer contact to retail agents. From a typical banking regulators perspective, entrusting retail customer contact to the retail agents would seem riskier than if these functions were left in the hands of bank tellers in a conventional bank branch. These retail agents may operate in hard-to-reach or dangerous areas and they lack physical security systems and specially trained personnel. The lack of expert training which may be particularly a problem if retail

agents' functions range beyond the cash-in cash-out transactions of typical bank tellers to include a role in credit decisions (State Bank of Pakistan, 2011).

The bank led theory is related to the study as it focus on how financial institutions like banks deliver their financial services through a retail agent, where the bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction. For example; Family bank of Kenya distributes its financial products through its Pesa Pap agents, where the agents have face-to-face interaction with customers and perform cash-in cash-out functions, much as a branch-based teller would take deposits and process withdrawals.

2.3   Determinants of Growth of Profits of Commercial Banks

The determinants of bank performances can be classified into bank specific (internal) and macroeconomic (external) factors (Al-Tamimi, 2010; Aburime, 2005). These are stochastic variables that determine the output. Internal factors are individual bank characteristics which affect the banks performance. These factors are basically influenced by internal decisions of management and the board. The external factors are sector-wide or country-wide factors which are beyond the control of the company and affect the profitability of banks (Oloo, 2010).

Dang (2011) noted that the internal factors are bank specific variables which influence the profitability of specific a bank. These factors are within the scope of the bank to

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manipulate and that they differ from bank to bank. These include capital size, size of deposit liabilities, size and composition of credit portfolio, interest rate policy, labor productivity, and state of information technology, risk level, management quality, bank size, ownership and the like. The CAMEL framework is often used by scholars to proxy the bank specific factors (Dang, 2011).

Azam and Siddiqui (2012) noted that the external factors/ macroeconomic factors that affect the profitability of banks include the macroeconomic policy stability; gross domestic product, inflation, interest rate and political stability etc. For instance, the trend of GDP affects the demand for banks loans. During the declining GDP growth the demand for credit falls which in turn negatively affect the profitability of banks. On the contrary, in a growing economy as expressed by positive GDP growth, the demand for credit is high due to the nature of business cycle.

2.4 Empirical Studies

Waithanji (2012) study sought to identify the impact of agent banking as a financial deepening initiative in Kenya. The study was guided by the research objective which was to show the impact of agent banking in its first year of operation in Kenya. This was a census of 4 banks as only 4 banks had licensed agents in the first year of operation. Descriptive statistics were used for the analysis. The research study indicated that there is a connection between agent banking and financial deepening. There is however a major reluctance by banks in Kenya to embrace agent banking as a paltry 10% of the financial institutions had implemented agency banking. Only 4 banks out of a possible 43 banks in

Kenya had licensed agents to operate on their behalf. The low number of agent banking adoption could be due to internal weaknesses by those banks that are reluctant to embrace agent banking especially in the area of information technology. The study established that the bank with the highest number of customers was Equity bank which had 5.3 million customers and 2,851 agents followed by Co-operative bank with 1.9 million customers and 56l agents. This indicated that agent banking had an effect on financial deepening as the higher the number of agents, the higher the number of customers. The study however noted that the effect of agent banking on financial sector deepening could not be conclusively determined due to the low number of banks that had implemented it at that time.

Mwando (2013) conducted a study on contribution of Agency Banking on Financial Performance of Commercial Banks in Kenya. The objective of the study was to determine the contribution of agency banking on financial performance of commercial banks in Kenya. This study adopted a descriptive survey. The target population of the study was 9 commercial banks offering agency banking in Kenya. A census was employed, with 4 senior managers selected from each bank thus forming a sample size of 36respondents who were used in this study. The study performed a multiple regression analysis. The study found that the move by the Central Bank to regulate agency banking had a positive influence on the financial performance of commercial banks in Kenya.

Aduda (2013) conducted a study on relationship between agency banking and financial performance of commercial banks in Kenya. The objective of the study was to establish

the relationship between agency banking and financial performance of commercial banks in Kenya. This research used the descriptive design method using secondary data gathered from the commercial banks in Kenya that had adopted agency banking. The population of the study was 10 banks that had adopted agency banking by end of 2012, with over 12,054 agents. A census was done and therefore10 commercial banks were used. Multiple linear regression analysis was used to establish the relationship between agency banking and financial performance. Secondary data sources were used for the study. 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 study found out that agency banking does not solely contribute to increased profitability in Kenyan banks as per the secondary data reviewed.

