

**THE EFFECT OF AGENCY BANKING ON THE FINANCIAL
PERFORMANCE OF COMMERCIAL BANKS IN KENYA**

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D61/62541/2013

**A RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF
MASTER OF BUSINESS ADMINISTRATION DEGREE OF
UNIVERSITY OF NAIROBI**

NOVEMBER 2014

DECLARATION

I declare that this research project is my original work and has not been submitted for examination in any other University.

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ACKNOWLEDGMENTS

First and foremost, I would like to thank God for the gift of life, health, strength and knowledge that he bestowed upon me and for enabling me complete this research study. My sincere gratitude to my Supervisor, Mr. Herick Ondigo who has tirelessly guided me through this process.

Special thanks to George B Omondi, David Kangethe, James Mwangi and Dr. H W Alube for your encouragement and financial support. You have sincerely made this process a success. May the Lord God Almighty Bless the works of your hands.

I cannot forget my wife and children for supporting me through their prayers and patience.

Last but not least all the MBA lecturers for building my knowledge during the study and my fellow students for their support and encouragement during this long journey.

DEDICATION

I dedicate this project to my two daughters-Juliet and Jessica. Special tribute goes to my late mother, Lucia Agina Agak. May you rest in peace.

TABLE OF CONTENTS

DECLARATION	ii
ACKNOWLEDGMENTS	iii
DEDICATION	iv
LIST OF TABLES	vii
LIST OF ABBREVIATIONS	viii
ABSTRACT	ix
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study.....	1
1.1.1 Agency Banking	3
1.1.2 Financial Performance	6
1.1.4 Commercial Banks	8
1.2 Research Problem.....	9
1.3 Research Objective.....	10
1.4 Value of the study	11
CHAPTER TWO	12
LITERATURE REVIEW	12
2.1 Introduction	12
2.2 Theoretical Review	12
2.2.1 Intermediation Theory	12
2.2.2 Bank led Theory	13
2.2.3 Non-Bank led Theory	15
2.2.4 Bank-focused Theory	15
2.3 Determinants of Financial Performance.....	16
2.3.1 Size	16
2.3.2 Transaction Cost.....	17
2.4 Empirical Review	18
2.4.1 International Evidence.....	19
2.4.2 Local Evidence	23
2.5 Summary of Literature	25
CHAPTER THREE	26
RESEARCH METHODOLOGY	26
3.1 Introduction	26
3.2 Research Design.....	26
3.3 Target Population	26

3.4 Data Collection.....	27
3.5 Data Analysis	27
3.7 Test of Significance.....	28
CHAPTER FOUR.....	29
DATA ANALYSIS, RESULTS AND DISCUSSION.....	29
4.1 Introduction	29
4.2 Descriptive Statistics.....	29
4.3: Corelation Analysis.....	30
4.4 Regression Analysis	32
4.5 Interpretation of the Findings.....	34
CHAPTER FIVE	37
SUMMARY, CONCLUSION AND RECOMMENDATIONS	37
5.1 Introduction	37
5.2 Summary	37
5.3 Conclusion.....	39
5.4 Recommedations for Policy	40
5.5 Limitations of the Study.....	40
5.6 Suggestions for Further Studies	41
REFERENCES.....	43
APPENDIX I: Extract of data collected on Agency Banking	49
APPENDIX II: List of Licensed Commercial Banks operating Agency Banking in Kenya as at 31 st December, 2013	55
APPENDIX III: List of Licensed Commercial Banks in Kenya as at 31 st December, 2013.....	57

LIST OF TABLES

Table 4.1: Descriptive Statistics	29
Table 4. 2: Correlation Analysis	31
Table 4.3: Model Summary	32
Table 4. 4: ANOVA.....	33
Table 4. 5: Coefficients.....	33

LIST OF ABBREVIATIONS

ATM	Automatic Teller Machine
CBK	Central Bank of Kenya
CGAP	Consultative Group to assist the poor
LN	Natural Logarithm
PIN	Personal Identification Number
POS	Point of Sale
ROA	Return on Assets
ROE	Return on Equity
SPSS	Statistical Package for Social Sciences

ABSTRACT

Access to affordable banking services plays a fundamental role in the development of any economy. Agency banking has therefore proved to be a successful model in ensuring that most people who could not access conventional banking services are able to do so through contracted bank agents. The objective of the study was to determine the effects of agency banking on financial performance of commercial banks in Kenya. The study adopted descriptive research design. The target population for this research study was all commercial banks that have adopted the agency banking concept. The researcher collected secondary data that was extracted from the CBK's annual and supervisory reports. The study used data covering a five year period from 2010 to 2013. Quantitative analysis was employed to analyze the collected data. This was made possible by use of (SPSS V.20.0). The findings revealed that there was a positive relationship between financial performance of commercial banks as measured by ROE and total assets. The findings further revealed that all the variables of the study were significant throughout the four year period. 62.3% of changes in the return on equity were attributed to only three independent variables. The study concluded that agency banking positively affects the financial performance of commercial banks. The study also concluded that commercial banks were able to extend their accessibility by citizens thereby improving their market share and revenue. The study recommended that more banks implement agency banking as the number of commercial banks that had implemented agency banking were thirteen out of a total of forty three commercial banks. The study further recommended that more commercial banks set up agency banking to tap into the deposits and withdrawals which are key transaction revenue elements for commercial banks in terms of financial performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

More than ever before, there is a global concern to entrench financial deepening access to previously ignored areas due to some areas considered economically unviable where majority of SMEs operate their businesses. Access to affordable banking services plays a fundamental role in the development of any economy. Most commercial banks around the globe have found it necessary to incorporate agency banking as one of their strategies of making available formal financial services to majority of unbanked populations. Agency banking has therefore proved to be a successful model in ensuring that most people who could not access conventional banking services are able to do so through contracted bank agents (AFI, 2012). Agency banking refers to contracting of a retail or postal outlet by a financial institution or a mobile network operator to process bank clients' transactions.

The popularity of banking agents is evident in most countries around the world. For example in Mexico alone, more than nine thousand banking agents were established by commercial banks in the year 2010. Other countries such as Brazil Columbia and Peru have a higher number of agents than Mexico. In Africa countries such as Kenya who implemented agency banking in 2010 have more than 10000 banking agents affiliated to various commercial banks in the country. The increase in use of agents by commercial banks can be attributed to financial sector reforms that have been made by various countries around the globe (Efina , 2012). The recent developments in technology have

also made it possible for agency banking to be possible. For instance the mobile phone technology has significantly contributed to the current development in agency banking. It has made it not only possible for commercial banks to practice financial inclusion but also to provide a forum of convergence for both bank and non banking institutions in order to provide low cost financial services (Jayanty, 2011).

The agency banking model largely depends on technology that enables banks and customers to interact remotely. Banking agents are equipped with a point-of-sale (POS) card reader, a mobile phone, a barcode scanner to scan bills for bill payment, Personal Identification Number (PIN) pads, and sometimes personal computers (PCs) that connect with the bank's server using a personal dial-up or other data connection; good infrastructure means a high degree of interoperability. It also depends on effective delivery channels. In 2010, Central Bank of Kenya (CBK) issued guidelines for agency banking, shepherding banks to start recruiting retailers as agents in developing channels (CBK, 2010).

Sharing infrastructure by institutions to reduce cost is a viable solution to support fully-fledged agent banking, as delivery channels, to effect high penetration. But having a channel is not enough; banks have had to develop infrastructure that meet the needs and economic means of the new segment, and marketing messages that appeal to them. Agent banks also help increase savings. Agents can be savings advocates, with key functions designed to be played by agents. Everybody needs a safe place to save, and costs can be reduced for agent banks by leveraging on the existing infrastructure, and minimizing credit risks to makes it safe (NJuguna, 2011).

With real-time authorization of transactions structures, the banks check whether there are enough funds in the agent's account or the client's account before authorizing a cash transaction. Banking agents, thus, enforce liquidity management structures to ensure they have enough money for daily transactions. At best, banks generate automatic receipts from a printer integrated into the POS terminal, or as a storable text message sent to the customer's mobile phone, in the bank's name - since it represents a claim against a bank transaction. A complaints and claims structure is also necessary for customers who believe the process has not worked fairly for them and that requires records (Porteous, 2006).

