THE EFFECT OF AGENCY BANKING ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA IN 2014: A CASE STUDY OF CHASE BANK

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UNITED STATES INTERNATIONAL UNIVERSITY

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UNITED STATES INTERNATIONAL UNIVERSITY

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I declare that this is my original work and has not been submitted to any other university or college or institution except the United States International University in Nairobi for academic credit.

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This project has been submitted for examination with my consent as the appointed supervisor.

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Dean, Chandaria School of Business

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DEDICATION

I dedicate this work to my family especially for the sacrifices they endured for me to complete this project. Their love, support, concern, care, encouragement and enthusiasm have driven me to attain this goal.

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I would like to take this opportunity to give my sincerest thanks to God for granting me good health and also for bringing me this far. I also extend special thanks to my supervisor, for the partnership we fostered. The guidance, patience and encouragement in reading, correcting, refining and re-reading this work are admirable. I am thankful to my colleagues and classmates for their encouragement and support as well as United States International University for the opportunity to pursue the MBA program.

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LIST OF ACRONYMS AND ABBREVIATIONS

ATMs: Automated Teller Machines

CBD: Central Business District

CBK: Central Bank of Kenya

CGAP: Consultative Group to Assist the Poor

DTMs: Deposit Taking Microfinance

FSD: Financial Sector Deepening

IT: Information Technology

KCB: Kenya Commercial Bank

MBS: Mobile Banking Services

MMT: Mobile-Phone Money Transfer

PIN: Personal Identification Number

POS: Point-Of-Sale

ROA: Return on Assets

SACCOs: Savings And Credit Co-operative

SASRA: Sacco Societies Regulatory Authority

SPSS: Statistical Package for Social Sciences

ABSTRACT

Agency banking as a replica has been very flourishing in boosting the commercial banks' performance in most developing states. Achievement stories have been witnessed in Peru, Columbia, India and Brazil. This study sought to investigate the effect agency banking had on the financial performance of Kenyan commercial banks in 2014. Chase bank was used as a case study. The study also sought to establish the effect of accessibility of banking services, low cost of service and increased customer transactions through agency banking. This study used a descriptive research design. The target population of this study was 174 staff working at the headquarters of Chase Bank. This study applied stratified random sampling to select 50% of the target population and hence the sample size of this study was 87 respondents. Out of 87 respondents 84 responses were obtained which represent a 97% response rate. Semi structured questionnaires were used in research study to collect primary data. A pretesting that involved 9 staff (10% of the sample size) was conducted at Chase bank at Wabera Street. From the pilot test findings, accessibility of banking services, low cost of service and increased customers transactions had Cronbach alpha of 0.724, 0.732 and 0.698 respectively. This clearly shows that the research instrument was reliable. In the data analysis, descriptive statistics were used to analyze quantitative data and the findings were presented in bar charts, pie charts and tables. Content analysis analyzed data that is qualitative in nature and the findings presented in a prose form. The relationship between the dependent and the independent variables was determined using a multivariate regression analysis.

The relationships in the study were positive and significant. The relationship between accessibility of banking services and financial performance of Chase Bank had a coefficient of 1.251 and a p-value of 0.000. In addition, the relationship between low cost of service and financial performance of Chase Bank had a coefficient of 0.800 and a p-value of 0.000. Further, the relationship between customer and the financial performance of Chase Bank had a coefficient of 0.311 and a p-value of 0.008.

The study concludes that there is a positive and significant relationship between accessibility of banking services, low cost of service and customer transactions as a result of agency banking and financial performance of Chase Bank. Banking using agency banking excels in service quality and service delivery. Agency banking has low

infrastructural cost and hence reduction in cost. Efficiency and convenience in operation in agency banking have increased the banks customers' transactions.

The study recommends that commercial banks in Kenya should increase the number of agents in estates and in the rural areas. This study also recommends that commercial banks should also lower the charges of making transactions in agency banks. To improve the adoption of agency banking, commercial banks in Kenya should improve customers perception by making more advertisements and increase promotion activities.

1.0 INTRODUCTION

1.1 Background of the Problem

As a result of globalization, liberalization and scientific development, banks like any other institution have been facing numerous challenges. These challenges have made them to hunt for appropriate strategies to improve their development and survival; therefore, agency banking has become one of key strategies used in the banking industry around the globe (Ivatury & Ignacio, 2008).

According to Burgessy and Wong (2005), the growth of IT has affected almost each aspect of life; among them being the banking industry. The coming up of mobile banking has changed and redefined the way banks were running. Since technology is now regarded as the major input for the institutions achievement and as their main proficiencies, banks, be it local or foreign, are channeling their finances more on offering clients with the fresh technologies by means of mobile banking. According to Diniz, Birochi and Pozzebon (2012), technological development has not only influenced lifestyle but has had an impact on the way clients do their banking. In the ancient days, banks were making use of mobile vehicles to take services to their clients particularly those in rural areas. Thereafter, they shifted to making use of the e-mail as well as internet services to offer services to their clients. The last decade, has seen an unbelievable expansion in mobile growth in developing countries (Atandi, 2013). Nevertheless, of great significance is that whereas the mobile phone provides a number of features such as the likelihood of mobile banking, approximately half of the global populations have not accepted mobile banking and monetary services or they have been denied the same (Vutsengwa & Ngugi, 2013).

Developing countries like Kenya have been increasingly adopting branchless banking as a way of providing banking services to numerous unreached population particularly low-income families (Ndungu & Njeru, 2014). Revolutionary banks, microfinance firms and mobile operators began experimenting agency banking networks in different states around the globe in the 20th century. The development of agent banking is apparent in numerous states all over the world, like Australia where post offices operate as bank agents, France

where corner stores are utilized, Brazil where lottery outlets are used to offer financial services, in South Africa, Philippines and Nigeria (Siedek, 2008).

The Government of Kenya (2011) shows that over 7 million mature Kenyans from the rural setting are either not banked or they are under-banked. This is partially as a result of the huge cost of sustaining the branches of the bank and the low turnover of business operations in rural areas - a condition which makes development of fresh branches in the rural setting a less productive undertaking. According to FSD Kenya (2010), the most current information available shows that only 19% of mature Kenyans indicated having accessibility to an official, controlled financial firms whereas more than a third (38%) showed no accessibility to yet the most elementary form of unofficial financial service. This leaves a fraction of over 80% outside the range of the reach of conventional banking. The unexpressed demand for a reasonably priced and dependable way of holding finances while making sure that threat levels are consigned to the lowest level is constantly unfolding. A structure with the potential to eliminate the historical impediments of cost and free accessibility which have for long hindered ready clients of banking services suggests immediate consideration and interest. In Kenya the execution of agent banking services is evidence to this reality (Ndungu & Njeru, 2014).

Mobile technology has significantly entered rural areas in Kenya and is expected to be on an increasing trend in the coming years. Banks and other financial institutions which have conventionally depended on physically setting up branches to offer banking services, are now moving towards the taking up of mobile banking services (MBS) as a structure of branchless banking. This has the effect of reducing banking cost. Technology has thus offered huge openings to service providers to provide the clients with immense flexibility. Ultimately, banks have adopted branchless banking like internet banking, mobile banking and ATMs; among others (Burgessy & Wong, 2005).

M-pesa services and Agent banking are displayed by the financial partners as the solution to incorporating the informal sector in the conventional financial structure (Government of Kenya, 2011). Morawczynski (2007) indicates that monetary inclusion of the minimum income category is expected to make easy the financial welfare of the banking industry since it will help the majority of the informal sector individuals to receive credit and accumulate savings. FSD (2010) states that agency banking shows an excellent development chance to banks by widening low-cost essential bank accounts to a huge

number of presently unbanked population in Kenya (FSD, 2010). Since it is likely to be determined by reducing costs, the fact that the retail systems have by now built up relationships with the heavily populated and the capacity of the retail systems to offer accessibility with no difficulty, also present development opening to banks.

An agent bank is a retail channel contracted by a bank or a mobile network entity to do customers' transactions. Instead of a branch cashier, it is the proprietor or a worker of the retail channel who does the transaction and conducts the clients deposit, withdrawals, funds transfer, and bills payment, check account balance, or takes delivery of government payments or an express deposit from their work place (Vutsengwa & Ngugi, 2013). Kenya altered its banking policies in January 2010, to enable commercial banks give their services by means of third-party dealings. The agents function as satellite branches (Mwenda, 2013).

Nevertheless, in Kenya, the acceptance of agent banking has not been well acknowledged by the intended beneficiaries who are the micro and small enterprises in the Kenya rural areas who were anticipated to gain from this scientifically inventive service (Barasa & Mwirigi, 2013). In the extent that it has been noted that there is a rise in expansion of agent banking services customers have not entirely utilized the existing agents at their areas to reduce transaction costs caused by travelling to conventional branches and the time wasted on queues so as to be served. It is also clear that, banks have not entirely seized the opportunity of agent banking to discover every market segment at reduced running costs.

In 1995, Chase Bank was only a business idea. That business idea drew its origins to when a team of local business people joined to buy a bank that was by that time under CBK statutory managing. The bank successfully started its running in January 1996 in Kisumu. In 1997, the bank shifted its head offices to Nairobi. In year-2000, the Kisumu branch was closed as part of rationalization procedures. At present, the bank has branches in prime areas in Mombasa, Nairobi CBD, Hurlingham, Parklands, Eastleigh and Village Market (Chase Bank, 2014).

The stable and continuous development of Chase Bank is a collective success. The Bank's owners have displayed their dedication with constant addition of funds. The customers' constant practice and loyalty have boosted the deposit amount. From its 1996

first issued share capital of Ksh. 75 million, the share capital has continuously grown through the years as a result of a bonus and rights issues to be at Ksh. 600 million as at the end of December 2006. This expansion is as a result of investor assurance in the bank and constant maintenance of earnings (Chase Bank, 2014).

Chase Bank has gone through fast expansion in the last three years and is setting itself as the affiliation bank. This expansion has also resulted to challenges mostly on the basis of existing systems, measures, structures and processes. For over a decade, Chase Bank has been vigorously engaged in funding individuals and firms in Kenya. They offer a wide range of funding products for firms and companies and consumer funding through their branches in Mombasa and Nairobi. To raise its competitive advantage, the bank has embraced agency banking as well as mobile banking (Chase Bank, 2014).

1.2 Statement of the Problem

Currently, in Kenya, the business setting has changed just like in other parts of the globe and it has been caused by high competition amongst the parties involved and the banking sector. Competition between commercial banks has made the banks to become more inventive. Majority of the innovations took place between the year 2006 to 2010. Some of these innovations are internet banking, credit cards, mobile banking, ATMs, youth accounts, children accounts, women banking, Shariah banking, and the most recent agency banking (Mwenda, 2013).