Ndwiga (2013) conducted a study on effect of agency banking on financial performance of commercial banks in Kenya. The population of the study was 10 commercial banks that had adopted agency banking in Kenya. Since a census was conducted, all 10 banks were included in the sample. The data was collected for the three-year period: 2010 to 2012. Multiple linear regression analysis was used to establish the relationship between agency banking and financial performance. The findings indicated that out of all the banks that had rolled up the service, Equity bank, Co-operative bank and Kenya Commercial Bank showed a significant improvement in their 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 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.

Mwai (2013) conducted a study on the effect of agency banking on the financial performance of commercial banks in Kenya. The objective of this study was mainly to evaluate the extent to which the agency banking model has contributed to the financial element of the commercial banks in Kenya. The study revealed that out of the 43 institutions currently licensed to carry out banking activities, 12 banks were in full throttle into agency banking which gave a good representation. The study therefore took a census of 12 banks. The study used secondary data collected from the Central bank. The data was analyzed using SPSS providing various parameters to show the strength of the relationship between the various variables i.e. number of agents, agency related banking income and net assets for the period. From the statistical analysis, the study noted that there is a significant relationship between the agency banking variables and the rate of return on assets. i.e. from the analysis, it depicted a strength correlation of 0.814 on number agents to net assets and 0.843 on agency related income to net assets. In general, agency banking has made a remarkable contribution to the financial performance of the banks, which herald a positive signal to the other banks to adopting the model.

Hirtle (2007) performed a study on the relationship between banks branch network size and overall profitability in the U.S. The data used in their paper was derived from the Bank and Thrift regulatory reports, which provided coverage of a wide set of institutions over a relatively long period of time. Specifically, the FDIC Summary of Deposit data contained information about the location, ownership, and deposit amounts booked at all offices of FDIC-insured banks and thrift institutions as of June 30 of each year. They used the FDIC data to create a series of annual data sets for the years 1995 to 2003. The main objective of the paper was to assess the implications of these developments by examining measures of branch performance and asking how these measures vary across institutions with different branch network sizes.

Their empirical approach was to do simple annual regressions of these performance proxies on a series of variables intended to capture the characteristics of the bank and the geographic markets in which it operates branches, as well as characteristics of the branch network itself. The findings suggest that banks with mid-sized branch networks may be at a competitive disadvantage in branching activities. The study noted that despite significant technological innovation in retail banking services delivery, the number of U.S. bank branches had grown steadily over time. They found no systematic relationship between branch network size and overall institutional profitability, perhaps because banking organizations optimize the size of their branch network operations as part of an overall strategy involving both branch-based and non-branch-based activities.

Bakar and Tahir (2009) conducted a study on implication of agent banking on profitability of Malaysia commercial banks. The main objective was to evaluate the impact of agency banking on profitability of Malaysia commercial banks. Data of thirteen banks in Malaysia for the period 2001-2006 was used in the study. Multiple linear regression technique and artificial neural network techniques were used in predicting bank performance. Return on assets (ROA) was used as a measure of bank performance and seven variables including liquidity, credit risk, cost to income ratio, size, concentration ratio, were used as independent variables. They noted that neural network method outperforms the multiple linear regression method but it lacks explanation on the parameters used and they concluded that multiple linear regressions, not withstanding its limitations (i.e. violations of its assumptions), can be used as a simple tool to study the linear relationship between the dependent variable and independent variables.

Auta (2010) conducted a study on E-banking in a developing economy with empirical evidence from Nigeria. This paper empirically examined the impact of e-banking in Nigeria's economy using Kaiser-Meyar-Olkin (KMO) approach and Barlett's Test of Sphericity which supports the use of factor analysis in order to extract independent variables associated with e-banking. The paper explores the major factors responsible for internet banking based on respondents 'perception on various e-banking applications'. The study sample consisted of all the 25 commercial banks in Nigeria that had adopted E-banking. Data was collected over a period of three months commencing from the second week of January 2010 to the fourth week of March 2010. Statistical Package for Social Sciences (SPSS) version10 was used as the statistical analysis tool while descriptive

statistics were computed and used in the interpretation of findings. The results of the study showed that e-banking serves several advantages to Nigerian banking sector. The customers (respondents) perception was that e-banking provides convenience and flexible advantages. It also provides transaction related benefits like easy transfer, speedy transaction, less cost and time saving. However, the study showed that the Nigerian customers have security and access issues and not enough knowledge regarding e-banking services rendering by banking sector in Nigeria.