1.1.1 Agency Banking

A commercial bank agent can be defined as a non-bank correspondent or commercial business that provides financial or banking services on behalf of a formal commercial bank. Agents are required to operate a business in a fixed establishment and must meet certain minimum conditions for them to be granted the opportunity to operate (EFINA, 2011). According to Dias and McKee (2010), that agents perform on behalf of banks may include cash disbursement and cash repayment of loans, cash payment of bills, cash payment of retirement and social benefits, cash payment of salaries, transfer of funds, balance Enquiry, generation and issuance of mini bank statements, collection of documents in relation to account opening, loan application, credit and debit card application, collection of debit and credit cards, cheque book request, cheque book collection by customers and collection of bank mail/correspondence for customers.

Agency banking was first introduced in Brazil in 1999 thus making the country a pioneer in this type of banking model. In the year 2000, only 1,600 municipalities in Brazil had bank branches. By the year 2010, approximately 170,000 agents had been opened in 5,500 municipalities, and nearly 12 million accounts have been opened through the agents over three years. Brazil's experience has offered valuable lessons for countries where rules and regulations allow banks to contract an agent (McKay, 2010). Brazil's large-scale introduction of 'banking correspondents' to distribute welfare grants to unbanked Brazilians, especially in rural areas, required the use of mobile technology and the same is currently being replicated in other countries such Kenya, Bolivia, Colombia, India, Mexico, Pakistan, Peru, and South Africa, where the population without access to financial services is still huge (Porteous, 2006).

Agency banking was introduced in India in 2006 when banks were allowed to appoint Micro Finance Institutions (MFIs) and post offices as business correspondents for inter alia small deposit-taking. Elsewhere, agency banking refers to the points of service ranging from post offices in the outback of 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 and clients can receive their social payments and access their bank accounts (Porteous, 2006).

Despite the achievements made by other countries in the implementation of the agency banking model, the concept still remains new in most African countries due to lack of appropriate banking reforms that can support the use of agents to provide financial services. The countries that have adopted agency banking in Africa within the last one

decade include Kenya, South Africa and Ghana (Bold, 2011). The South African regulatory framework gives wide discretion to banks to use nonbank third parties to offer banking services beyond their traditional branch network, either as agents or through outsourcing arrangements. The Banks Act allows a bank to contract agents to receive any deposits, money due to it or applications for loans or advances, or to make payments to such clients on its behalf.” The only restriction is that a bank may not enter into an agency agreement until it has provisioned for the bank’s organizational extensions, purchase of a business, losses (including any loss suffered from a sale of assets), and bad debts.

According to Njuguna (2010) the agent banking model was introduced in Kenya to alleviate the problem of low financial inclusion and the high costs of banking incurred by customers. The government had to make some banking reforms in order to make it possible for the introduction of agent banking into the country. The banking Act was amended through the Finance Act of the year 2009. The new law allowed commercial banks to contract agents who could be able to offer financial services to majority of the unbanked population. The Central bank of Kenya issued rules and regulations to govern the rolling out of agent banking in May 2005 and this marked the beginning of a new era in Kenya’ s banking industry.

Since the year 2010 when agent banking was officially allowed in the country, four commercial banks have so far taken the lead in contracting correspondents to offer financial services on their behalf. For instance Equity bank has experienced a steady growth in the number of its agents to over 6000 in the year 2012. The bank plans to train

the agents and provide them with the necessary technology to handle all banking transactions withdrawals, deposits, loans, account opening and advances, among other things (David, 2012). Kenya commercial Bank has also seen its agent base grow to a tune of approximately 5080 by the end of the year 2012. The agent banking model continues to gain more popularity with other banks such as Cooperative bank with an agency base of 5007 and recently consolidated bank with an agency base of 29 agents joining the league of banks that have adopted the model.

1.1.2 Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure firm performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales.

Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt (Mido, 2006). Quantitative measures of firm performance include profitability measures such as gross margin, net margin for example return on sales, return on equity, economic value added, return on equity less cost of equity, return on capital employed; cash flow measures such as free cash flow over sales; and growth measures such as 1, 3, and 5-year historical revenue growth. Ideally, orward-looking measures such as expected profitability, cash flow and

growth should be used to measure a firm's performance because the current operating conditions (such as number of hierarchical levels or organization form) will influence future performance (Kumar, 2003).

Management researchers prefer accounting variables as performance measures such as return on equity (ROE), return on investment (ROI), and return on assets (ROA), along with their variability as measures of risk. Earlier studies typically measure accounting rate of return. The idea behind these measures is perhaps to evaluate managerial performance- how well is a firm's management using the assets to generate accounting returns per unit of investment, assets or sales. The problems with these measures are well known. Accounting returns include depreciation and inventory costs and affect the accurate reporting of earnings. Asset values are also recorded historically. Return on equity (ROE) is a frequently used variable in judging top Management performance, and for making executive compensation decisions. ROE is defined as net income (income available to common stockholders) divided by stockholders equity. On the other hand, ROA is the most frequently used performance measure in previous studies. It is defined as net income (income available to common stockholders), divided by the book value of total assets (Donaldson & Preston, 1995)

1.1.3 Effect of Agency Banking on Financial Performance

Agency banking refers to bank partnerships with non banks to provide distribution outlets for financial services (Kumar, Nair, Parsons & Urdapilleta, 2006) The introduction of agent banking is intended to enable institutions to provide banking services more cost effectively to customers, increase market share and enhance financial access for those

people who are currently unbanked or under banked CBK, (2011). According to Greenbaum and Thakor (2007), the intermediation theory builds on the notion that intermediaries serve to reduce transaction costs and informational asymmetries, the savings/investment process in capitalist economies is organized around financial intermediation, making them a central institution of economic growth. Lyman et al. (2006) further point out that bank led theory provides a distinct alternative to conventional branch-based banking in that customer conduct financial transactions at a whole range of retail agents instead of at bank branches or through bank employees. According to Rotman (2010), Under the bank led model arrangements, the technological/physical infrastructure of a retailer is used to provide some basic banking services like balance enquiry, account-to-account fund transfer, payments for goods/services at merchant outlets using bank account. Owing to the successes of agency banking in Brazil, in Africa, agency banking is used to enhance greater performance across the continent.

1.1.4 Commercial Banks

The commercial banking sector has been the backbone of every country Kenya not being an exception. It implements and brings about economic reforms. The performance of the banking industry in the Kenya has improved tremendously over the last ten years, as only two banks have been put under CBK statutory management during this period compared to 37 bank-failures between 1986 and 1998 (Mwega, 2009). There are currently 43 licensed commercial banks in Kenya. Out of these number, 13 banks have been licenced by the central bank to operate agency banking services. The approved banks include

Chase Bank (K) Ltd, Citi Bank Ltd, Consolidated Bank, Cooperative Bank of Kenya Ltd, Diamond Trust Bank Kenya Ltd, Equity Bank Ltd, Family Bank Ltd, Kenya Commercial Bank Ltd, NIC Bank Ltd, Post Bank Ltd, K-Rep Bank Ltd, Ecobank, and National Bank of Kenya.

The Banking Sector recorded improved performance as indicated by the growth in the key categories of number of bank customer deposit accounts and bank loan accounts since the inception of agency banking. CBK (2013)

1.2 Research Problem

Dynamics in business environment and stiff competition has brought about change in the banking industry- pushing banks to innovation. As a result, banks are increasingly using agents to provide financial services to customers. 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.

There is evidence of numerous studies on agency banking around the globe. For instance Lozano and Mandrile (2010) studied agent model for branchless banking in Colombia and developed a model whereby MFIs act as agents of branchless banking services, creating a new microfinance value chain through a process of scale and inclusion, and enable the poor to access a wider array of banking services. Ivatury and Mas (2008) studied experience with branchless banking and found that branchless banking lowers the cost of delivery, including costs both to banks of building and maintaining a delivery channel and to customers of accessing services. Kumar, Nair, Parsons and Urdapilleta (2006) conducted a study on correspondence banking and found that branchless banking

allows banks to gain proximity to small and perhaps higher risk clients through a format that is friendly to this population segment.