According to CGAP (2011), agency banking as a replica has been very flourishing in boosting the commercial banks' performance in most developing states. Achievement stories have been witnessed in Peru, Columbia, India and Brazil. Besides, Njuki (2012) states that, in Kenya agency banking has enabled banks to increase profits and spread out financial services. As a result of the increased competition of banking services in Kenya presently, Chase bank is among the commercial banks in Kenya that have adopted agency banking replica. Dedicated to seize the opportunity of the cost-reduction and ease of access caused by the agency banking replica, Chase bank in the last two years started an aggressive entrance into this segment.

Despite the triumph of agency banking internationally and its execution by different commercial banks in Kenya, there are numerous difficulties experienced by the agency banking replica. Initially, its poor use is seen to frustrate its continued use and burry the

vision to financial reach for the unbanked (Birch, 2008). Additionally, most of the banks that have embraced agency banking have realized that agents do not have the ability to deal with huge cash transactions and that they are not investing on security strategies resulting to poor client acceptance of agency banking (Vutsengwa & Ngugi, 2013). Additionally, liquidity setback resulted to disappointment and is among the reasons why the acceptance of these structures derails than expected.

However, despite its continued implementation by various banks in Kenya including Chase bank, there was no empirical evidence show how it influences the performance of commercial banks in Kenya. For banks to invest in agency banking, they need to know how it influences performance and the expected challenges and how they can be mitigated. The study therefore sought to show the effect agency banking has on the financial performance of Kenyan commercial banks using Chase Bank as the case study.

1.3 Objectives of the study

1.3.1 General objective

The general objective of this study was the establishment of the effect of agency banking on the financial performance of Kenyan commercial banks.

1.3.2 Specific objective

The specific objectives of the study were;

i. To establish the effect of accessibility of banking services through agency banking on the financial performance of commercial banks in Kenya

ii. To find out the effect of low cost of service through agency banking on the financial performance of commercial banks in Kenya

iii. To determine the effect increased customer transactions through agency banking on the financial performance of commercial banks in Kenya

1.4 Significance of the Study

A great deal of literature globally argues that banking in Africa does not seem to be growing in the desired levels and direction. However, limited literature exists on the effect of agency banking on the performance of banks. This study was of great importance to various stakeholders:

1.5.1 Chase Bank and Banking Industry

To the management of Chase Bank the study provides information that they can use to develop their products based on a need from the market thereby making a connection with potential and existing customers and increasing the uptake of Agency Banking.

Potential beneficiaries include the commercial banks that aim at having a greater national presence through Agency banking. The study intends to benefit the banking industry by illustrating some of the primary effect of agency banking on performance of commercial banks.

1.5.2 Researchers

This research forms a platform for scholars who may wish to evaluate the effects of agency banking on the performance of banks; as well the research seeks to give financial stakeholders insight on formulation of policies in an effort to improving the growth of the banking industry. This study also provides information that can be used as literature review to other researchers.

1.5.3 Regulatory Authority

Another beneficiary was the Government of Kenya and the Central Bank of Kenya who can make use of this research to establish supportive legislation towards agency banking for the unbanked population. They can also use this information to protect investors in the banking industry from losses.

1.5 Scope of the Study

The study sought to establish the effect of agency banking on the financial performance of commercial banks in Kenya. The study was limited to three variables: accessibility of banking services, low cost of service and increased customer savings. The study was also limited to Chase bank headquarters situated at Riverside Mews, Riverside, Nairobi.

1.6 Definition of Terms

1.6.1 Financial Institution

A financial institution, by definition, is an institution charged with the responsibility of offering financial services for its members or clients. They are regulated by their respective governments and include financial service providers, commonly commercial banks (Alfansi and Sargeant, 2000).

1.6.2 Commercial Bank

A financial institution that provides banking service and other financial services. It can also be referred to a financial institution that holds a banking license (Vutsengwa and Ngugi, 2013).

1.6.3 Branchless Banking

The delivery of financial services outside the conventional bank branches using information and communications technologies and nonbank retail agents. Branchless banking has emerged as a way of offering a new distribution channel which facilitate financial institutions and general commercial actors alike in offerring financial services outside customary bank premises (Mwenda, 2013).

1.6.4 Agency Banking

A business of performing as an agent or intermediary in the act of either accepting deposits or installments, lending of funds or discounting notes receivables or concluding contracts of exchange transactions (Burgessy & Wong, 2005).

1.6.5 Agent

An agent is an entity contracted by an organization and is duly approved by the Central Bank to offer the services of the organization on behalf of the organization (CBK Agency Guideline). In this paper, the term refers to any third party acting in representation of a bank whether pursuant to service agreement, an agency agreement, or other similar arrangement.

1.7 Chapter Summary

This chapter presents the introduction to the study. The study starts with outlining the study's background, the statement of the problem follows, objectives of the study are next, followed by the research questions together with the significance of the study, scope of the study and lastly the definition of terms. Chapter two presents the review of the literature; chapter three will give the research methodology, chapter four presents' data presentation, analysis and interpretation. The last chapter; chapter five provides the findings summery together with the discussion, conclusions and recommendations.

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature on agency banking and performance of commercial banks. The chapter begins with a review of literature on accessibility of banking services and financial performance, followed by literature on low cost of service and financial performance, increased customer transactions and financial performance a chapter summary.

2.2 Accessibility of banking services and financial performance

2.2.1 Mobile and internet banking and financial services

A study was conducted by Okiro and Ndungu (2013) pertaining to The Effect of Internet and Banking Mobile on Performance of Financial Organizations in Kenya. The study, as suggests the title, sought to determine the effect of internet banking and mobile on the performance of financial organizations in Kenya by focusing on financial institutions in Nairobi. The study investigated 30 financial institutions by assessing the role played by internet and mobile banking in the performance of the institutions. The study employed qualitative and descriptive methods research designs with the aim of having a clear understanding of internet and mobile banking. The study collected qualitative data from the managers, subordinate staff and also from customers of the 30 institutions. These 30 institutions were arrived at by the use of stratified sampling. The sampling process led to the 17 commercial banks, 11 SACCOs and 2 microfinance institutions were sampled. Open and closed ended questionnaires were applied in the process of data collection. The analysis of collected data was conducted through the use of both qualitative measures and quantitative measures.

The study established that internet banking increased the turn out level of customers (63.3%). Additionally, the study found out that 66.7% of the respondents' shared the opinion that internet banking had a positive influence on the performance of the financial institutions. Cash withdrawal was the most commonly used mobile banking service whereas purchasing commodities was the least commonly used. The study concluded that of all financial institutions, commercial banks had adopted internet and mobile banking

better than all the others. Also, the study concluded that due to the lack of infrastructure, internet and mobile was faced with serious challenges since its inception. However, the study still concludes that in spite of these challenges, there is notable increase in effectiveness, efficiency and productivity. The study suggests that to overcome the system failures experienced is through regular maintenance activities and the investment in better infrastructure.

Another study was conducted on the same by Mutua (2012) under the title, Mobile Banking Effects on the Financial Performance focusing on Commercial Banks in Kenya. In this study, mobile banking was the focus in that it offers more accessibility of financial services minimizing time and distance. The study also established that through mobile banking transactional related costs and overheads were reduced therefore improving financial performance. The study used descriptive research design with a target population of 6 mobile phone network providers. Data was obtained from the providers regarding the total amount transferred in the last five years. The figure for the number of mobile users was regressed against the performance of the bank as was measured by the return on assets. The study further obtained secondary data from the Central Bank of Kenya, Kenya Bureau of Statistics and the Central Bank of Kenya. On the course of the study period, total amount of money transacted through mobile transfer steadily increased to 118.08 billion from 0.006 billion. The convenience offered by the service was perceived as the main cause of this success. The study, contrary to other studies highlighted in this paper, found out that there was a weak positive relationship between mobile banking and financial performance of commercial banks. The study recommends that polices on mobile banking be given due attention by policy makers in those commercial banks. Further, the study also recommends that more attention be put on any advancement that may occur in the mobile banking industry. Each bank should strive updated and abreast about mobile banking.

2.2.2 Agency banking

A study was conducted by Aduda, Kiragu and Ndwiga (2013), regarding the relationship between agency banking and financial performance. Banks and other institutions dealing in financials have invested in expansion strategies and consequently they have succeeded in establishing many branches. However, the challenge of gaining access to formal financial services by clients still remains a big challenge to good performance by many

firms. Customers in rural and remote areas travel long distances to access financial services a fact that makes banking and other financial services unpopular in such areas. This has led to poor performances by some institutions making the new legislation by the central bank allowing banks to contract third party networks, a welcome idea. The study used descriptive research design by using secondary data obtained from the commercial banks in Kenya that have already adopted agency banking. The study used a population of 10 commercial banks practicing agency banking. These commercial banks were Co-operative Bank, Equity Bank, KCB Bank, Family Bank, Post Bank, Chase Bank, Diamond Trust Bank, NIC Bank, Citibank and consolidated Bank. These banks individual financial performances were used to extract their respective financial performance indicators. Additionally, the CBK also provided annual reports and supervisory reports on these banks which were very useful in determining the number of agents registered under each bank. Also, these reports provided the information on the total transactional value that was conducted through the respective agents of the banks.

The variable of interests basically were the deposit transactions and cash withdrawal conducted through agents, staff cost to revenue ratio, cost to income ratio, return on assets and number of active agents. The study found out that out the banks studied, co-operative bank, Equity Bank and Kenya Commercial Bank showed significance performance index. Other banks, however, did not show the performance index as the aforementioned. Further, the findings showed that there was increase in the annual performance of those banks with agency banking from the year 2008 to 2011. This implied that agency banking was progressively improving leading up to a significant increase in financial performance of those banks. The study established that Equity bank had the highest number of agents in 2011 with Co-operative Bank coming second. Equity Bank also registered the highest number of agents in the same year. This shows that the bank was continuously performing through the aid of agency banking leading to improved financial performance. From the findings made by the study, it can be concluded that most of the banks in the country have not adopted agency banking with only 11 out of the 43 licensed and only 8 out of the licensed rolled up with the agency banking service. Further, it can be concluded from the findings that Equity Bank is the most performing commercial bank when it comes to agency banking followed by Cooperative Bank and Kenya Commercial Bank. Agency banking has significantly and positively influenced performance of commercial banks.