Nader (2011) analyzed the profit efficiency of the Saudi Arabia commercial banks during the period 1998 - 2007. The objective of the paper was to analyze the profit efficiency of the Saudi Arabia commercial banks, and testing how it could be affected by banking expansion. The study was conducted using a sample of 6 commercial banks (out of 11), and covering the period from 1998 to 2007. Profit efficiency was measured using the ratio of actual profitability to the best profit which a similar bank (in size) can realize. The results of this study indicated that availability of telephone banking, number of ATMs and number of branches had a positive effect on profit efficiency of Saudi banks. On the contrary the study found that the number of point of sale terminals (POSs), availability of PC banking and availability of mobile banking did not improve profit efficiency.

Harimaya and Kondo (2012) conducted a study on the effects of branch expansion on bank efficiency in Japanese regional banks. The aim of the paper was to investigate the effects of branch expansion on cost and profit efficiency for the Japanese regional banks

over the period of fiscal year 1999-2009. With regard to performance measures, the authors concentrated in estimating cost and profit efficiency of banks using stochastic frontier analysis (SFA). The study used secondary data which was pooled data from the Japanese regional banks from the fiscal year 1999 to 2009. The principal findings were as follows: First, focusing on the local activities without expanding branch network is associated with improved cost efficiency. Secondly, regional banks expanding branch network in certain level exhibit higher cost efficiency, whereas excessive branch expansion causes lower cost efficiency. Excessive branch expansion leads to lower profit efficiency.

2.5   Summary of Literature Review

On a global scale, few studies on agency banking exist. These include Auta (2010); Bakar and Tahir (2009); Hirtle (2007); Harimaya and Kondo (2012); Nader (2011). Majority of the global studies seem to focus on mobile banking probably because agency banking is most beneficial to developing economies with poorly deepened financial markets. For instance, studies by Sultana (2009) Shehzad, De Haan and Scholtens (2013) and Andreas and Gabrielle (2010) focus on m-banking and failed to focus on agency banking.

At a local level, the summary of the studies is as follows: Kamau (2012) studied the relationship between agency banking and financial performance of commercial banks in Kenya. The study found that there was negative and weak correlation between agency banking and financial performance of banks as measured by return on equity. Waithanji (2012) sought to establish effect of agent banking as a financial deepening initiative in

Kenya. The findings revealed lack of connection between agent banking and financial deepening. Aduda (2013) found out that agency banking does not solely contribute to increased profitability in Kenyan banks as per the secondary data reviewed for 2010 and 2011. Mwando (2013) conducted a study on contribution of agency banking on financial performance of commercial banks in Kenya. The study found that increased market share associated with use of agents had a positive effect on the financial performance of commercial banks with many banking institutions indicating that increased market share allowed a company to achieve greater scale in its operations which generally improved its profitability.

Similarly, from the review of theory, scholars have not studied the concept of agency banking. Existing theory dwells on other aspects of finance (Agency Theory, Intermediation Theory and Bank-Led Theory) with no direct focus on agency banking. The above studies and theories are inconclusive and hence a clear research gap exists. The question the study seeks to answer is: what is the effect of agency banking on the growth in profits of commercial banks in Kenya?

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the type of research design, population, and target population, sampling frame, sample, sample size, sampling technique, instruments used, pilot test and data analysis methods adopted.

3.2 Research Design

A research design is the structure of research. Newing (2011) states that a research design is a general plan or strategy for conducting a research study to examine specific testable research questions of interest.

This study employed explanatory research design. In general, an explanatory study is a quantitative method of research in which you have two or more quantitative variables from the same group of subjects, and you are trying to determine if there is a relationship (or covariation) between the variables. Mugenda and Mugenda (2003) and Kothari (2004) explain that explanatory research is used to explore the relationship between variables and this is consistent with this study which sought to establish the relationship between agency banking and growth of profits of commercial banks.