Mwangi (2012) conducted a study on agent banking as a diversification strategy by commercial banks in Kenya. The study established that agency banking was successful since commercial banks have managed to achieve more geographical coverage through this model. Nyaboga et al. (2012) carried out a study on the impact of agent banking on entrepreneurs in Kisii Township. It was concluded that agent banking has a high impact on entrepreneurs in the town. Another study was also carried out by Mwenda (2013) challenges facing agent banking implementation in Kenya. The findings indicated that most banks did not have the technological competency to implement the model.

Despite the level of research activity that has been noted on agent banking both locally and globally, it is clear that it lacks content on the agents themselves and the factors that affect their performance. The uptake seems lackluster and could there be factors that influence their performance thus hampering the take up of the same by entrepreneurs. This leaves a research gap that needs to be bridged. This study, therefore sought to address the research question. What is the effect of agency banking on the financial performance of commercial banks in Kenya?

1.3 Research Objective

To determine the effect of agency banking on the financial performance of commercial banks in Kenya.

1.4 Value of the study

Various parties would benefit from this study upon its completion. Those in the academic field would find additional material on agency banking. The concept is still new in Kenya and the dynamism of the banking sector may see most academicians interested in conducting more research on the agency banking model thus need for additional literature. This research would shed more light thus enabling future researchers to gain clearer understanding of agent banking.

Policy makers and various regulatory bodies like the Central Bank would benefit from this study. The study would open up issues that may require regulation. They would also be able to get more detailed information on the effects of agency banking in their performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discussed the relevant literature that has been reviewed in the area of agency banking. The issues discussed include the theoretical review on agency banking and the empirical study on the factors affecting agency banking. The chapter also presented the conceptual framework that was adapted in conducting the study as well as the operationalization of the variables under scrutiny.

2.2 Theoretical Review

There are a number of theories that explain the performance of agencies that are contracted by commercial banks. The theories discussed in this section include the intermediation theory, focused theory, the bank led theory and the non-bank led theory.

2.2.1 Intermediation Theory

According to Greenbaum and Thakor (2007), the intermediation theory builds on the notion that intermediaries serve to reduce transaction costs and informational asymmetries. The authors further indicate that intermediation theory is based on the theory of informational asymmetry and the agency theory and its goal is to explain why these financial intermediaries exist. According to the theory, the savings/investment process in capitalist economies is organized around financial intermediation, making them a central institution of economic growth. Financial intermediaries and financial markets are two important institutions, which contribute to the optimal allocation of resources in an economy. Cuza (2009), states that under the agency banking

arrangements, the intermediation theory provides a framework that can be utilized to explain the functions that the agencies perform in relation to the financial institutions such as the banks that contract them. These functions influence the agent performance.

In principle, as pointed out by Scholtens and Wensveenn (2003), the existence of financial intermediaries as indicated by the intermediation theory is explained by the existence of high cost of transaction, lack of complete information in useful time; and the method of regulation. Many of the imperfections generated by informational asymmetry lead to the emergence of some specific forms of transaction costs. The financial intermediaries have emerged exactly to eliminate, at least partially, these costs. The intermediation theory distinguishes between the following functions of bank agencies that is the reduction of transaction costs; the reduction of liquidity risk; the information provision; and the debt renegotiation. The first of these functions concerns the problem of accessibility of financial markets for households/individuals and for firms. The second and the third functions concern the services the banks offer to savers, which cannot be obtained from financial markets. The last function concerns the services a bank offers to its borrowers rather than to depositors. Thus, the theory therefore implies that the level of performance of the agencies to large extent is determined by the nature of financial intermediaries' functions the agent executes.

2.2.2 Bank led Theory

Concerning the bank led theory, Lyman, Ivatury and Staschen (2006) assert that in the most basic version of the bank-led theory of branchless banking, a licensed financial institution (typically a bank) delivers financial services through a retail agent. That is, the

bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction. The bank led theory as observed by Owens (2006) indicates that the bank is the ultimate provider of financial services and is the institution in which customers maintain accounts. The bank contracted agencies 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. Lyman et al. (2006) further point out that bank led theory provides a distinct alternative to conventional branch-based banking in that customer conduct financial transactions at a whole range of retail agents instead of at bank branches or through bank employees.

According to Rotman (2010), the bank led theory proposes a model that promises the potential to increase substantially the financial services outreach by using a different delivery channel, a different trade partner with experience and target market distinct from traditional banks, and may be significantly cheaper than the bank based alternatives. Under the bank led model arrangements, the technological/physical infrastructure of a retailer is used to provide some basic banking services like balance enquiry, account-to-account fund transfer, payments for goods/services at merchant outlets using bank account. However, as argued by Tufano (2008), a number of the services provided by contracted agents are also provided by banks and are covered under existing regulations; hence, the model poses no specific regulatory issues. Besides, it lowers the cost of delivery to banks, including costs of building and maintaining a delivery channel and to customers of accessing services. The other theory of agency banking is the bank-focused theory.

2.2.3 Non-Bank led Theory

Another theory of agency banking according to Kumar. et al, (2006) is the non-bank led theory. As indicated by the authors, under the model of non-banking led theory, Clients do not engage with banks directly nor do they do they maintain a bank account. Instead, customers deal with a non-banking entity either through a mobile network operator or through prepaid card issuer-and retail agents serve as the point of customer contact. Customers exchange their cash for e-money stored in a virtual e-money account on the non-bank's server, which is not linked to a bank account in the client's name. This model is riskier as the regulatory environment in which these non-banks operate might not give much importance to issues related to customer identification. Further the non-banks are not much regulated in areas of transparent documentation and record keeping which is a prerequisite for a safe financial system. Nevertheless, as observed by Hogan (2008), nonbank led model works in scenarios where regulators have gained sufficient experience in mitigating agent related risks using bank led model and need to think about mitigating only e-money related risks. Thus, making it possible for banks to monitor the performance of contracted agencies and take necessary steps in circumstance where they do not perform as required by the contracting bank.

2.2.4 Bank-focused Theory

According to Kapoor (2010), the bank-focused theory emerges when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers. Examples range from use of automatic teller machines (ATMs) to internet banking or mobile phone banking to provide certain limited banking services to banks'

customers. This model is additive in nature and is a modest extension of conventional branch-based banking.

Although the bank-focused model offers advantages such as more control and branding visibility to the financial institutions concerned, it is not without its challenges. Customers' primary concerns are to do with the quality of experience, security of identity and transactions, reliability and accessibility of service and extent of personalization allowed. Banks address these issues by providing a branchless banking service with an easy to use interface, made secure with the help of multi-factor authentication and other technology, capable of running uninterrupted 365 days a year (Kapoor, 2010). With the use of agent family bank achieves economies of scale by serving many customers at low cost, this is therefore related to the study as Family bank utilizes Pesa pap agents for low cost delivery of its financial services

2.3 Determinants of Financial Performance

Financial performance is used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. In this case we have identified three determinants namely the size of the market, transaction cost and financial service accessibility.

2.3.1 Size

Market share is the percentage of an industry or market's total sales that is earned by a particular company over a specified time period. Market share often is associated with profitability and thus many firms seek to increase their sales relative to competitors.

Market share is calculated by taking the company's sales over the period and dividing it by the total sales of the industry over the same period. This metric is used to give a general idea of the size of a company to its market and its competitors. Market share increases can allow a company to achieve greater scale in its operations and improve profitability. Companies are always looking to expand their share of the market, in addition to trying to grow the size of the total market by appealing to larger demographics, lowering prices, or through advertising. Investors look at market share increases and decreases carefully because they can be a sign of the relative competitiveness of the company's products or services. A bigger market share also means more power to the bank in controlling the prices and services it offers to ties customers. Heggsted and Mongo (1976) found that the greater the market share, the greater is a bank's control over its prices and the services it offers. As the total market for a product or service grows, a company that is maintaining its market share is growing revenues at the same rate as the total market. A company that is growing its market share will be growing its revenues faster than its competitors.