A study conducted by Kirui, Okello and Nyikal (2012), served to show the role played by mobile phone money transfer (MMT) systems in increasing accessibility of financial services especially to farmers in rural areas. The study noted that the transfer of money through this system is cost effective and quick. This system offers a secure and easy platform through which small savings majority of the rural population can access. The study focused on smallholder agriculture since it is not well documented. The study focused on the financial intermediation of those individuals in the society who are excluded or are inaccessible, through the use of ICT. The study used propensity score matching method to examine the impact of MMT services agricultural commercialization. The study used cross-sectional data obtained from 379 multi-stage households randomly selected in Western, Central and Nyanza provinces of Kenya. The study established that use of MMT services increased to a significant the level of annual household input use by $42, household agricultural commercialization by 37% and household annual income by $224. The study concluded that MMT services helped to resolve the market failure experienced by farmers especially due to lack of adequate access to financial services. The study recommended the Kenyan MMT model be emulated by creating an enabling environment for the success of the MMT initiatives.

Calleo (2014) did a study on accessing the unbanked prospects through branchless banking in Africa. The main objective of the paper was to evaluate the use of branchless banking in providing a cost-effective and secure solution to gain new customers. The study population was nations in Africa like Kenya, Egypt and Congo among others. They established that in general, 23% of adults in the Africa region own a bank account. In Africa, there is a large discrepancy in account ownership: in Sub- Saharan Africa, 24% of adults reported having an account at a formal financial institution, though this ranges from 11% in Central Africa to 51% in Southern Africa. In the Central African Republic and Democratic Republic of Congo, more than 95% of adults do not enjoy banking services. In North Africa, 20% of adults have an account at a formal financial institution ranging from 10% in Egypt to 39% in Morocco. The study attributed the reasons for this large unbanked population in Africa to poor infrastructure geographical and inaccessibility, with many of the unbanked individuals living in remote rural areas. This, coupled by the high cost of banking services and a lack of financial understanding and education, makes very strong barriers to banking for poor rural populations. The study further established that other factors that influence accessibility to financial services

include ease of access and proximity, basic financial education, low barriers to entry and a flexible approach to repayment and savings schedules.

Younus (2013) conducted a study on branchless Banking as an outlet of economic freedom for all. He argued that **b**anking was a complex business in the past and only a limited number of wealthy persons were its customers. Too much personal presence requirements and procedures for safe banking, gave restricted access to common man to bank financial services. In Kenya more than 700 million people are enjoying branchless banking financial services. In Philippines and South Africa this banking is also growing gradually and enabling the communities to manage their financial affairs with ease on their door step and saving transportation time and cost. In Pakistan, branchless banking financial services are rapidly growing and in 2012 there were 1.4 million mobile accounts which represented 15% growth than the year 2011. Through this mode of banking, there is an enormous opportunity to bank the unbanked transactions. Rural population in remote areas particularly women entrepreneurs can make use of branchless banking for economic freedom. This freedom enables women in rural areas in decision making in life and will earn equality for them. Undoubtedly branchless banking is a window of economic freedom for all in country like Pakistan.

Lawal and Abdulkadir (2010) did a study on branchless banking as a remedy for reaching the unbanked in Kwara State, Nigeria. This study was conducted to determine whether branchless banking can be a solution to reaching the unbanked citizens in Kwara State. In accomplishing this objective, questionnaires were disseminated to three hundred respondents that spread across six villages in the State. Z-score statistical test and Percentages were used to analyze the data collected for the study. The analyses of responses collected shows that majority of the respondents do not have a bank account. Based on this, the study amongst others recommends that both the banks and regulatory bodies should guarantee that banks extend their points of presence to the rural areas and also confirm that all the relevant infrastructures required for branchless banking services are put in place in areas whereby there are large numbers of unbanked citizens.

2.3 Low cost of service and financial performance

2.3.1 Convenience and Reducing Cost

A study was conducted by Ngigi (2012), on the effect of financial innovation on financial performance of Kenyan commercial banks, provides relevant information to this study. The study concentrated on the introduction and adoption of more efficient and real time systems of finance by the commercial banks. Financial innovation involves a host of new services and new products, new production methods and new forms of organization including internet exclusive banks and agency banking. With regard to new products, the study highlighted the exchange-traded index funds and adjustable rate mortgages. New services included mobile banking, internet banking and online securities trading. New production methods included credit scoring. Clearly, financial innovation is more than one way embedded in the enhancement of financial performance of financial institutions, and not just banks. Most of the strategies involved in financial performance focus on improving accessibility, convenience and reducing cost of operation as much as possible. These facts make this study by Ngigi (2012), very essential and relevant.

The study sought to assess the effect of financial innovation on the financial performance of commercial banks as the key players in the banking sector over a time span of 4 years. The study noted that the financial industry in Kenya has underwent a wide range of transformation all aimed at improving financial performance of many financial institutions. Yet in spite of that, the study holds that the relationship between financial innovation and financial performance is not always positive correlated because there are cases of negative correlation between the two being reported. A casual research design was utilized in this study. This type of research design was deemed appropriate to this study as it is unobtrusive and the act of research does not affect the results of the study. The population of the study was 43 commercial banks, which about all the commercial banks in Kenya by June 30th 2012. The study used secondary data obtained from the annual reports for the respective banks published by the Central bank. The study used financial innovations as the independent variable while financial performance was the dependent variable. The study results pointed out that financial innovation was positively correlated to profitability particularly regarding commercial banks. This was highly supported by the high uptake of the modern, more efficient and low costs systems in replacement of the less efficient traditional systems. Evidence for this was provided by

the study as, the negative correlation between Automated Clearing House (EFTs and Cheques) and Real Time Gross Settlement throughput over time. The study recommends that more efficient systems of payment should be devised and developed amid adequate regulation.

Another study focusing on effects of financial innovation on the financial performance of deposit taking SACCOs in Nairobi County was conducted by Njeri (2013). The study noted that good financial performance is a subjective measure of how effectively a firm can utilize its assets from its basic mode of business to generate maximum revenue. The study chose to focus on SACCOs given that many SACCOs were being phased out by the new entries in the industry. Therefore, the study sought to identify the benefits that SACCOs enjoyed when they adopted various financial innovations in terms of organizational sustainability and profitability. The study sought to establish the relationship between financial innovation and financial performance of deposit taking SACCOs located in Nairobi County. The study studied a population of 44 deposit taking SACCOs in Nairobi County. The Sacco Societies Regulatory Authority (SASRA) supervisory reports were the source of the secondary data use in this study. This data was between 2008 and 2012. Data analysis techniques were applied to the study to help in the reduction of data to manageable levels, to search for patterns, to apply statistical techniques and to come up with a summery. The study found out that SACCOs have begun using money transfer methods such as Orange money, MPESA and Yu money but they had not linked them with their back office financial databases. The study further found out that SACCOs were gradually adopting internet banking. Through this, the usage of information technology, ICT infrastructure, internet and websites have increased and so has their financial performances. The technological advancements highlighted above are lead to financial performance improvement through increasing of efficiency and reducing costs of operations.

According to Nyandiere (2006), system implementation comprises of five phases namely hardware selection, acquisition and installation, User training, file conversion/creation and system changeover/ adoption. The user may acquire the software and hardware directly from a developer and manufacturer respectively, or may also purchase them from an intermediate supplier. He further argued that the following financing methods are accessible for companies planning to implement new systems; purchasing, where the

buyer attains ownership of item after full payment of amount agreed. Leasing alternatively involves formation of an agreement between lessee and leaser or detailing the length of time to use the equipment, the use of equipment and the periodical payment. Third method of financing is renting, which is a single agreement where one party agrees to use another party's resources at definite periodical payments. The agreement is however, not as binding as that of a lease agreement (Nyandiere, 2006).

A company may be guided by several factors, while choosing the appropriate software. These factors include, user requirements, where the selected package or software should fit requirement of the user as closely as possible. Moreover, processing time involves the response time, for instance if the response time of software is slow the user might take the software or package to be unsuccessful. The third factor is documentation. Software should always be accompanied by manual. The manual should be easy to understand by non-technical person. However, the manual should not have technical jargon. Software should also be user friendly. The package should have clear on screen prompts to make easier to use, menu driven and extensive facility on screen help. The software should also have in-built controls which may include validation checks, password options, trace facilities or audit trails etc. Other factors that should be taken into account include; the software should be up-to-date, for instance it should have modifications or corrections according to business procedures, one should account for whether the user could freely modify the software without violating copyright, one should cater for how many users can use the software and the duration it has been the market, Compatibility of the software refers to how the integration of a software with other software specifically the operating system and the user programs is, Portability refers to how the software runs on the computer of the user and whether the software needs upgrading the hardware, and Cost being the users consideration of the financial position to establish whether it can buy the software required for effective operations instead of the least cost package software available rationale (Nyandiere, 2006).

Training of the user is significant before system adoption is carried out so that the system users can acquaint themselves with the system and the hardware before the actual adoption. The purposes of user training are to decrease errors emanating from from learning through trial and error, to endear the system more to the users, to enhance security by reducing accidents leading up to destruction of data, to enhance quality of

services and operation to the users, to reduce the cost of repairs by minimizing accidental destruction of data or hardware and to ascertain efficiency in system operation when it goes live. The persons to be trained include system operators, middle managers, senior managers and all those affected by the system indirectly or directly. Training should cover recruited personnel and current staff (Nyandiere, 2006). Through training, the staff becomes more efficient in their work reducing accidents and wastage of time. In the long run, this improves the financial performance of an institution.

System maintenance is carried to improve the system flexibility and adaptability. Flexibility refers to minor changes in a system so as to cope up with the growth in business transaction volume. Adaptability refers to changing a system so as to benefit the user from advances in both hardware and software technology. System maintenance may include adaptive maintenance, corrective maintenance, perfective maintenance, replacive maintenance and preventive maintenance. Corrective maintenance is typically a change effected in a system in reaction to detected error or problem. Its objective is to make certain that the system remains functional. Perfective maintenance is a modification to perfect a system, to enhance its performance on the basis of response time to user request or to adjust a system interface to make a system friendlier to the user. Adaptive maintenance refers to changing a system to cater for a change in its functional environment. Preventive maintenance is conducted on a system to ascertain that it can withstand increased workload. It helps in safeguarding data and software integrity. Replacive maintenance it is conducted on a system when a system is near obsoleteness e.g. due to poor design, lack of documentation or age. Ultimately, system maintenance leads to reduction of costs to considerable levels. In turn, reduced costs create an avenue for an institution to better their financial performance.