3.3   Population

A population refers to an entire group of individuals, events or objects having a common observable characteristic (Mugenda and Mugenda, 2003). As at 31st March 2014, there were 14 commercial banks that had contracted active agents. This was an increase from 13 commercial banks in December 2013 with active agents. They comprise Equity Bank; Cooperative Bank (Co-op Kwa Jirani); KCB Bank; Post Bank; Family Bank (PesaPap); Chase Bank (Chase Popote); Consolidated Bank (Conso Maskani); Diamond Trust Bank; Barclays Bank, Standard Chartered Bank, National Bank, CFC Stanbic Bank and NIC Bank (CBK, 2014). The population of this study was therefore 13 commercial banks which were operational as at December 2013.

3.4   Data Collection Procedure

The study used secondary data which was collected from the 13 banks that have enrolled agency banking model. The data included the commercial banks profit before tax, number of agency branches, value of withdraw transactions through agents, value of money transfer transactions through agents and the value of agency banking deposit transactions. The data covered a period of 4 years from 2010 to 2013.

3.5   Data Analysis

The researcher used frequencies, averages and percentages in this study. The researcher used Statistical Package for Social Sciences (SPSS) to generate the descriptive statistics and also to generate inferential results. Regression analysis was used to demonstrate

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effect of agency banking on the growth of profits of commercial banks in Kenya. According to Mugenda and Mugenda (2003), the regression technique is used to analyze the degree of relationship between two variables.

The results were presented using tables and pie charts to give a clear picture of the research findings at a glance. Regression analysis was used to determine the relationship between the dependent variable and the independent variables.

3.5.1 Analytical Model

A multivariate regression model was used to link the independent variables to the dependent variable as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mu$$

Where;

Y = Growth in profits, which was be calculated as follows;

$$\frac{Profit\ in\ year_t - Profit\ in\ year_{t-1}}{Profit\ in\ year_{t-1}}$$

X_1 = Agency banking branches. This was measured by number of branches

X_2 = Agency banking withdrawal transactions. This was be measured by the value of withdrawal transactions

X_3 = Agency banking money transfer transactions. This was be measured by the value of money transfer transactions

X_4= Agency banking deposit transactions. This was be measured by the value of deposit transactions

β_0 = the constant term

β_ii= 1….4 measure of the sensitivity of the dependent variable (Y) to unit change in the predictor variables X_1, X_2,X_3 and X_4.

µ = is the error term which captures the unexplained variations in the model.

3.5.2 Test of Significance

In this study, the level of significance was tested or checked at 5% which means that all statistical tests were done and compared against the 5% level of significance.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study based on the data collected from the field. The study sought to establish the effect of agency banking on the growth of profits of commercial banks in Kenya.

4.2 Descriptive Analysis

	Agency banking branches. (Measured by number of branches)	Agency banking withdrawal transactions. (Measured by the value of withdrawal transactions - KSh M)	Agency banking money transfer transactions. (Measured by the value of money transfer transactions - KSh M)	Agency banking deposit transactions. Measured by the value of deposit transactions - KSh M)
Lowest	809	11,970	-	13,135
Highest	23,477	73,894	27	160,790
Mean	11,783	37,698	10	75,847
Median	11,423	32,464	7	64,732
Standard Deviation	10,094	29,523	13	68,437

Figure 4.1 Descriptive Analysis from Agency Banking

From the findings presented in the figure 4.1 above, the study established that in the inception year (2010), the total number of active agents was 809. This number steadily grew to 23,477 agents as at December 2013. The value of withdrawal transactions made through agents also grew from a low of Ksh. 12 billion in 2010 to a high of KSh 79 billion in 2013. The value of money transfers via agents increased from a low of nil in 2010 to a high of KSh 27 million in 2013. Similarly, the value of deposits made through agents rose from a low of KSh 13 billion in 2010 to a high of KSh 161 billion in 2013. These findings reveal an almost exponential growth in business transacted via agents and its indicative of the likelihood that agency banking will have a significant effect on the growth of profits of commercial banks in Kenya.

4.2.2 Growth of Profits of Commercial Banks

Figure 4.2 Profit Before Tax for Commercial Banks

The findings in figure 4.3.2 above established that the profit before tax (PBT) for the commercial banks grew steadily from Ksh. 74.3 billion in December 2010 to 89.5 billion in December 2011. The PBT further increased to KSh 107.9 billion in December 2012 and to KShs 125.8 billion in December 2013. However, as seen on figure 4.3 below, the rate of growth of profits of commercial banks slowed down from 51.9% in 2009/10 to 16.6% in 2012/13. This indicates the profitability of commercial banks is increasing albeit at a declining rate, and hence the need for banks to continue to become more innovative in the market place.