2.3.2 Transaction Cost

According to Arora and Ferrand (2007), access to Finance is critical for sustainable economic growth and social development. Financial inclusion empowers low income group and marginalized sectors of society to actively participate in the economy, which leads to increasing employment and decreasing poverty levels (Arora and Ferrand, 2007). Apart from increasing access to those excluded from financial services and reducing reliance on informal financial sources such as Accumulating Savings and Credit

Associations (ASCAs), Rotating Savings and Credit Associations (ROSCAs) and shylocks, agentbanking has reduced the need for more staff and branches to reach customers (Arora and Ferrand, 2007) Bean, (2009), states that agent banking has reduced cost and enhanced efficiency in the financial sector with a possibility and availing financial services at much lower cost to consumers (Bean, 2009). It has also increased the ease of banks' expansion hence outreach to far flung market pockets of bankable populations (Bold, 2011). Agent banking means commercial outlets like shops and supermarkets acting in some capacity on behalf of formal banks (Hogan, 1991). The model has not only become a means of offering convenience to bank customers but also a channel for lenders to mobilise cheap deposits with little operating costs (Business Daily,2014)

2.4 Empirical Review

The contribution of agency banking on developing economies has impacted the lives of many despite its challenges in adopting of the same. Agency banking has become a means of offering convenience to bank customers but also a channel for lenders to mobilise cheap deposits with little operating costs (Njuguna, 2014).

Various studies have been carried out in the past on the effect of agency banking on the financial performance of commercial banks. Information technology has primarily helped to enable expansion through more conventional banking channels, such as branch and ATM. Mexico's Banco Azteca used a robust electronic banking system to connect a large network of mini-branches in stores of its parent Elektra, a large seller of consumer durables, and other retail chains (Rhyne, 2009)

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

2.4.1 International Evidence

A research study by Greuning and Bratanovic (1999) found out that the robbery risks are rampant in the industry and this affects the performance of the banks as well as agents' performance. According to the authors, robbery risk has two implications for agent costs; the amount of upfront capital an agent requires to begin operating can be increased by the cost of security improvements and the agents are liable as they bear the entire cost in the event of robbery. Therefore, this affects the performance of the agents.

Being in the service industry forces the banking agents compete using higher quality and greater levels of customer service. The quality of bank services is highly dependent on the training and actions of each employee, because most banking services offered from bank to bank are very similar, with only the customer service and employees differentiating them. Thus, lack of accurate transaction skills among agents mostly affects the performance of the agents hence inhibiting success. In addition, Yang, Whitefield and Boehme (2007) state that lack of capacity makes it impossible for agents to offer more products and services that can attract more clients who in turn can boost the agent's performance. Lack of capacity among banking agents to handle refinancing is a key challenge for the agents in the banking industry securities, whose returns are among the most sensitive-ever to refinancing. This will therefore affect the performance of the banking agents.

Schmid and Walter (2009) carried out a study to establish the agency costs in the banking industry. The study examined one hundred and four largest banks in the United States of America. By analyzing the effect of four variables that proxy for agency costs—earnings volatility, managers' portfolio diversification losses, bank size, and standard deviation of bank equity returns—on the three financial policy variables of managerial stock ownership, leverage, and dividend yield. From the study findings indicate that the operational costs incurred in diversifying the agency portfolios in order to confirm or reflect the requirements as set by the bank to large extent affect the performance of the contracted banking agency. Holmström and Milgrom (1991) indicates that multitask hazard analysis carried out by the banks in agency banking can also lead to increase in operational costs which may affect the performance of agency banking. As observed by

the authors, the cost of performing one task may increase or decrease in the effort exerted on the other task. In a related vein, Laux (2001) provides a rationale for the allocation of multiple projects to a single agent by showing that the multiplicity of tasks may improve on the limited liability-incentive provision trade-off under moral hazard. Dewatripont and Tirole (1999) analyze the integration versus separation of substitute managerial tasks. They show that, when allocating tasks to two competing agents, each collecting one signal rather than one gathering two, although the principal enhances incentives for information collection and thereby improves the quality of decision-making it can lead to increased costs that may impair the performance of agents.

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

Tarazi and Breloff (2011), revealed that regulations often impose some form of “fit and proper” requirements, mandating a form of agent due diligence that requires financial institutions to verify that would-be agents have good reputations, no criminal records, and no history of financial trouble or insolvency. Agents have trouble in responding to customers’ concerns regarding the security of their operations. This in turn affects the performance of the agents since lack of enough information concerning the security makes customers to be reluctant in engaging with the agents and this by extension will affect financial performance of commercial banks. As observed by Schmid and Walter (2009), from a typical banking regulator’s perspective, entrusting retail customer contact to the types of retail agents used in both the bank-led and nonbank-led models would seem riskier than these same functions in the hands of bank tellers in a conventional bank branch. These retail agents may operate in hard-to reach or dangerous areas, they lack physical security systems and specially trained personnel. This greatly affects the performance of the agents.

In the study on innovations and challenges in banking industries in India, Jayakumar and Anbalagan (2012) found out that a number of banking agents lack the capacity to handle large transactions of cash and under spend on security measures. This affects the performance of the banking agents since it negatives both existing as well as potential client’s confidence in conducting businesses with them. Moreover, the authors indicate that the performance of the banking agents has also been affected due to the higher level of competition in the industry.

2.4.2 Local Evidence

A study conducted by Mwangi (2011) evaluating the role of agency banking in the performance of commercial banks in Kenya targeted banks that offer agency banking services in Kenya. The study targeted banks that offer agency banking services in Kenya. The number of commercial banks offering agency banking were four. The population of the study was forty branch managers of the selected banks. The study showed that some of the effects of regulations on the performance of commercial banks attributable to agency banking were board of directors and executive management, accountability and quality control. The study concluded that infrastructure cost and security influence the performance of commercial banks attributable to agency banking to a very great extent. The study recommends that agency banking should be given more attention on security measures including risk-based approach and that the banks should find better ways of screening their agents to ensure that the large cash transactions handling is effectively carried out on their behalf; secure operating systems capable of carrying out real time transactions, generating an audit trail, and protecting data confidentiality and integrity.

A research by Nyaboga et al. (2012) to analyze the impact of agent banking on entrepreneurs in Kisii county, Kenya. The authors pointed out in their analysis that the ability of the agency-banking service to increasingly attracts interest from criminals make customers to become security conscious. This forces customers to be very selective in engaging with agents hence affecting the performance as well as the growth of agency banking.

Kamau (2012) studied the relationship between agency banking and financial performance of the banks in Kenya. Through review of secondary data, the study found that agency banking outlets were 9,748 active agents in 2011 from 8,809 in 2010 facilitating a total volume of 8.7 million transactions valued at KSh 43.6 billion. Using regression analysis, the study negative and weak correlation between number of agents , deposit and withdrawals transactions undertaken through agents and financial performance of banks as measured by return on equity.

Kithuka (2012) In establishing the factors influencing growth of agency banking in Kenya, sampled 100 Equity Bank agencies doing bank focused, bank led and non bank led transactions in Kwale County. The samples were taken for the study using stratified and simple random sampling. Data was collected by a simple process of answering the basic questions through the use of a questionnaire. Descriptive statistics were used for the analysis. The findings revealed lack of connection between agent banking and financial deepening.

Waithanji (2012) sought to identify the impact of agent banking as a financial deepening initiative in Kenya. The study identified four banks engaging in the exercise. 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. Descriptive statistics were used for the analysis. The findings then indicated that there were only 4 banks out of a possible 43 banks in Kenya that have licensed agents to operate on their behalf as agents. The study established that the bank with the highest number of customers is Equity bank which has 5.3 million

customers and 2,851 agents followed by Co-operative bank with 1.9 million customers and 561 agents. The effect of agent banking on financial sector deepening could not be conclusively determined due to the low number of banks that had implemented the model.