2.3.2 Effectiveness and Efficiency

A study done by Ndiema (2008) sought to establish the effect of agency banking on the financial performance of Kenyan commercial banks. Ndiema (2008), postulates that the twenty first century has been riddled with by rapid growth and application of technology that involves innovative ways of doing business, in a way that enhances effectiveness and efficiency with improved productivity/ profitability and reduced cost. The banking sector in Kenya has come across developmental innovations that includes; ATM, women oriented banking, mobile banking, internet banking, credit card youth oriented accounts,

children accounts, sharia compliant banks in recent past agency banking since may 2010. This study sought to find out how agency banking has improved the financial commercial banks performances especially in Kenya. The researcher was driven by objectives namely; to establish the extent of implementation of agency banking and financial performance and to determine the challenges facing commercial banks at implementation of agency banking. The researcher appraised relevant literature and conducted a descriptive research design survey study to establish the effect of agency banking top financial performance of commercial banks. The results of the study indicate that largely, agency banking had been implemented by commercial banks performing agency banking. That agency banking has enhanced the financial performance of commercial banks in Kenya with regard to profitability, establishing branches and reduced employment cost. Chi-square test was used to carry out a cross-tabulation to find out the relationship between bank operation cost and bank financial performance because of implementation of agency banking. The value for the association between bank operation cost and bank financial performance was obtained as 13.04as a result of agency banking with 4 degrees of freedom and the significant result. Agency Banking has also its share of challenges that was in general agreed that there was room for improvement and with time overcome the challenges.

Mwangi (2013) evaluated the role agency banking plays in Kenyan commercial banks performance. Keen to take advantage of the accessibility and cost-saving brought about by the model of agency banking, Kenyan financial institutions have embarked on an aggressive entry into this segment over the last one year. However, it is yet to be documented how this model has contributed to the performance of these banks in Kenya. This study's objective was to evaluate the role played by agency banking in the good or bad performances of commercial banks in Kenya. The study's specific objectives were; to evaluate the impact of liquidity on the commercial banks performance attributable to agency banking, to establish the impact of cost on the commercial banks performance attributable to agency banking, to assess the effects of security on commercial banks performances attributable to agency banking. A descriptive research design was used for the study. The study targeted banks offering agency banking services in Kenya. In Kenya as at that time, the number of commercial banks offering agency banking were four. The study population was forty branch managers of the selected banks. Both qualitative and quantitative data was collected and descriptive statistics was used to analyze this data.

The descriptive statistical tools used included; standard deviations, frequencies, percentages and mean which aided the researcher to describe the data. Additionally, advanced statistical technique (inferential statistics) was also taken into consideration. Analysis of the data was done by use Ms Excel and SPSS (Statistical Package for Social Sciences). The presentation of the quantitative reports obtained was by means of tabulations, graphs and charts. Qualitative data obtained from open ended questions was analyzed using content analysis. The data was presented in a prose form. The study depicted that some of the regulations effects on the performance of commercial banks attributable to agency banking were executive management and board of directors, quality control and accountability. The study concluded that infrastructure security and cost influence the performance of commercial banks attributable to agency banking to a very great extent. Therefore, the study recommends that Agency banking should be accorded more attention on measures of security including risk-based approach and that the banks should seek better ways of screening their agents to make sure that large cash transactions handling is carried out effectively on their behalf. It is also recommended that banks explore other services, other than only money transfer to enhance their performance through agency banking such as: operating systems secure enough and capable of conducting real time transactions, generating an audit trail, and protecting data integrity and confidentiality.

2.3.3 Financial Inclusion

A study done by Njagi (2014) sought to establish how agency banking contributed to the financial performance of Kenyan banks. He holds that more than 6.5 million adult rural Kenyans are either unbanked or under-banked. This can be attributed to the lowly paying business transactions done in rural Kenya and the high cost needed to sustain bank branches in rural Kenya which makes the establishment of new commercial banks in rural Kenya a non-profitable venture. Due to this, technology has provided opportunities for service providers in the banking sector to enable customers enjoy greater banking flexibility. Agency banking has a number of technologies that enable banking service providers to keep tract of the transactions made by retail banking outlets. This study was guided by directions of previous researches carried out abroad in an effort to establish the influences of agency banking on commercial banks' financial performances in Kenya. This study employed a descriptive survey. The study's population was 9 Commercial

Banks that offered agency banking in Kenya. The study further selected 4 senior managers from individual bank therefore forming a sample size of 36 respondents used in this particular study. Semi structured questionnaires were administered as a means of collecting primary data. Pilot study was as well undertaken to test the reliability and validity of the instrument that was used. Using of descriptive statistics using SPSS (Version 20), quantitative data collected was analyzed and presented through percentages, standard deviations, means and frequencies. Graphs, bar and pie charts and the use of prose form were methods used to present information in this study. The study also established that low transaction costs that were obtained due to the use of agency banking had a positive effect on the financial performance of Kenyan commercial banks. The study further found out that customers could easily access financial services due to the use of agency banking. This led to a positive impact on the financial performance of the Kenyan commercial banks.

2.4 Increased customer transactions and financial performance

2.4.1 Withdrawal Transactions

A study done by Ndirangu (2013) to establish the effect of agency banking on Kenyan commercial banks established that there was an upsurge of agent outlets in the banking industry. This was established after an observation of a dramatic rise in the number and value of transactions done by in customer and new service banking numbers. The productivity of the banking sector has also hiked. The empirical problem in the study was whether there was a relationship that existed between Agent activities in terms of the value transacted and banks profitability. There are agency banking questions that still remain unanswered in regards to why commercial banks are venturing into new business models and the advantages and disadvantages of these new models. Thus the major objective of the study was to establish the impact of agency banking on Kenyan commercial banks financial performance. The research design was by means of a census that covered 100% of the banks that were licensed as at 31st December 2012 to conduct their business in agency banking. The study total population was 44 banks while the sample was made up of 10 banks that were licensed to operate in Kenya. The sample banks were already conducting agency banking in the country by the end of the research time frame. data analysis of the study was conducted using regression analysis to establish the relationship between agency banking determined by the number of agency

agents, loan repayments withdrawal transactions done via agents and the financial performance of the commercial banks established by the return on equity of the banks.

The study undertook data analysis using regression analysis to find the relationship between agency banking going by the number of agents and withdrawals transactions and loan repayment carried out via agents and the financial performance of banks as assessed by return on equity. The study established that there was no direct correlation between the commercial banks number of agents, the ensuing volume of transactions (withdrawals) and the banks financial performance as revealed by the return on equity of the banks. The significant low R Square for both 2011 and 2012 years further supports the weak correlation between the independent variables and the predictors as shown in the regression analysis models. Correlation between predictor variables is considered to be in existence if their coefficient of correlation is greater than 0.5. This establishes that there are other factors not included in the scope of the current study that contribute to the commercial banks that operate agency banking financial performance. The main recommendations of the study was for the improvement of the supervision on the new service segment, banks should also allow agents to perform other core activities so as to make sure that the agents capabilities are well utilized. The banks should also improve security for the agents to ensure that they can handle larger volumes of cash and be able to penetrate deeper into the society.

2.4.2 Deposits Transactions

A study done by Ndwiga (2013) sought to explore the effect of agency banking on financial performance of Kenyan commercial banks. Various sources of secondary data were utilized for the study. Individual banks'' annual reports on financial performance were used to extract indicators on financial performance. Supervisory reports and CBK's annual report were also utilized to establish the registered number of agents and the value of total transactions attained through the agents. The variable of interests were: the deposit transactions done through agents; cost to income ratio which implies measuring cost efficiency using agency banks; number of active agents; return on assets (ROA) to measure profitability; and, staff cost to revenue ratio to measure the human resource cost reduction due to agency banking. The data was collected for a three-year time span: 2010 to 2012. The findings revealed that out of all the banks that have rolled up the service, Co-operative bank, Equity bank and Kenya Commercial Bank show significant

performance index. Further, the findings showed that annual performance significantly improved. This implies that agency banking is improving continuously leading to substantial increased financial performance in those banks that have rolled up the service due to its efficiency and convenience in operation. The study established a positive strong effect between agency banking and financial performance. The study recommends further that commercial banks should embrace fully agency banking through embracing of enhanced technology for information security to make it more reliable to customers.

Kamau (2012) conducted a study seeking to establish the relationship between agency banking and Kenya's commercial banks financial performance. The business environment has been altered and it has been characterized by stiff competition amongst the players and in Kenya the banking industry is no exception. Innovation has been borne out of the stiff competition between commercial banks. Most of such innovations were presented in the period between the year 2006 and 2010. These included ATMs, credit cards, children accounts, internet banking, mobile banking, women oriented banking, youth oriented accounts, Shariah compliant banking and now introduced most recently within the Kenyan banking sector – agency banking. The main purpose of this study was to establish the relationship between agency banking and financial performance of Kenyan commercial banks. An agency bank is a company/organization that acts to some extent on behalf of another bank. It thus cannot extend loans or accept deposits in its own name; it acts as an agent for the parent bank. Agency banking model necessitates commercial banks to depend upon the existing infrastructure with regard to supermarkets, petrol stations and hotels to reach out to customers. Increasing access to finance has been enhanced with the use of innovation such as agent banking, which enables DTMs and commercial banks to involve the services of third party outlets to provide specified financial services on their behalf. From the secondary data, the study found that outlets of agency banking had increased from 8,809 in 2010 to 9,748 active agents in 2011. These specific agents mad it possible to achieve a total volume of 8.7 million transactions averagely valued at KSh 43.6 billion in the year 2011. These transactions were made up mainly of cash deposits done at the various banking agency outlets. Regression analysis was used to investigate the relationship between agency banking (in relation to agents and deposit transactions numbers especially those done through the help of agents) and the banks' financial performance measured by the banks return on equity. From the model of regression, all the independent variables were found to either have negative or weak

correlation to the dependent variable. Consequently the study concluded that agency banking does not contribute solely to increased Kenyan banks' profitability going by the secondary data reviewed for 2010 and 2011.