Figure 4.3 Growth of Profits of Commercial Banks

4.3 Correlation Analysis

The study used Pearson product-moment correlation analysis to establish the strength of relationship between agency banking as presented by number of agency branches, agency

banking withdrawals, money transfer transactions, agency banking deposits and growth
of profits in Commercial banks in Kenya.

Table 4.1 Correlations Analysis

	Growth of Profits	Number of agency branches	Agency banking withdrawals	Money transfer transactions	Agency banking deposits
Growth of Profits	1				
Number of agency branches	0.315(**)	1			
Agency banking withdrawals	0.505(*)	0.488	1		
Money transfer transactions	0.566(*)	0.367	0.221	1	
Agency banking deposits	0.541(**)	0.107	0.138	0.206	1

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

The Pearson correlation results showed that there was a positive and significant
relationship between the growth of profits and all the four agency banking aspects as
shown: Number of agency branches (P=0.001<0.05), Agency banking withdrawals
(p=0.004<0.05), Money transfer transactions (p=0.001<0.05) and Agency banking
deposits (p=0.000<0.05).

4.4 Regression Analysis

A multivariate regression model was applied to determine the form of relationship between the four variables on agency banking with respect to growth of profits of commercial banks in Kenya. The independent variables were: commercial banks' number of agency br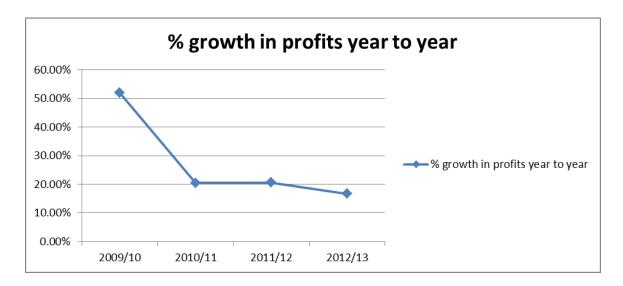anches, value of withdraws transactions through agents, value of money transfer transactions through agents and value of agency banking deposit transactions.

Table 4.2: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.378	0.14	0.126	0.546

Predictors: (Constant), number of agency branches, agency banking withdrawals, money transfer transactions, agency banking deposits.

The adjusted R^2 is the coefficient of determination which tells us proportion of the variation in the dependent variable (growth of profits of commercial banks) explained by the variation of the predictor variables (number of agency branches, agency banking withdrawals, money transfer transactions and agency banking deposits). Thus the coefficient of determination value of 0.126 as seen on the table 4.2 above indicates that agency banking as represented by number of agency branches, agency banking withdrawals, money transfer transactions and agency banking deposits explained 12.6% of growth of profits of the thirteen commercial banks in Kenya.

Table 4.3: ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.728	5	2.934	44.231	.000(a)
	Residual	2.839	47	0.076		
	Total	14.576	52			

a Predictors: (Constant), number of agency branches, agency banking withdrawals, money transfer transactions, agency banking deposits.

b Dependent Variable: Growth of profits of commercial banks

Table 4.3 shows the output of the ANOVA analysis, regarding whether there was a statistically significant relationship between the predictor and the dependent variables. The significance level is 0.000 ($p = 0.000$), which is below the established threshold value of 5% (0.05) level of significance and, therefore, this means that there was a statistically significant relationship between the predictor and the dependent variables.

Table 4.4: Coefficient Results

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.236	1.367		0.871	0.000
Number of agency branches	0.143	0.176	0.109	0.675	0.046
Agency banking withdrawals	0.107	0.182	0.023	0.145	0.003
Money transfer transactions	0.259	0.273	0.246	1.461	0.057
Agency banking deposits	0.376	0.246	0.256	1.601	0.041

b Growth of profits of commercial banks

The results in Table 4.4 above showed that there was a positive relationship between growth of profits of commercial banks in Kenya and all the four independent variables. From the above regression model, holding all the independent variables constant, growth of profits of commercial banks in Kenya would be achieved at a unit of 1.236. A unit increase in number of agency branches would cause an increase in growth of profits in the commercial banks by a factor of 0.143, a unit increase in agency banking withdrawals would cause an increase in growth of profits by a factor of 0.107, a unit increase in money transfer transactions would cause an increase in growth of profits by a factor of 0.259 while a unit increase in agency banking deposits would cause an increase in growth of profits in the commercial banks by a factor of 0.376. The regression model can therefore be expressed as follows;

$$Y = 1.236 + 0.143X_1 + 0.107X_2 + 0.259X_3 + 0.376X_4 + \mu$$

The results further showed that there was a significant relationship between growth of profits of the thirteen commercial banks and three of the predictors as shown: number of agency branches ($p = 0.046 < 0.05$), agency banking withdrawal transactions ($p = 0.003 < 0.05$), agency banking deposit transactions ($p = 0.041 < 0.05$).