2.5 Summary of Literature

Access to Finance is critical for sustainable economic growth and social development. Financial inclusion empowers low income people and marginalized sectors of society to actively participate in the economy, which leads to increasing employment and decreasing poverty levels (Bold, 2011). Apart from increasing access to those excluded from financial services and reducing reliance on informal financial sources such as Accumulating Savings and Credit Associations (ASCAs), Rotating Savings and Credit Associations (ROSCAs) and 21 shylocks, agent banking has reduced the need for more staff and branches to reach customers (Arora and Ferrand, 2007). Agent banking has reduced cost and enhanced efficiency in the financial sector with a possibility and availing financial services at much lower cost to consumers (Bean, 2009). It has also increased the ease of banks. (Bold, 2011). Previous studies mainly developed in countries like U.S.A and Britain shows the essence of agent banking to an economy. In Kenya few banks that have implemented it and impact may become clearer once all banks adopt agency banking. This study will select all the 13 banks that had implemented agency banking to fill in the inconclusiveness of the previous findings and knowledge gap.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section discussed the research methodology that was adopted by the researcher. Among the things discussed include the research design that was employed; the target population; the sample size and sampling techniques that was used; data collection and the instruments used as well as the data analysis and presentation techniques.

3.2 Research Design

The study adopted descriptive survey. The Descriptive survey research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way (Bryman, 2001). Its purpose was to provide a picture of a situation as it naturally happens (Burns and Grove, 2007). The instruments for data collection were tested for validity and reliability. This is necessary for descriptive studies (Kothari, 2004). Surveys can be useful when a researcher wants to collect data on phenomena that cannot be directly observed (such as opinions). In a survey, researchers sample a population (Basha and Harter, 1980)

3.3 Target Population

Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined or set of people, services, elements, events, group of things or households that are being investigated generalize the results. The target population for this research study were all commercial

banks that had adopted the agency banking concept. Ngigi (2014) indicated that there were 13 commercial banks in Kenya that have adopted the agency banking model.

3.4 Data Collection

The researcher collected secondary data. Annual reports on individual banks financial performance were used to extract financial performance indicators. CBK's annual report and supervisory reports were used to establish the volume of transaction in terms of deposits and withdrawals by agents registered and the total transactional value conducted through the agents.

3.5 Data Analysis

Upon successful data collection, the researcher sorted and code the data in preparation for data analysis. Quantitative analysis was employed to analyze the collected data. This was made possible by use of data analysis software such as Statistical Packages for Social Sciences (SPSS). The objective was analyzed using descriptive statistics and measures of central tendency such as the mean. Multiple regression analysis was also conducted to test statistical significance and to show the relationship that exists between the dependent variable and independent variables namely volume of deposits and withdrawals from agents, size and transaction cost.

3.5.1 Analytical Model

The following regression equation was used to illustrate the relationship:

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

Where;

Y= Financial performance of commercial banks measured by Return on Equity (ROE)

β_0 = Is the Y intercept, it measures the beta of commercial Banks.

β_1 to β_4 = regression weights

x_1 = Volume of deposits from Agents-measured by natural Log of (Total Deposits)

x_2 = Volume of Withdwals from Agents- measured by natural Log of (Total Withdrawals).

x_3 = Size- Measured by natural Log of (Total Assets) of the Bank

x_4 = Transaction Cost which is Measured by natural Log of costs.

ϵ = Error term

3.7 Test of Significance

In my study, ANOVA and coefficient of determination (R²) was applied to measure how well the regression line approximate the real data. Correlation Coefficinet also known as R is a measure of the strength and direction of the linear relationship between two variables was applied in the study. The study used statistical Package for social science (SPSS. V.20.0) to determine the nature and strength of the relationship between agency banking and financial performance of commercial banks in Kenya.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis, results and the discussions arising from the study on the effects of agency banking on financial performance of commercial banks in Kenya. The researcher collected secondary data from annual reports on individual banks financial performance to extract financial performance indicators. CBK annual reports and supervisory reports were also used to gather the relevant data necessary for the study. Descriptive statistics, Correlation and regression of the variables of the study are presented below.

4.2 Descriptive Statistics

Descriptive statistics of the variables of the study is presented in the Table 4.1 below:

Table 4.1: Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
RETURNEQUITY	201	-90.80	63.12	19.2504	19.57552
TOTALASSETS	209	7.10	12.69	9.9210	1.32137
LNDEPOSIT	210	20.88	26.84	23.8901	1.77698
LNWITHDRAWL	210	20.64	26.59	23.6406	1.78004
LNTRANSACTION	209	17.66	23.62	20.6518	1.77313
Valid N (listwise)	199				

Source: Research Findings

From the findings, financial performance measured by ROE registered a minimum of 90.8 (90.8%) with a maximum of 63.12 (63.12%), the mean was 19.2504 (19.25%) and a

standard deviation of 19.57552 (19.58%). For Total Assets, the minimum was 7.10 (7.1%) with a maximum of 12.69(12.69%), the mean was 9.9210 (9.92%) with a standard deviation of 1.32137(1.32%). The Volume of deposits to Agents posted a minimum of 20.88(20.88%) , a maximum of 26.84 ,a mean of 23.8901(23.89%) with a standard deviation of 1.777. Volume of Withdrawals from Agents values recorded a minimum of 20.64(20.64%), a maximum of 26.59,(26.59%), mean of 23.6406(26.64%) with a standard deviation of 1.78004(1.78%). The Transaction Cost recorded a minimum of 17.66 (17.66%), a maximum of 23.62,(26.62%), mean of 20.6518 (20.65%) with a standard deviation of 1.77313 (1.77%). The reason for the minimum value of agency banking being zero was because a number of commercial banks had not implemented agency banking over the study period.

4.3: Corelation Analysis

In order to establish the strength of the relationship between financial performance of commercial banks and Volume of deposits, Withdrawals, Size and Transaction cost the study conducted Pearson product-moment correlation coefficient. Pearson product-moment correlation coefficient is a measure of the strength of a linear association between two variables and is denoted by “r”. It attempts to draw a line of best fit through the data of two variables, and the Pearson correlation coefficient, r, indicates how far away all these data points are to this line of best fit. The findings were as shown in the Table 4.2 below:

Table 4. 2: Correlation Analysis

	Return on Equity	Total Assets	Deposit	Withdrawal	Transaction Costs
Return on Equity	1				
Total Assets	.266*	1			
	.001				
Deposit	-.074	.014	1		
	.0295	.836			
Withdrawal	-.071	.021	.998*	1	
	.314	.759	.001		
Transaction	.067	.036	.999*	1.000*	1
	.0346	.606	.001	.001	

Source: Research Findings

From the Person Moment of correlation output above, the study established the strength of the relationship between the dependent variable and the independent variables. From the findings indicated in the Table 4.2, it can be noted that there is a positive relationship between financial performance of commercial banks as measured by R.O.E and total assets as indicated by the correlation coefficient of 0.266. The relationship is significant as indicated by the p-value of 0.001. (Sig. (2-tailed) value being less than significance of 0.05. A review of the relationship between ROE and Natural log of the Deposits revealed a Negative relationship as indicated by the co-efficient correlation of -0.074. The Volume of deposits from Agents-measured were however significant in explaining the changes in the financial performance of commercial banks as supported by a significance value of 0.0295. For natural log of withdrawals, there was a negative relationship between financial performance of commercial banks and Volume of deposits as explained by the coefficient correlation of -0.071 with a p-value of 0.314 showing that withdrawals were not an important variable in the explanation of financial performance of commercial

banks in Kenya. The relationship between ROE and Transaction Costs revealed a positive relationship as indicated by the co-efficient correlation of 0.067. The Transaction Costs were significant in explaining the changes in the financial performance of commercial banks as indicated by a significance value of 0.0346.