2.4.3 Other Transactions

Aduda, Kiragu and Ndwiga (2013) conducted a study to establish the relationship between Agency Banking and Financial Performance of Kenyan Commercial banks. Banking agents are equipped typically with a combination of point-of-sale (POS) card reader, barcode scanner to scan bills for bill payment transactions, mobile phone, Personal Identification Number (PIN) pads, and at times personal computers (PCs) with access to the bank's server via a personal dial-up or other viable data connection. Clients transacting at the agent use bank card with a magnetic stripe or their mobile phone to gain access to their bank account or e-wallet correspondingly. Normally, identification of customers is done through a PIN, but at times biometrics has been used. This research made use of the descriptive design method utilizing secondary data collected from commercial banks in Kenya that had engaged in agency banking in Kenya. The study's population was as a result commercial banks in Kenya undertaking agency banking. By the end of 2012, 10 banks had employed agency banking with over 12,054 agents: Consolidated Bank (Conso Maskani); Equity Bank; KCB Bank; DiamondTrust Bank PostBank; Family Bank (Pesa Pap); Co-operative Bank (Co-op Kwa Jirani); Chase Bank (Chase Popote); Citibank and NIC Bank. Secondary data sources were also used for the study. Individual banks' annual reports on financial performance were utilized in extracting financial performance indicators. Supervisory reports and CBK's annual report was used also to establish the registered number of agents and the total value of transactions conducted through the agents. The variable of interests were: the deposit transactions and cash withdrawal conducted through agents; return on assets (ROA); number of active agents; to measure profitability; cost to income ratio (to assess and analyze cost efficiency in using agency banks); as well as, staff cost to revenue ratio to analyze the decrease of human resource cost owing to agency banking. The data was gathered for the three-year period: 2010 to 2012.

Oyugi (2015) conducted a study on how alternative financial delivery methods influence the performance of commercial banks in Kenya. The financial delivery methods included mobile banking, ATMs, agency banking and internet banking. The study employed a

descriptive research design. The target population was 86 heads of IT and finance departments in the 43 commercial banks in Kenya. No sampling was done as the population was small. Semi-structured questionnaires were used to collect primary data, which was later analyzed by use of descriptive and inferential statistics. The study revealed that the adoption of alternative banking channels, including agency banking, was good as they were uncomplicated and accessible. These alternative banking methods were used in funds transfer, bill payments, loan repayment and cash withdrawals. This led to an improvement of the financial performance of various commercial banks. However, the adoption of these alternative banking channels has been facing some challenges which include customers' lack of confidence, security concerns and knowhow. Specifically, agency banking was found to improve both withdrawal and deposit transactions in commercial banks. Agency banking was also found to have led to an improvement in financial inclusion of the unbanked in rural areas. However agency banking agents were found to be facing challenges such as system failure, vandalism, poor user knowledge and additional costs. the study therefore made recommendations that commercial banks in collaboration with central bank of Kenya and agents should seek to minimize the risks such as fraud and vandalism that affect both the agents and agency banking users.

Jagongo and Molonko (2014) did a study to investigate the role of agency banking operations in the financial performance of commercial banks. They argued that many financial institutions, including commercial banks, are getting huge profits from people from the bottom part of the economic background. This has led to high competition as most financial institutions employ various market entry methods to venture in this market segment with an aim of maintaining their competitive advantage. This study used a descriptive research design and census was done to select all the commercial banks in Kenya. The findings revealed that by use of agency banking commercial banks were able to increase their transactions, including cash withdrawals, funds transfer as well as deposits, from people who were considered to be of low income.

2.5 Chapter Summary

This chapter presents a review of literature based on the objectives of the study. The chapter began with accessibility of banking services and financial performance, followed by low cost of service, increased customer transactions and financial performance. The next chapter provides the methodology that will be used in the study.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the procedures and methodology used in analyzing and collecting the data in the study. The chapter contains the research design, the population of the study, sampling frame, sampling techniques and the study's sample size. In addition, the chapter outlines data collection methods and instruments used in addition to data analysis methods fit for the achievement of the set objectives.

3.2 The Research Design

A descriptive research design was used in this research. According to Bryman (2003), this is a scientific method involving observing and describing the behavior of a subject without affecting it in any way. Furthermore, the study incorporated both quantitative and qualitative research.

In addition, this study only focused on Chase bank making a case study. According to Creswell (2006), a case study allows for descriptive, explanatory or exploratory analysis of a person, event or group. A case study facilitates the collection of plenty of details that would otherwise be difficult to obtain by other research designs. The data collected is normally of greater depth and a lot richer than the one obtained through other research designs.

3.3 Target population

According to Cooper and Schindler (2006) a target population is a population having the desired information. In this study, the target population was the staff working at the headquarters of the Chase bank in Kenya. The target population of this study was therefore 174 staff working in Operations Department, Finance Department, Credit Department, ICT Department, Marketing Department, Human Resource Department, Business Development Department and SME and Strategic Business.

Table 3.1: Target Population

Departments	Target Population
Operations Department	23
Finance Department	18
Credit Department	26
ICT Department	21
Marketing Department	22
Human Resource Department	18
Business Development Department	24
SME and Strategic Business Department	22
Total	174

3.4 Sample and Sampling Techniques

As stated by Cooper & Schindler (2003) a sample size is the sum of entities in a given subset of a population chosen for analysis. This study applied stratified random sampling to select 50% of the target population. Greener (2008) stated that for a population more than 100 but less than 500 (100<N<500), 50% of the target population should be used. The sample size of this study was therefore 87 respondents. According to Kothari (2004), stratified random sampling is a sampling method and by a sampling method he meant a way of gathering participants for a study.

Table 3. 2: Sample Size

Departments	Target Population	Sample Size (50%)
Operations Department	23	12
Finance Department	18	9
Credit Department	26	13
ICT Department	21	11
Marketing Department	22	11
Human Resource Department	18	9
Business Development Department	24	12
SME and Strategic Business	22	11
Total	174	87

3.5 Data Collection Instruments

Both secondary and primary data was used in this study. Primary data is the data collected directly from actual experience, free from processing or any other type of manipulation (Mugenda & Mugenda, 2003). Yin (2008) as well, stated that primary data can be obtained by using qualitative data collection tools (focus group discussions, observations and interview guide) and tools of quantitative data collection (questionnaires). Semi structured questionnaires were used in this research study. The questionnaires comprised both open ended or closed ended questions in order to enable the respondent to express their opinions. Kothari (2004) postullated that questionnaire is a cheap method to obtaining information particularly from a large group of respondents. It also permits for anonymity. In this research, questionnaires were used as they enhance anonymity as some of the information needed is sensitive. Furthermore, questionnaires' were applied in this study since they were very efficient in terms of time, finances and energy.

3.6 Pilot Test

Pre-testing was carried out before the questionnaires were administered to the participants, to certify that the questions were relevant, made sense and were clearly understandable. Pre-testing aimed at determining the reliability of the research tools including the sequence of the questions, wording and structure. This pre-testing involved 9 staff (10% of the sample size). The test was conducted at Chase bank at Wabera Street. The respondents were randomly selected since statistical conditions are not essential in the pilot study.

3.6.1 Validity Test

Creswell (2003), stipulates that validity established in a validity test is the extent to which results that are acquired from data analysis of the data actually incarnate the phenomenon under study. There are two kinds of validity. These include content validity and face validity. Face validity refers to the probability that a question is misinterpreted or misunderstood. According to Cooper and Schindler (2006) pre-testing is a proper way to increase the possibility of face validity. Alternatively, content validity, also referred to as logical validity, refers to the degree to which a measure depicts all facets of a given social construct. In this study, the content validity was improved by seeking out opinions of experts in the field of study particularly the supervisors. Also, the face validity of the

research instrument was improved by carrying out a pilot test and changing any unclear and ambiguous questions.

3.6.2 Reliability Test

Reliability is the extent to which research instruments come up with consistent results. The questionnaires reliability was statistically established by measuring the internal consistency. In turn, internal consistency was measured by the use of Cronbach's Alpha (α). The alpha value ranges between 0 and 1 with reliability increasing consistently with increase in value. Coefficient of 0.6-0.7 is a normally accepted rule of thumb that designates acceptable reliability and 0.8 or higher indicated good reliability (Greener, 2008).

3.7 Data Collection Procedure

It is significant for the study to inform the respondents that the instruments applied will ensure confidentiality and that the information was only for the purposes of the study. Additionally, an introductory letter was solicited from the University. Then, the questionnaires were administered through a method of drop and pick.

3.8 Data Analysis

According to Creswell (2006), the procedure of data analysis comprises of packaging the collected information, putting it in order and arranging its main contents in a way that the findings can be effectively and easily communicated. Quantitative and qualitative data analysis was used for the study. The statistical package for social sciences (SPSS version 20) was used to analyze quantitative data in the structured questionnaires. Before the analysis, a codebook was prepared for the various quantitative variables centered on the numbering system of the questionnaires. For ease of referencing, all the questionnaires were numbered shortly before data collection. In an effort to ensure the correct code was entered for each variable, all the quantitative variables were arranged chronologically. By using the questionnaire number and the coded variable number, it was easy to identify and rectify mistakes performed during data entry. Data cleaning then followed where deemed necessary.

After confirming that all data were correctly entered, descriptive statistics were used to analyze quantitative data. Descriptive statistics included percentages, measures of central

tendencies (mean) and frequency distribution. Tables, bar charts and pie charts were used to present the data. Descriptive statistics facilitate the meaningful distribution of measurements and to also describe, summarize data and organize (Mugenda & Mugenda, 2003).

Qualitative data was thematically coded and then statistically analyzed. Qualitative data which is from the open ended questions will be analyzed using content analysis. The findings from the qualitative data was then presented in a prose form.

A multivariate regression analysis was used to determine the relationship between the dependent and the independent variables.

The multivariate regression model was:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

Where:

Y = financial performance;

β_0 = Constant Term;

$\beta_1, \beta_2,$ and β_3 = Beta coefficients;

X_1 = accessibility of banking services;

X_2 = low cost of service;

X_3 = increased customer savings;

ε = Error term

The study used a 95% confidence level. A 95% confidence interval reflects a significance level of 0.05. This shows that for an independent variable to have a significant effect on the dependent variable, the p-value should be below the significance level (0.05).

3.9 Chapter Summary

The methodology used in this study is presented in this chapter. The chapter begins with the research design, followed with the population of the study that specified the target population, the sampling design and the sample size. In addition, the chapter provides the

research procedures used, the data collection methods and the methods used for data analysis. Chapter four provides the research findings from the study.

CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter focuses on data analysis and presentation of the findings. The findings were arranged as per the objectives of the study. The purpose of this study was to establish the effect of agency banking on the financial performance of Chase Bank. The study also sought to establish the effect of accessibility of banking services, low cost of service and increased customer transactions through agency banking on the financial performance of Chase Bank. The research findings were presented in pie and bar charts and also in form of tables.

The study sample size was 87 respondents, out of which 84 responses were obtained which represent a 97% response rate. According to Babbie (2007), 50% is adequate for analysis and reporting and response rate of 70% and over is excellent and hence the response rate in this study was enough to make inferences and conclusions.

4.2 Reliability Test

This pre-testing involved 9 staff (10% of the sample size). The test was conducted at Chase bank at Wabera Street. The respondents were randomly since statistical conditions are not essential in the pilot study. The pilot study served the purpose of testing the research instruments validity and reliability.