4.5 Discussion of Research Findings

The correlation results show that there was a positive and significant relationship between the growth of profits and agency banking aspects as presented by: Number of agency branches ($P = 0.001 < 0.05$), Agency banking withdrawals ($p = 0.004 < 0.05$), Money transfer

transactions (p=0.001<0.05), Agency banking deposits (p=0.000<0.05). On the other hand, the regression analysis also found out that there was a significant relationship between growth of profits of the commercial banks and number of agency branches (p=0.040<0.05), agency banking withdrawal transactions (p=0.003<0.05), agency banking deposit transactions (p=0.041<0.05).

The study results established a coefficient of determination value of 0.126 which showed that agency banking explained 12.6% of growth of profits of the thirteen commercial banks. The study results further showed that there was a positive association between the variables whereby holding all the independent variables constant, growth of profits of commercial banks in Kenya would be achieved at a unit of 1.236. A unit increase in number of agency branches would cause an increase in growth of profits in the commercial banks by a factor of 0.143, a unit increase in agency banking withdrawals would cause an increase in growth of profits by a factor of 0.107, a unit increase in money transfer transactions would cause an increase in growth of profits by a factor of 0.259 while a unit increase in agency banking deposits would cause an increase in growth of profits in the commercial banks by a factor of 0.376

These findings are in line with those of Mwando (2013) who conducted a study on contribution of Agency Banking on Financial Performance of Commercial Banks in Kenya using a multiple regression analysis and found out that agency banking had a positive influence on the financial performance of commercial banks in Kenya. The study findings are also in line with those of Ndwiga (2013) who conducted a study on effect of

agency banking on financial performance of commercial banks in Kenya and showed that yearly financial performance improved significantly in those banks that have rolled up the service due to its convenience and efficiency in operation. Though most of the studies seem to support these findings, the study by Aduda (2013) on relationship between agency banking and financial performance of commercial banks in Kenya found some contradicting results. The study by Aduda found out that agency banking does not solely contribute to increased profitability in Kenyan banks as per the secondary data reviewed for 2010 and 2011.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of key data findings, conclusion drawn from the findings and recommendations made there-to. The conclusions and recommendations drawn were focused on establishing the effect of agency banking on the growth of profits of commercial banks in Kenya.

5.2 Summary of Findings

The study established a coefficient of determination value of 0.126 which showed that agency banking explained 12.6% of growth of profits of the thirteen commercial banks. The ANOVA also showed that the regression model had a confidence level of over 95% hence high reliability of the results.

The study results further shows that there was a positive association between the variables whereby a unit increase in number of agency branches would cause an increase in growth of profits in the commercial banks by a factor of 0.143, a unit increase in agency banking withdrawals would cause an increase in growth of profits by a factor of 0.107, a unit increase in money transfer transactions would cause an increase in growth of profits by a factor of 0.259. Moreover, a unit increase in agency banking deposits would cause an increase in growth of profits in the commercial banks by a factor of 0.376. The regression analysis also established that there was a significant relationship between

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growth of profits in the commercial banks and three of the variables: number of agency branches (p=0.046<0.05), agency banking withdrawals (p=0.003<0.05), agency banking deposits (p= 0.041<0.05).

Additionally, the correlation results showed that there was a positive and significant relationship between the growth of profits and agency banking aspects as presented by: Number of agency branches (P=0.001<0.05), Agency banking withdrawals (p=0.004<0.05), Money transfer transactions (p=0.001<0.05), Agency banking deposits (p=0.000<0.05).

5.3 Conclusion

The study concludes that the there was a positive and significant relationship between agency banking and the growth of profits in the thirteen commercial banks in Kenya that were studied. An increase in the number of agency branches, increase in agency banking withdrawals, money transfer transactions and agency banking deposits significantly enhanced growth of profits in the thirteen commercial banks that have already enrolled the agency banking model.