4.4 Regression Analysis

In addition to descriptive statistics and correlation analysis, the study also conducted a cross-sectional multiple regression. These findings are discussed below:

Table 4.3: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.794	0.63	0.623	6.04663

Source: Research Findings

Table 4.3 above shows a model summary of regression analysis between four independent variables including Total Assets, Volume of deposits, Volume of Withdrawals and Transaction Cost and a dependent variable namely return on equity. The table showed that value of R was 0.794, the value of R square was 0.63 and the value of adjusted R square was 0.623. From the findings, 62.3% of changes in the return on equity were attributed to only three independent variables in the study as represented by the adjusted R squared. Positivity and significance of all values of R shows that model summary was significant and therefore gives a logical support to the study model.

Table 4. 4: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	5692.608	3	1897.536	5.231	.002
Residual	70740.962	195	362.774		
Total	76433.570	198			

Source: Research Findings

The data findings were analyzed and the SPSS output presented in table 4.4 above. The ANOVA statistics at 5% level of significance shows that the value of calculated F is 5.231 and the value of F critical at 5% level of significance With numerator degrees of freedom 3 and denominator degrees of freedom 195 was 2.70, since F calculated is greater than the F critical (5.231 > 2.70), this shows that the overall model was significant at the 5% significance level.

Table 4. 5: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	9.181	50.366		.182	.856
Total Assets	3.885	1.026	.262	3.786	.000
Deposit	-3.327	13.992	-.301	-.238	.812
Transaction	2.466	13.980	.223	.176	.860

Source: Research Findings

$$\text{ROE} = 59.54 - 3.327X1 + 3.885X3 + 2.466X4 + \epsilon$$

According to the coefficient table above, the variables Total Assets, Transaction Cost and Volume of deposits were significant as their significance values were less than 0.05. Volume of Withdrawals was insignificant as their significance values were greater than 0.05. However, only Total Assets and Transaction Costs were positively correlated

with Return on Equity. From the table, taking all factors; Total Assets, Volume of deposits, Volume of Withdrawals and Transaction Cost constant at zero, R.O.E will be 9.181. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in Total Assets will lead to 3.885 increase in R.O.E, while a unit increase in Deposits will lead to 3.327 decrease in R.O.E, also a unit increase in Transaction Cost will lead to 2.466 Increase in R.O.E. Withdrawals from Agents was statistically insignificant. This infers that both Total Assets and Transaction Costs contributed positively to the returns on equity (R.O.E) of commercial banks while Withdrawals were insignificant to the R.O.E. of commercial banks. The coefficient table 4.7 above was used in coming up with the regression model below:

4.5 Interpretation of the Findings

From the findings of the correlation, the study revealed that there was a positive relationship between financial performance of commercial banks as measured by ROE and total assets as indicated by the correlation coefficient of 0.266. The study also revealed that the relationship between financial performance of commercial banks as measured by ROE and total assets was significant as indicated by the p-value of 0.001. The study found out that there was Negative relationship between ROE and deposits as indicated by the co-efficient correlation of -0.074. The study also found out that the Volume of deposits from Agents-measured were significant in explaining the changes in the financial performance of commercial banks as supported by a significance value of 0.0295. For natural log of withdrawals, the study further found out that there was a negative relationship between financial performance of commercial banks and Volume of

deposits as explained by the coefficient correlation of -0.071 with a p-value of 0.314 showing that withdrawals were not an important variable in the explanation of financial performance of commercial banks in Kenya.

The findings from the model summary indicated that 62.3% of changes in the return on equity were attributed to the three independent variables in the study as represented by the adjusted R squared. This therefore means that other factors not studied in this research contribute 37.7% of variance in the dependent variable. Also, the positivity and significance of all values of R shows that model summary was significant and therefore gives a logical support to the study model.

The findings analyzed from the ANOVA indicated that the value of F calculated was 5.231 while the value of F critical at 5% level of significance with numerator degrees of freedom 3 and denominator degrees of freedom 195 was 2.70. since F calculated is greater than the F critical ($5.231 > 2.70$), this shows that the overall model was significant at the 5% significance level.

From the findings in the coefficient table, the study found out that total assets, transaction cost and volume of deposits were significant as their significance values were less than 0.05. Volume of Withdrawals was insignificant as its significance value was greater than 0.05. From the findings, taking all the independent variables constant at zero; ROE will have an autonomous value of 9.181. The data findings analyzed also showed that taking all other independent variables at zero, a unit increase in total assets will lead to 3.885 increase in ROE, while a unit increase in deposits will lead to 3.327 decrease in ROE, also a unit increase in transaction cost will lead to 2.466 increase in ROE. Withdrawals from Agents was statistically insignificant. This infers that both total assets and

transaction costs contributed positively to the returns on equity(ROE) of commercial banks while withdrawals were insignificant to the ROE of commercial banks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study sought to determine the effect of agency banking on financial performance of commercial banks in Kenya. This study aimed at comparing the findings with the previous studies and making conclusions based on the research as to whether agency banking affects financial performance of commercial banks or not. The chapter specifically presents summary of findings, conclusion, recommendations, limitations and suggestions for further studies.

5.2 Summary

On the descriptive statistics, financial performance measured by ROE registered a minimum of 90.8 (90.8%) with a maximum of 63.12 (63.12%), the mean was 19.2504 (19.25%) and a standard deviation of 19.57552 (19.58%). For Total Assets, the minimum was 7.10 (7.1%) with a maximum of 12.69(12.69%), the mean was 9.9210 (9.92%) with a standard deviation of 1.32137(1.32%). The Volume of deposits to Agents posted a minimum of 20.88(20.88%) , a maximum of 26.84 ,a mean of 23.8901(23.89%) with a standard deviation of 1.777. Volume of Withdwals from Agents values recorded a minimum of 20.64(20.64%), a maximum of 26.59,(26.59%), mean of 23.6406(26.64%) with a standard deviation of 1.78004(1.78%). The Transaction Cost recorded a minimum of 17.66 (17.66%), a maximum of 23.62,(26.62%), mean of 20.6518 (20.65%) with a standard deviation of 1.77313 (1.77%).

From the Person Moment of correlation, the study established that there is a positive relationship between financial performance of commercial banks as measured by R.O.E and total assets as indicated by the correlation coefficient of 0.266. A review of the relationship between ROE and Natural log of the Deposits revealed a Negative relationship as indicated by the co-efficient correlation of -0.074. The Volume of deposits from Agents-measured were however significant in explaining the changes in the financial performance of commercial banks as supported by a significance value of 0.0295. The relationship between ROE and Transaction Costs revealed a positive relationship as indicated by the co-efficient correlation of 0.067. The Transaction Costs were significant in explaining the changes in the financial performance of commercial banks as indicated by a significance value of 0.0346.

From the regression analysis, the study established that 62.3% of changes in the financial performance of commercial banks is attributed to agency banking variables included in the study. From the ANOVA statistics, The ANOVA statistics at 5% level of significance shows that the value of calculated F is 5.231 and the value of F critical at 5% level of significance With numerator degrees of freedom 3 and denominator degrees of freedom 195 was 2.70, since F calculated is greater than the F critical ($5.231 > 2.70$), this shows that the overall model was significant at the 5% significance level.

From the coefficient of determination, taking all factors; Total Assets, Volume of deposits, Volume of Withdrawals and Transaction Cost constant at zero, R.O.E will be 9.181. The data findings analyzed also shows that taking all other independent variables

at zero, a unit increase in total assets will lead to 3.885 increase in R.O.E, while a unit increase in deposits will lead to 3.327 decrease in R.O.E, also a unit increase in transaction cost will lead to 2.466 increase in R.O.E. This is consistent with the work of Bold (2011) who indicated that agency banking has increased the ease of banks' expansion hence outreach to far flung market pockets of bankable populations. Withdrawals from Agents was statistically insignificant.

5.3 Conclusion

Based on research findings and conclusions above the study concludes that agency banking positively affects the financial performance of commercial banks. From the findings, the study established that there is a positive relationship between financial performance of commercial banks as measured by R.O.E and total assets. Through agency banking commercial banks are able to invest in more assets and utilize the existing infrastructure efficiently hence improve the financial performance of banks. Further, following implementation of agency banking, commercial banks are able to extend their accessibility by citizens thereby improving their market share and revenue.