According to the findings, accessibility of banking services had a Cronbach reliability alpha of 0.724, low cost of service had a Cronbach reliability alpha of 0.732 and increased customers transactions had a Cronbach reliability alpha of 0.698. This clearly shows that the research instrument was reliable and hence no amendments were needed.

Table 4. 1: Cronbach reliability alpha

Construct	Cronbach reliability alpha (α)
Accessibility of banking services	0.724
Low cost of service	0.732
Increase customers transactions	0.698

4.3 General Information

As part of the general information, the respondents were asked to indicate their gender, age bracket, highest level of education and for how long Chase bank had been operating agency banking.

4.3.1 Gender of the Respondents

The respondents were asked to indicate their gender. The findings are presented in figure 4.1 below.
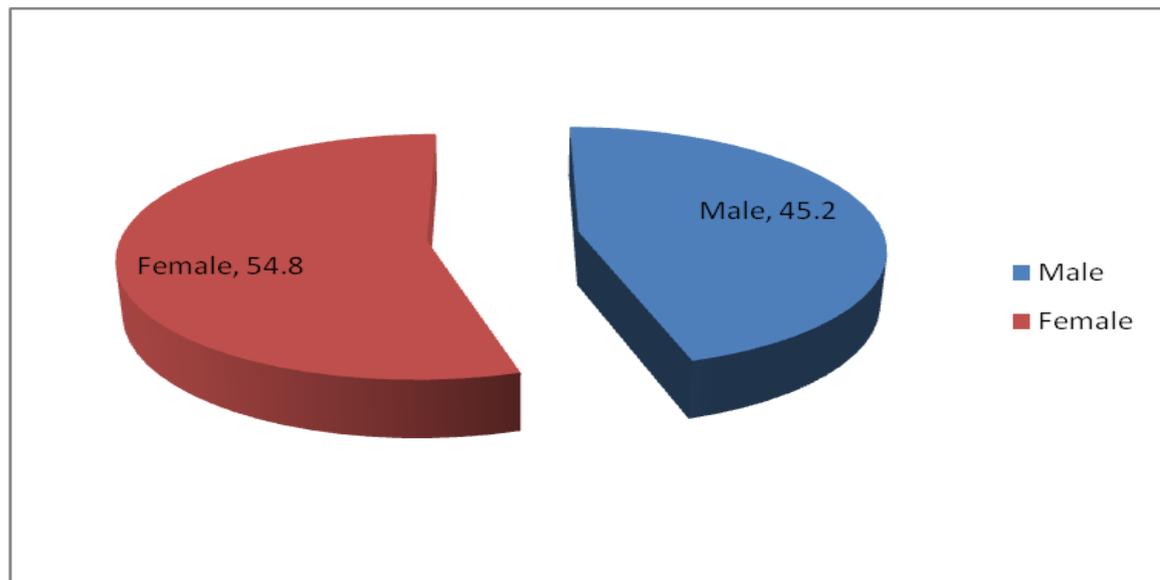

Figure 4. 1: Gender of the Respondents

From the findings, 54.8% of the respondents indicated that they were female while 45.2% indicated that they were male. This shows that most of the respondents in this study were female.

4.3.2 Age bracket of the Respondents

The respondents were also asked to indicate their age bracket. The findings are presented in figure 4.2 below.
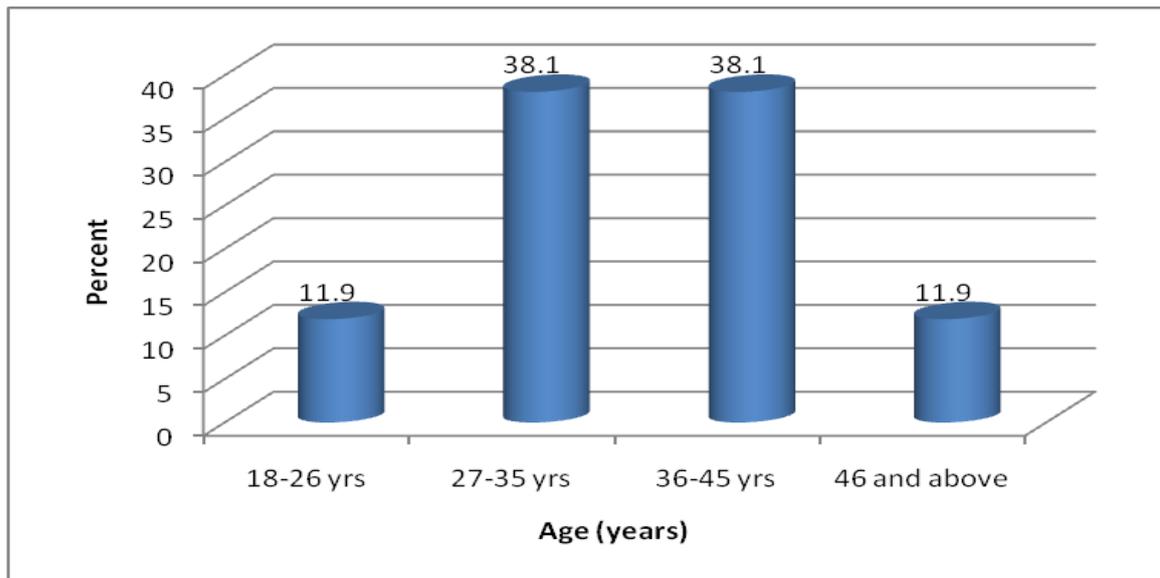
Figure 4. 2: Age bracket of the Respondents

According to the findings, 38.1% of the respondents indicated that they were aged between 27.35 years, the same percent indicate that they were aged between 36 and 45 years, 11.9% indicated that they were aged between 18 and 26 years and the same percent indicated that they were 46 years and above in age. This show that most of the respondents in this study were above 27 years in age.

4.3.3 Highest Level of Education of the Respondents

The respondents were requested to indicate their highest level of education. The findings are shown in figure 4.3 below.
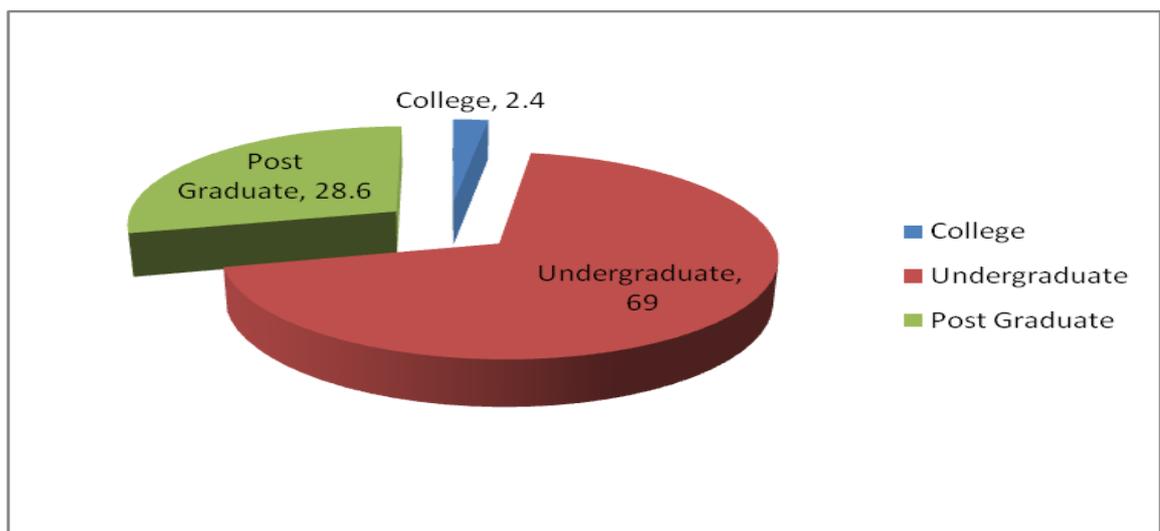

Figure 4. 3: Highest Level of Education of the Respondents

From the findings, 69% of the respondents indicated that they had undergraduate education, 28.6% indicated that they had post graduate education and 2.4% indicated that they had college education. This shows that most of the respondents in this study had undergraduate education and hence they had the information required in relation to agency banking and financial performance.

4.3.4 Duration of Operating Agency Banking

The respondents were further asked to indicate for how long their bank had been operating agency banking. The results are presented in figure 4.4 below.
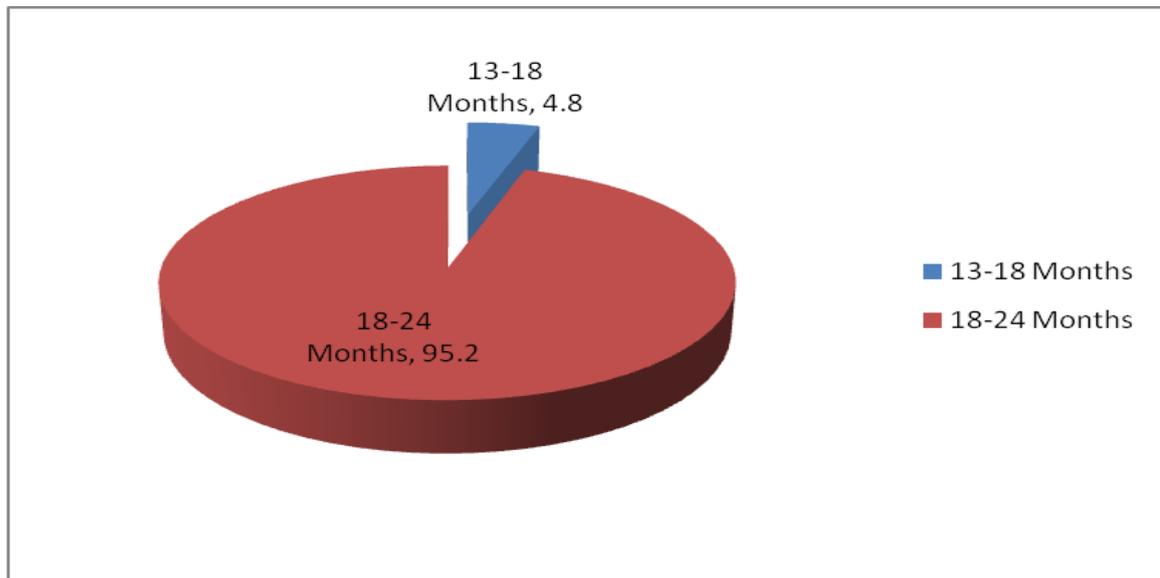
Figure 4. 4: Duration of Operating Agency Banking

As indicated in figure 4.4 above, 95.2% of the respondents indicated that their bank had been operating agency banking (Chase popote) for between 18 and 24 months and 4.8% indicated for between 13 and 18 months. This shows that Chase Bank had been operating agency banking (Chase Popote) or between 18 and 24 months.