The number of agency branches improves accessibility of banking services therefore leading to increase in revenue as the more the number of customers accessing the bank services, the higher the volume of transactions, which enables the banks to earn greater revenue by charging transaction fees. The increased deposits ensure that banks have cash

to lend to their customers, thus enabling the banks to earn interest income and loan arrangement fees. The deposits also enable the banks meet liquidity requirements and therefore the banks do not have to borrow in order to meet liquidity requirements, and this reduces the borrowing costs for the banks. The cost of deposit is minimal for the banks given that the interest paid to depositors is only marginal. The increased number of withdrawals increases the fee income charged to customers in form of withdrawal charges, further leading to an increase in revenue for the banks. Additionally the increase in the value of money transfer transactions leads to increase in revenue from the fees charged to customers for money transfer services. The study however found an insignificant relationship between growth of profits of commercial banks and the value of money transferred via agents, which is explained by the low value of money transfer transactions conducted through agents. It would appear that most customers prefer alternative means of transferring funds, such as 'M-pesa' mobile banking, because of the wider reach of the mobile banking services.

5.4 Recommendations

The study recommends that more should be done to increase the number of agents in order to improve accessibility of financial services in Kenya. Those that want to carry out agent business should also be facilitated to access loan capital to improve their capacity to engage in agency banking as their main business activity. This will also encourage more banks to adopt the agency model: – at the time of the study, only thirteen banks out of the possible forty three commercial banks in Kenya had adopted the agency banking model. Additionally, banks should build partnerships with a variety of retail outlets such

as supermarkets, petrol stations, post offices, shopping malls and major hotels and restaurants to offer agency banking services in order to widen the hours that customers can access services so as to include late evenings and weekends, since most of these outlets are open late and on weekends.

More information and awareness should be provided to the public to build confidence and trust in agency banking as a secure, efficient and modern way of banking. A wider section of the population is not fully conversant with the nature of services that can be accessed through agent banking and therefore deliberate interventions must be undertaken to successfully ensure that the targeted persons particularly the rural residents are empowered not only with technology but also with information.

From a regulatory perspective, the Central Bank of Kenya should regularly review existing regulations to ensure that they facilitate the continued growth of agency banking while at the same time safeguarding the interest of the banks and the customers. The regulations should also ensure that there are adequate safeguards against illegal practices such as money laundering, since agents are less likely to have rigorous customer identification procedures as compared to bank branches.

5.5 Limitations of the Study

While conducting this study, the researcher experienced some challenges that could have limited the achievement of the study objectives. One of the limitations was the access to

data from commercial banks. Some of the banks were unwilling to share their records and data on agency banking for fear that the data may be used by their competitors or released to other unauthorized persons. However, the researcher overcame this challenge by informing the management of the banks of the actual purpose of the study; the researcher also followed ethical procedures and ensured confidentiality of the data provided.

Another limitation is due to the fact that agency banking is a relatively new concept in the Kenyan banking sector, having been operationalized in 2010. The period of study was therefore limited to the four years when the banking agents have been in operation. The data obtained revealed large year to year growth in both volumes and value of transactions undertaken via agents, which is typical of new concept that is in its initial years of operation. This implies that that the results are unlikely to be a representation of the true effect of agency banking on the growth of profits of commercial banks due to the short period of study and the evolving nature of the data. Further research incorporating data for a longer period of time is likely to yield a more accurate result.

Additionally, the study focused on income earned by the banks for services offered through banking agents, and did not incorporate the costs that banks incur while dealing with agents. Banks may incur a variety of costs, both quantifiable and unquantifiable. An example of the quantifiable costs is the fee paid to agents, agency related fraud, the cost of acquiring necessary technology to facilitate sharing of customer information with agents and the costs of performing regular reconciliations of the transactions conducted

through agents. Examples of non-quantifiable costs include the damage to the banks reputation and loss of business that may arise from an agent offering poor quality services to the banks customers. The effects of these costs have not been captured in this study.

5.6 Suggestion for Further Research

Agency banking is lagging behind with only thirteen banks out of the total forty three having enrolled the agency banking model, their reach and coverage is also poor as compared to that of mobile banking platforms such as M-Pesa which has achieved tremendous reach and growth. The researcher recommends that a further study be conducted to establish the factors hindering the growth of agency banking model in Kenya as compared to mobile banking.