Through agency banking, there is improved withdrawal and deposits among the banking industry hence improved level of intermediation. As stipulated in the intermediation theory, agency banking increases the intermediation process thereby expanding the reach of commercial banks and hence positive financial performance. Through agency banking, commercial banks save in terms set up infrastructure costs especially compared to setting up formal branch networks.

5.4 Recommendations for Policy

From the findings and conclusions above, the study established that agency banking positively affects the financial performance of commercial banks. Through agency banking, commercial banks are able to expand their market share by extending their financial services to those initially not served. This study therefore recommends that more banks implement agency banking as the number of commercial banks that had implemented agency banking were fourteen out of a total of forty four commercial banks.

The study further established that agency banking is positively correlated with the deposits and withdrawals which are they key components of financial intermediation. The study therefore recommends that more commercial banks set up agency banking to tap into the deposits and withdrawals which are key transaction revenue elements for commercial banks in terms of financial performance.

The study further established that commercial banks were positively affected by agency banking especially in as far as transaction costs were concerned. This study therefore recommends that commercial banks extend the rate of adoption of agency banking in order to leverage on the exsting network of supermarkets, pharmacies and other well established agency banking partners to increase their operational efficiency.

5.5 Limitations of the Study

The study faced various challenges. First, the duration in which agency banking has been in operations is rather short since the inception of agency banking. The service was launched in 2010 and there is not much activity that has been seen on agency banking

over the years to form a trend. This is especially attributed to the low number of commercial banks implementing it.

The data available for the study was limited to the number of years this model has been in operation and in 2013 there is tremendous growth indicating a boom in this sector. Longer historical performance and data will set a good base for a more concrete research and this will give more conclusive results.

The study had a draw back from most financial institutions which lacked proper reports that showed records of the benefits directly accrued from operation of agency banking. Most banks were also not ready to disclose some of their financial statements that they deemed internal and not for public consumption which could highlight the profits or revenues directly attributed to agency banking or the formula used compensate there agents.

5.6 Suggestions for Further Studies

This study concentrated on agency banking in Kenya and how it affects financial performance of commercial banks. This study therefore recommends that future studies be conducted on the influence financial innovations on financial performance of commercial banks as the era in which we are operating is dominated by high levels of financial innovation which are poised to positively affect the financial performance of commercial banks.

The study further recommends that future studies be carried out on the influence of agency banking on financial inclusion in Kenya. This will help bring to the fore the

manner in which agency banking has contributed to financial inclusion development in Kenya.

The study further recommends that future studies be carried out on the influence of financial inclusion and overall economic development of a nation. It has been argued that improved financial inclusion promoted economic growth of the nation but not much has been done in the context of Kenya.

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APPENDIX I: Extract of Data collected on Agency Banking

Ln EQUITY	Ln TOTAL ASSETS	Ln DEPOSITS	Ln WITHDRAWA LS	Ln TRANSACTION S
36.36	12.06	24.11	23.87	20.89
20.17	11.48	25.71	25.47	22.5
25.14	11.61	26.57	26.33	23.35
63.12	11.73	25.43	25.19	22.21
40.58	12.01	25.35	25.11	22.13
19.77	11.49	24.63	24.39	21.41
38.9	10.96	20.88	20.64	17.66
30.95	10.76	22	21.76	18.78
29.58	10.69	26.84	26.59	23.62
28.41	10.71	24.86	24.62	21.64
30.41	10.85	22.07	21.83	18.85
28.62	10.85	23.29	23.05	20.07
27.97	9.47	21.36	21.12	18.14
12.49	10	25.25	25	22.03
33.06	9.74	21.46	21.22	18.24
18.53	10.07	24.57	24.33	21.35
46.22	9.5	21.99	21.75	18.77
17.34	9.64	23.46	23.22	20.24
	9.81	24.06	23.81	20.84
36.14	9.64	24.11	23.87	20.89
75.52	9.54	25.71	25.47	22.5
	9.09	26.57	26.33	23.35
22.64	8.96	25.43	25.19	22.21
14.69	8.4	25.35	25.11	22.13
11.18	8.84	24.63	24.39	21.41
22.9	8.54	20.88	20.64	17.66
24.27	8.84	22	21.76	18.78
15.81	9	26.84	26.59	23.62
13.79	8.87	24.86	24.62	21.64
27.03	8.82	22.07	21.83	18.85
6.99	8.61	23.29	23.05	20.07
11.45	8.9	21.36	21.12	18.14

31.88	8.4	25.25	25	22.03
22.93	8.12	21.46	21.22	18.24
6.74	8.45	24.57	24.33	21.35
18.43	8.69	21.99	21.75	18.77
	8.04	23.46	23.22	20.24
8.2	8.02	24.06	23.81	20.84
4	8.21	24.11	23.87	20.89
11.79	8.05	25.71	25.47	22.5
5.04	7.1	26.57	26.33	
21.39	7.38	25.43	25.19	22.21
1.66	12.32	25.35	25.11	22.13
28.23	11.8	24.63	24.39	21.41
32.9	11.94	20.88	20.64	17.66
27.52	11.87	22	21.76	18.78
37.94	12.06	26.84	26.59	23.62
34.25	11.58	24.86	24.62	21.64
20.96	11.06	22.07	21.83	18.85
36.06	10.98	23.29	23.05	20.07
35.64	11.04	21.36	21.12	18.14
23.15	10.91	25.25	25	22.03
30.6	11	21.46	21.22	18.24
27.17	11.04	24.57	24.33	21.35
22.34	9.99	21.99	21.75	18.77
31.2	10.38	23.46	23.22	20.24
16.45	10.19	24.06	23.81	20.84
13.12	10.39	24.11	23.87	20.89
16.01	9.91	25.71	25.47	22.5
40.31	9.87	26.57	26.33	23.35
13.12	10.29	25.43	25.19	22.21
35.94	9.89	25.35	25.11	22.13
38.52	10.2	24.63	24.39	21.41
3.76	9.24	20.88	20.64	17.66
	9.17	22	21.76	18.78
29.46	9.25	26.84	26.59	23.62
3.84	9.23	24.86	24.62	21.64
-3.7	8.73	22.07	21.83	18.85
47.35	9.26	23.29	23.05	20.07
28.19	9.27	21.36	21.12	18.14

17.45	8.95	25.25	25	22.03
15.85	8.99	21.46	21.22	18.24
9.55	9.01	24.57	24.33	21.35
11.77	9.01	21.99	21.75	18.77
46.99	8.76	23.46	23.22	20.24
22.15	8.47	24.06	23.81	20.84
28.24	8.6	24.11	23.87	20.89
10.29	7.45	25.71	25.47	22.5
26.24	8.39	26.57	26.33	23.35
0.56	8.42	25.43	25.19	22.21
35.78	8.42	25.35	25.11	22.13
16.07	8.3	24.63	24.39	21.41
3.55	7.77	20.88	20.64	17.66
20.01	7.54	22	21.76	18.78
15.54	12.55	26.84	26.59	23.62
0.56	12.08	24.86	24.62	21.64
31.18	12.03	22.07	21.83	18.85
34.53	12.01	23.29	23.05	20.07
29.41	12.03	21.36	21.12	18.14
40.11	11.85	25.25	25	22.03
41.11	11.33	21.46	21.22	18.24
30.82	11.26	24.57	24.33	21.35
30.04	11.25	21.99	21.75	18.77
31.34	11.21	23.46	23.22	20.24
32.17	11.14	24.06	23.81	20.84
33.95	11.22	24.11	23.87	20.89
23.37	10.51	25.71	25.47	22.5
31.77	10.51	26.57	26.33	23.35
28.62	10.56	25.43	25.19	22.21
11.87	10.47	25.35	25.11	22.13
28.88	10.17	24.63	24.39	21.41
15.72	10.15	20.88	20.64	17.66
44.28	10.37	22	21.76	18.78
20.4	10.06	26.84	26.59	23.62
28.87	10.21	24.86	24.62	21.64
33.96	9.43	22.07	21.83	18.85
7.03	9.47	23.29	23.05	20.07
0	9.47	21.36	21.12	18.14