4.4 Accessibility of Banking Services and Financial Performance

The study sought to establish the effect of accessibility of banking services through agency banking on the financial performance of commercial banks in Kenya

4.4.1 Accessibility of banking services and Financial Performance

The respondents were asked to indicate whether accessibility of banking services through agency banking affect the financial performance of commercial banks in Kenya.

Figure 4. 5: Low Transaction Cost and Financial Performance

From the findings, 90.5% of the respondents indicated that accessibility of banking services through agency banking affect the financial performance of commercial banks in Kenya while 9.5% disagreed. From these findings we can deduce that accessibility of banking services through agency banking affects the financial performance of commercial banks in Kenya.

4.4.2 Extent of Accessibility of Banking Services Influence on Financial Performance

The respondents were further asked to indicate the extent to which accessibility of banking services through agency banking affect the financial performance of commercial banks in Kenya.

Figure 4. 6: Accessibility of Banking Services Influence on Financial Performance

From the findings, 38.1% of the respondents indicate that accessibility of banking services through agency banking affects the financial performance of commercial banks in Kenya to a very great extent, 33.3% indicated to a great extent, 21.4% indicated to a moderate extent, 4.8% indicated to a little extent and 2.4% indicated to no extent at all. From these findings we can deduce that accessibility of banking services through agency banking affects the financial performance of commercial banks in Kenya to a very great extent.
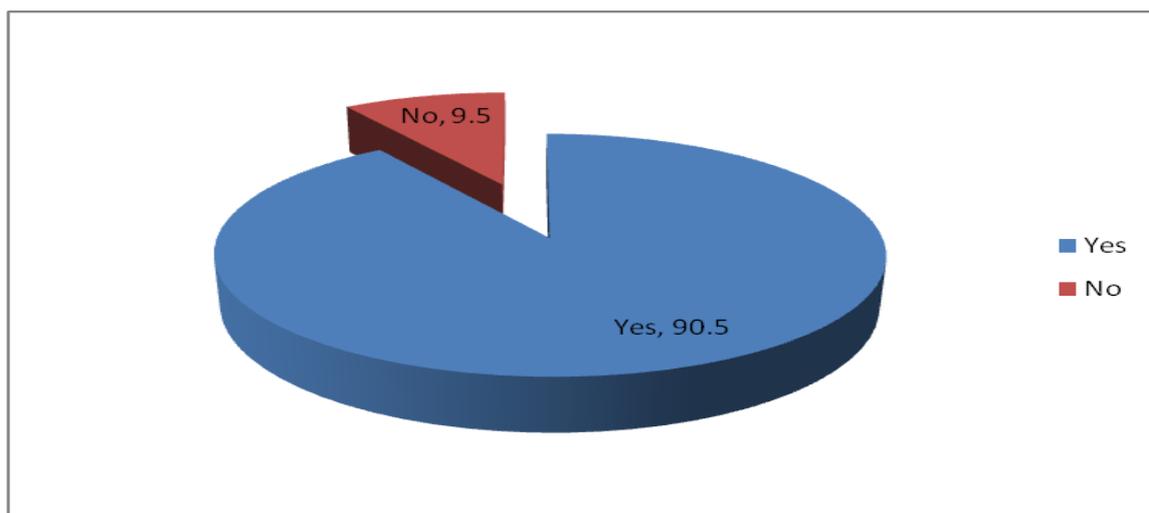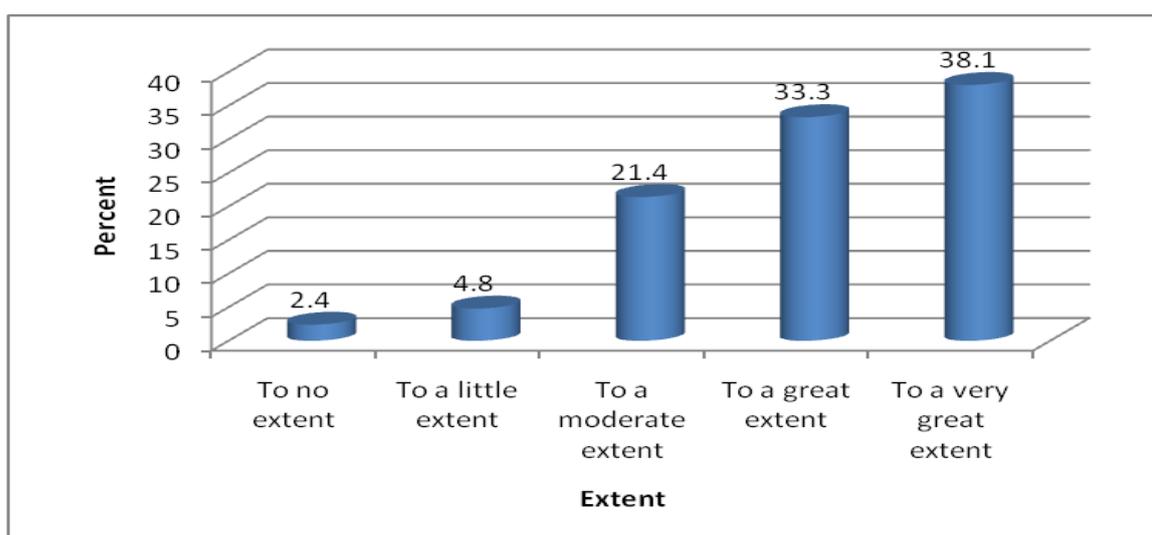
4.4.3 Effect of accessibility of banking services on Financial Performance

The respondents were further asked to indicate the extent to which they agreed with accessibility as being important in performance of agency banking in chase bank, where 1 was strongly disagree, 2 was disagree, 3 was neutral, 4 was agree and 5 was strongly agree.

Table 4. 2: Effect of accessibility of banking services on Financial Performance

	Mean	Std. Deviation
Agency banking is accessible, in terms of agency locations and general national footprint	4.0714	.70772
Agency banking excels in Service delivery	4.1190	.66595
Agency banking excels in Service Quality	4.1667	.61768
Agency banking improves its banking Environment	3.9524	.72652
There is great potential of using this in agent banking for provision of banking services to unbanked community	3.9762	.71095
Agency banking has led to accessibility of financial service to many customer in remote areas	4.0000	.72809
Accessibility of banking service through agency banking has led to profitability of commercial banks	4.0714	.67281
Agency banking increases effectiveness and efficiency of service delivery in commercial banks in Kenya	4.0000	.76047

According to the findings, the respondents agreed with a mean of 4.1667 and a standard deviation of 0.61768 that agency banking excels in service quality. The respondents also agreed with a mean of 4.1190 and a standard deviation of 0.66595 that agency banking

excels in Service delivery. Further, the respondents agreed with a mean of 4.0714 and a standard deviation of 0.67281 that accessibility of banking service through agency banking has led to profitability of commercial banks. In addition, the respondents agreed with a mean of 4.0714 and a standard deviation of 0.70772 that agency banking is accessible, in terms of agency locations and general national footprint.

The respondents also agreed with a mean of 4.0000 and a standard deviation of 0.72809 that agency banking has led to accessibility of financial service to many customer in remote areas. Further, the respondents agreed with a mean of 4.0000 and a standard deviation of 0.76047 that agency banking increases effectiveness and efficiency of service delivery in commercial banks in Kenya. In addition, the respondents agreed with a mean of 3.9762 and a standard deviation of 0.71095 that there is great potential of using this in agent banking for provision of banking services to unbanked community. Lastly, the respondents agreed with a mean of 3.9524 and a standard deviation of 0.72652 that agency banking improves its banking Environment.

4.5 Low Cost of Service and financial performance

The study also sought to find out the impact of low cost of service possible due to agency banking on the financial performance of Kenyan commercial banks.

4.5.1 Low Transaction Cost of and Financial Performance

The respondents were requested to indicate whether low transaction cost of agency banking affects the financial performance of commercial banks in Kenya. The results were as shown in figure 4.7 below.

Figure 4. 7: Low Transaction Cost of and Financial Performance

As indicated in figure 4.7 above, 92.9% of the respondents indicated that low transaction cost of agency banking affects the financial performance of commercial banks in Kenya while 7.1% disagreed. From these findings we can deduce that low transaction cost of agency banking affects the financial performance of commercial banks in Kenya.