Also, as noted under section 5.5 above on the limitations of the study, the period of study was limited to the four years between 2010 and 2013 when the banking agents have been in operation in Kenya. The data obtained revealed large year to year growth in volume and value of the transactions undertaken via agents which was attributed to the fact that agency banking is in its initial stages of implementation in the financial sector in Kenya. The results from analyzing this data is therefore unlikely to be a true representation of the effect of agency banking on the growth of profits of commercial banks in Kenya. The researcher therefore recommends that further research be performed in the coming years when agency banking will have taken root in the financial sector in order to improve the accuracy of the results.

Additionally, further research should be carried out to determine the full effect of agency related costs on the financial performance of commercial banks in Kenya. As noted above, agency related costs may be both quantifiable and unquantifiable. Depending on the extent of adoption of agency banking by a particular commercial bank, these costs may have a significant effect on its financial performance. Banks may therefore be interested in understanding the actual impact of these costs on their financial performance in order to perform a cost benefit analysis with a view to determining whether it is beneficial to continue to operate agency banking. If, for example, a bank determines that the costs outweigh the benefits, it may wish to discontinue the agency banking relationship. The agency banking model should only be continued when it leads to net benefits to the banks as compared with bank branches and other banking platforms.

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Appendix I: Secondary Data Collection Sheet

Section A: Growth profits of commercial banks

Please indicate the requested information in regard to the bank for the following years:

Year/ Information required	Profit before tax	Number of agency branches	Value of withdraw transactions through agents	Value of money transfer transactions through agents	Value of agency banking deposit transactions
2010					
2011					
2012					
2013					

Appendix II: Commercial Banks with Contracted Agents

Equity Bank Limited
Cooperative Bank of Kenya Limited
Kenya Commercial Bank Limited
Post Bank of Kenya Limited
Family Bank Limited
Chase Bank Limited
Consolidated Bank of Kenya Limited
Diamond Trust Bank Limited
Barclays Bank of Kenya Limited
Standard Chartered Bank Kenya Limited
National Bank of Kenya Limited
CFC Stanbic BankKenya Limited
NIC Bank Limited

Appendix III Licensed Commercial Banks in Kenya

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank (Kenya)
6. CFC Stanbic Bank
7. Chase Bank (Kenya)
8. Citibank
9. Commercial Bank of Africa
10. Consolidated Bank of Kenya
11. Cooperative Bank of Kenya
12. Credit Bank
13. Development Bank of Kenya
14. Diamond Trust Bank
15. Dubai Bank Kenya
16. Ecobank
17. Equatorial Commercial Bank
18. Equity Bank
19. Family Bank
20. Fidelity Commercial Bank Limited
21. First Community Bank
22. Giro Commercial Bank
23. Guaranty Trust Bank
24. Guardian Bank
25. Gulf African Bank
26. Habib Bank
27. Habib Bank AG Zurich
28. Housing Finance Company of Kenya
29. I&M Bank
30. Imperial Bank Kenya
31. Jamii Bora Bank
32. Kenya Commercial Bank
33. K-Rep Bank
34. Middle East Bank Kenya
35. National Bank of Kenya
36. NIC Bank
37. Oriental Commercial Bank

38. Paramount Universal Bank	
39. Prime Bank (Kenya)	
40. Standard Chartered Kenya	
41. Trans National Bank Kenya	
42. United Bank for Africa	
43. Victoria Commercial Bank	

Appendix IV Number of Transactions Undertaken Through Agents

Type and Number of transactions undertaken through agent banking - 2010 to 2013				
Type of Transaction	Number of Transactions			
	2010	2011	2012	2013
Agency banking deposit transactions	25,266	3,575,502	12,554,299	18,531,811
Agency banking withdrawal transactions	58,900	2,960,692	11,862,412	16,981,903
Agency banking money transfer transactions	0	5	944	3,292
Number of active agents	809	6513	16,333	23,477
Number of banks with agents	2	6	10	13

Appendix V Value of Transactions Undertaken Through Agents

Type and Values of transactions undertaken through agent banking -2010 to 2013				
Type of Transaction	Value of Transactions (Ksh. M)			
	2010	2011	2012	2013
Agency banking deposit transactions	13135	28,293	101,170	160,789
Agency banking withdrawal transactions	11970	15,319	49,609	73,893
Agency banking money transfer transactions	0	0.00032	14.2	27
	25,105	43,612	150,794	234,711