30.28	9.38	25.25	25	22.03
11.78	8.94	21.46	21.22	18.24
5.91	9.64	24.57	24.33	21.35
20.9	9.35	21.99	21.75	18.77
26.32	9.14	23.46	23.22	20.24
17.18	9.09	24.06	23.81	20.84
10.08	9.29	24.11	23.87	20.89
19.23	9.07	25.71	25.47	22.5
15.94	9.08	26.57	26.33	23.35
29.64	8.89	25.43	25.19	22.21
19.82	8.68	25.35	25.11	22.13
13.34	7.64	24.63	24.39	21.41
16.92	8.46	20.88	20.64	17.66
25.51	8.52	22	21.76	18.78
2.92	8.59	26.84	26.59	23.62
11	8.44	24.86	24.62	21.64
14.93	8.07	22.07	21.83	18.85
5.35	7.75	23.29	23.05	20.07
8.4	12.63	21.36	21.12	18.14
2.43	12.28	25.25	25	22.03
2.92	12.2	21.46	21.22	18.24
29.8	9.88	24.57	24.33	21.35
37.6	12.13	21.99	21.75	18.77
33.1	11.8	23.46	23.22	20.24
37.6	11.52	24.06	23.81	20.84
44	11.45	24.11	23.87	20.89
26	11.42	25.71	25.47	22.5
34.3	11.53	26.57	26.33	23.35
31.4	11.11	25.43	25.19	22.21
28.5	11.15	25.35	25.11	22.13
28.6	10.8	24.63	24.39	21.41
11	10.74	20.88	20.64	17.66
41.7	10.8	22	21.76	18.78
25.8	10.68	26.84	26.59	23.62
12.7	10.34	24.86	24.62	21.64
27.8	10.45	22.07	21.83	18.85
17.4		23.29	23.05	20.07
42	10.12	21.36	21.12	18.14

	10.37	25.25	25	22.03
14.9	9.86	21.46	21.22	18.24
28.9	9.52	24.57	24.33	21.35
76.7	9.55	21.99	21.75	18.77
0	9.42	23.46	23.22	20.24
26.4	9.24	24.06	23.81	20.84
23.9	9.8	24.11	23.87	20.89
90.8	9.5	25.71	25.47	22.5
11.7	9.16	26.57	26.33	23.35
24.1	9.37	25.43	25.19	22.21
11.2	9.37	25.35	25.11	22.13
6.3	9.18	24.63	24.39	21.41
20.1	9.21	20.88	20.64	17.66
18.3	9.08	22	21.76	18.78
8.6	8.86	26.84	26.59	23.62
26.9	8.15	24.86	24.62	21.64
27.3	8.89	22.07	21.83	18.85
17.6	8.74	23.29	23.05	20.07
33.8	8.77	21.36	21.12	18.14
2.5	8.68	25.25	25	22.03
7.9	7.98	21.46	21.22	18.24
8.2	7.86	24.57	24.33	21.35
6.9	12.69	21.99	21.75	18.77
4.2	12.38	23.46	23.22	20.24
32.6	12.34	24.06	23.81	20.84
3.3	12.3	24.11	23.87	20.89
28.4	12.24	25.71	25.47	22.5
36	12.05	26.57	26.33	23.35
30	11.74	25.43	25.19	22.21
37	11.65	25.35	25.11	22.13
36.8	11.61	24.63	24.39	21.41
31.3	11.63	20.88	20.64	17.66
32.5	11.43	22	21.76	18.78
30	11.17	26.84	26.59	23.62
29.5	11.25	24.86	24.62	21.64
29.6	10.86	22.07	21.83	18.85
15	10.87	23.29	23.05	20.07
31.2	10.81	21.36	21.12	18.14

30.1	10.68	25.25	25	22.03
	10.67	21.46	21.22	18.24
32.5	7.1	24.57	24.33	21.35
29.5	10.33	21.99	21.75	18.77
43.6	10.52	23.46	23.22	20.24
21.4	9.89	24.06	23.81	20.84
24.6	9.68	24.11	23.87	20.89
33.1	9.65	25.71	25.47	22.5
36.3	9.52	26.57	26.33	23.35
	9.52	25.43	25.19	22.21
23.6	9.73	25.35	25.11	22.13
16.1	9.65	24.63	24.39	21.41
11.1	9.49	20.88	20.64	17.66
18.4	9.46	22	21.76	18.78
23.2	9.46	26.84	26.59	23.62
11.5	9.31	24.86	24.62	21.64
15	9.33	22.07	21.83	18.85
29.8	9.18	23.29	23.05	20.07
25.7	9	21.36	21.12	18.14
22.4	8.86	25.25	25	22.03
25.7	8.99	21.46	21.22	18.24
16.6	8.85	24.57	24.33	21.35
12	8.9	21.99	21.75	18.77
30	8.66	23.46	23.22	20.24
4	8.22	24.06	23.81	20.84
8.1	7.98	24.11	22.12	19.52

Source: Central Bank of Kenya, 2013

Appendix II: List of Licensed Commercial Banks operating Agency Banking in Kenya as at 31st December, 2013

- 1)Chase Bank (K) Ltd.
- 2)Citi Bank Ltd
- 3)Consolidated Bank
- 4)Cooperative Bank of Kenya Ltd
- 5)Diamond Trust Bank Kenya Ltd
- 6) Ecobank
- 7)Equity Bank Ltd.
- 8)Family Bank Ltd.
- 9) K-Rep Bank Ltd
- 10)Kenya Commercial Bank Ltd.
- 11National Bank of Kenya
- 12)NIC Bank Ltd
- 13)Post Bank Ltd

Source: Central Bank of Kenya, 2013

Appendix III: List of Licensed Commercial Banks in Kenya as at 31st December, 2013

- 1)Bank of Africa (K) Ltd.
- 2)Bank of India
- 3)Citibank N.A. Kenya
- 4)Bank of Baroda (K) Ltd.
- 5)Barclays Bank of Kenya Ltd.
- 6)Consolidated Bank of Kenya Ltd.
- 7)City Finance Bank Ltd.
- 8)Commercial Bank of Africa Ltd.
- 9)Coperative Bank of Kenya Ltd.
- 10)Credit Bank Ltd.
- 11)Charterhouse Bank Ltd.
- 12)Chase Bank (K) Ltd.
- 13)Diamond Trust Bank Kenya Ltd.
- 14)Development Bank of Kenya Ltd.
- 15)Ecobank Ltd
- 16)First Community Bank
- 17)K-Rep Bank Ltd.
- 18)Standard Chartered Bank (K) Ltd.
- 19)Gulf Africa Bank (K) Ltd
- 20)Prime Bank Ltd.
- 21)Habib Bank A.G. Zurich
- 22)Habib Bank Ltd.
- 23)Kenya Commercial Bank Ltd.
- 24)National Bank of Kenya Ltd.
- 25)Jamii Bora Bank Ltd.
- 26)CFC Stanbic Bank Ltd.
- 27)African Banking Corporation

- 28) Housing finance ltd (Mortgage financial institution)
- 29)Equatorial Commercial Bank Ltd.
- 30)Equity Bank Ltd.
- 31) Victoria Commercial Bank
- 32)Family Bank Ltd.
- 33)Fidelity Commercial Bank Ltd.
- 34)Fina Bank Ltd.
- 35)Giro Commercial Bank Ltd.
- 36)Guardian Bank Ltd.
- 37)Imperial Bank Ltd.
- 38)Middle East Bank (K) Ltd.
- 39)NIC Bank Ltd.
- 40)Oriental Commercial Bank Ltd.
- 41)Paramount Universal Bank Ltd.
- 42)UBA Kenya Bank Ltd.
- 43)Trans-National Bank Ltd.

Source: Central Bank of Kenya, 2013