4.5.2 Extent of Low Transaction Cost Influence on Financial Performance

The respondents were further asked to indicate the extent to which low transaction cost of agency banking affects the financial performance of commercial banks in Kenya. The findings were as show in figure 4.8 below.
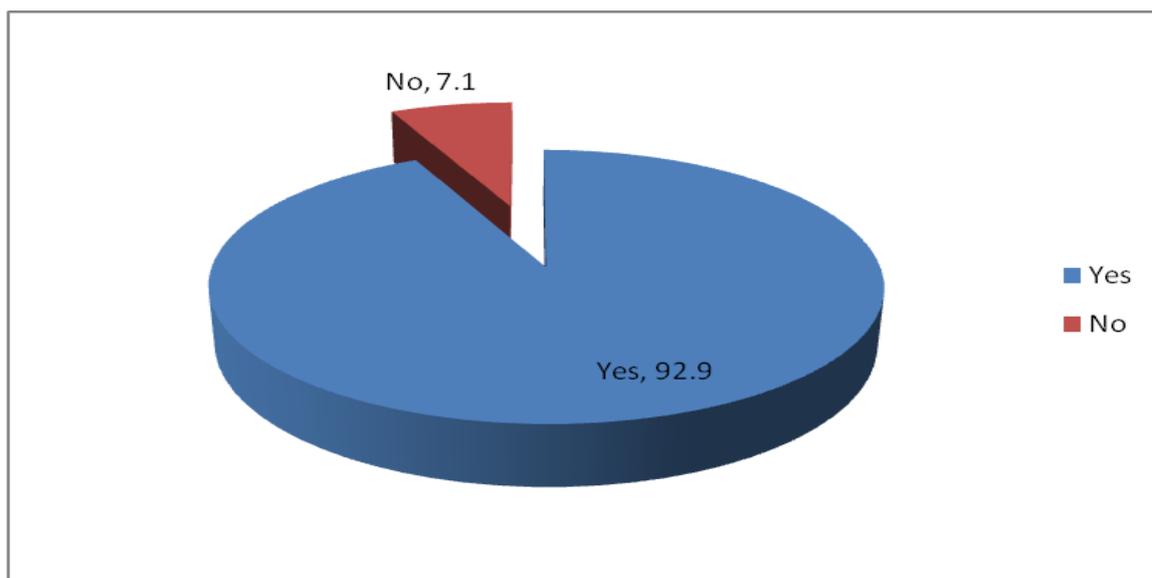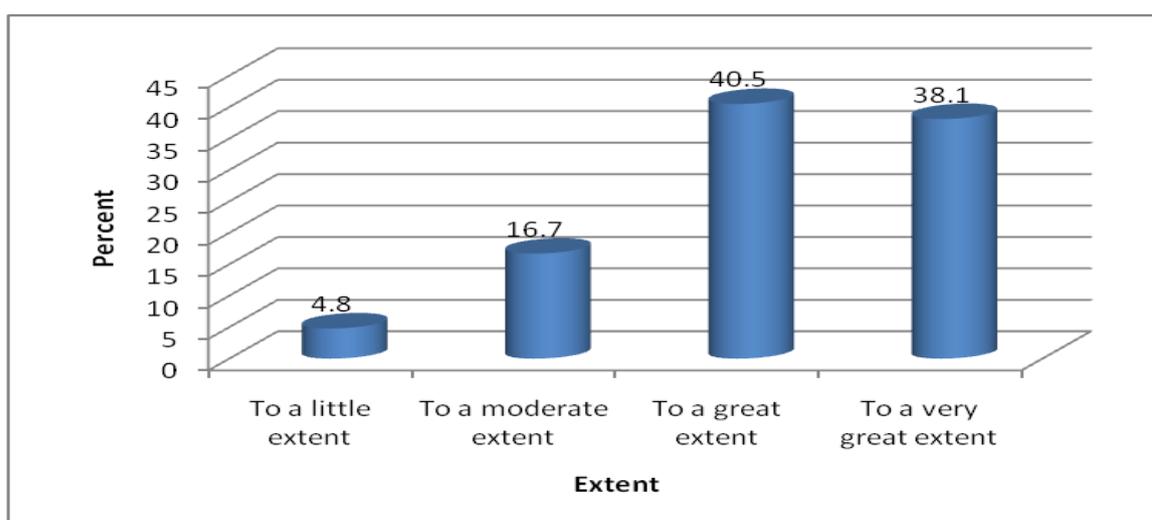

Figure 4. 8: Extent of Low Transaction Cost Influence on Financial Performance

From the findings, 40.5% of the respondents reported that low transaction cost of agency banking affects the financial performance of commercial banks in Kenya to a great extent, 38.1% reported to a very great extent, 16.7% reported to a moderate extent and 4.8% reported to a little extent. The findings establish that low transaction cost of agency banking does to a great extent affects the financial performance of commercial banks in Kenya.

4.5.3 Effect of Low Transaction Cost on Financial Performance

The respondents were also asked to indicate the extent to which they agree with the statements relating to low transaction cost of agency banking and its effects on financial performance of commercial banks in Kenya. The findings are presented in table 4.3 below.

Table 4. 3: Effect of Low Transaction Cost on Financial Performance

	Mean	Std. Deviation
Cost involved in transacting in agency banking is low compared to banking hall	4.0476	.79007
The cost of setting up the agency is transferred to agents and hence low cost of offering service	4.1190	.85595
Agency banking has low infrastructural cost and hence reduction in cost	4.2857	.66896
Time spent in agency banking is low compared to the normal banking	4.2143	.67790
Cost involved in agency banking positively influence performance of commercial banks	4.1190	.66595
Agents prior experience with the banks customers is positively related to both performance and survival	4.2381	.65158
The presence of Chase Popote help low income earners to save	4.1667	.72533
Chase Popote Pricing help low income earners to save	4.2619	.66076
Agency banking reduces transactional related costs and overheads	4.1667	.69131

From the findings, the respondents agreed with a mean of 4.2857 and a standard deviation of 0.66896 that agency banking has low infrastructural cost and hence reduction in cost. The respondents also agreed with a mean of 4.2619 and a standard deviation of 0.66076

that Chase Popote Pricing help low income earners to save. In addition, the respondents agreed with a mean of 4.2381 and a standard deviation of 0.65158 that agents prior experience with the banks customers is positively related to both performance and survival. Further, the respondents agreed with a mean of 4.2143 and a standard deviation of 0.67790 that time spent in agency banking is low compared to the normal banking. The respondents further agreed with a mean of 4.1667 and a standard deviation of 0.72533 that the presence of Chase Popote help low income earners to save. Additionally, the respondents agreed with a mean of 4.1667 and a standard deviation of 0.69131 that agency banking reduces transactional related costs and overheads.

Further, the respondents agreed with a mean of 4.1190 and a standard deviation of 0.66595 that cost involved in agency banking positively influence performance of commercial banks. In addition, the respondents agreed with a mean of 4.119 and a standard deviation of 0.85595 that the cost of setting up the agency is transferred to agents and hence low cost of offering service. Lastly, the respondents agreed with a mean of 4.0476 and a standard deviation of 0.79007 that cost involved in transacting in agency banking is low compared to banking hall.

4.6 Increased Customer Transactions

The study further sought to determine the impact of increased customer transactions through agency banking on the financial performance of Kenyan commercial banks.

4.6.1 Increase in the Number of Customers

The respondents were asked to indicate whether customer's transactions in their bank have increased as a result of agency banking. The results are shown in figure 4.9 below.
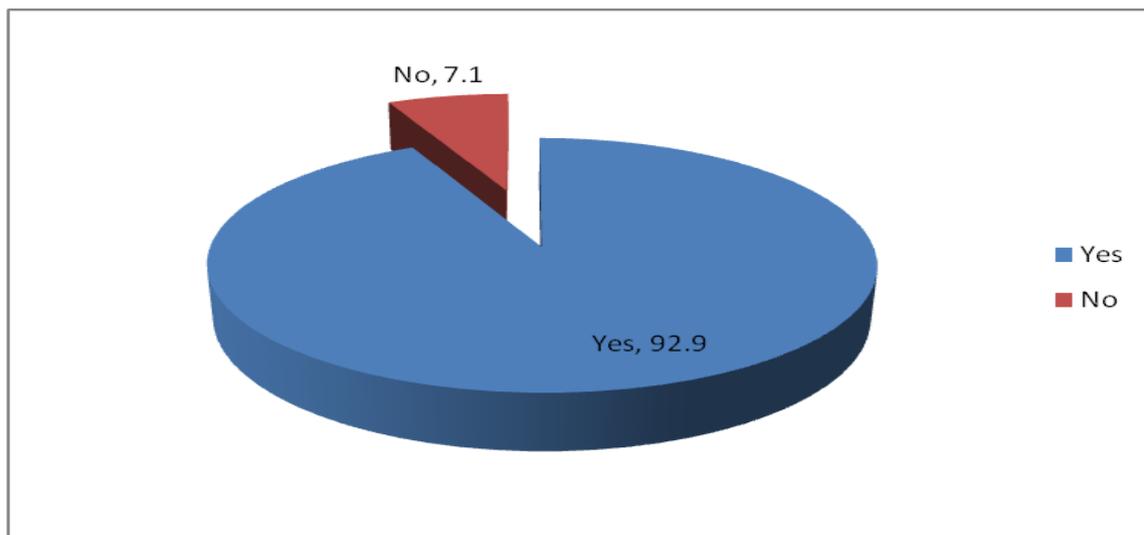
Figure 4. 9: Increase in the Number of Customers

From the findings, 92.9% of the respondents reported that customers transactions in their bank had increased as a result of agency banking while 7.1% disagreed. From these findings we can deduce that customers transactions in Chase Bank had increased as a result of agency banking.

4.6.2 Extent of Customers Transaction influence Financial Performance

The respondents were also asked to indicate the extent to which the increase in the number of customers transaction influence the financial performance of your bank. The results are shown in figure 4.10 below.
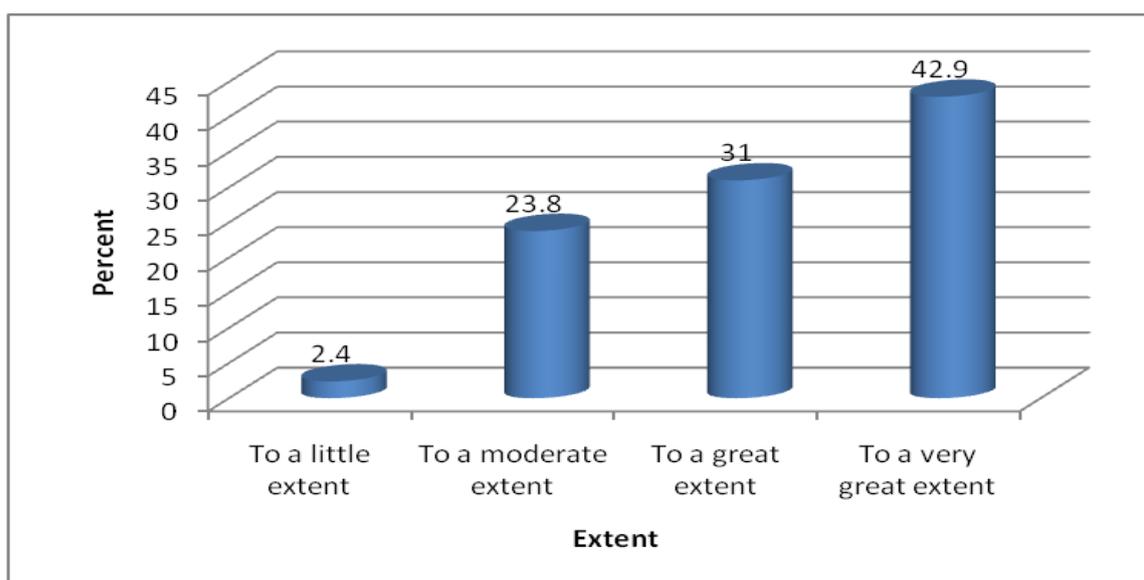
Figure 4. 10: Extent of Customers Transaction influence Financial Performance

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From the findings, 42.9% of the respondents reported that the increase in the number of customers transaction influence the financial performance of Chase bank to a very great extent, 31% indicated to a great extent, 23.8% indicated to a moderate extent and 2.4% indicated to a little extent. From these findings we can deduce that the increase in the number of customers transaction influence the financial performance of Chase bank to a very great extent.

4.6.3 Effect of Increased Customers Transactions on Financial Performance

The respondents were further asked to indicate their level of agreement with the statements relating to increased customer transactions of agency banking and its effects on financial performance of commercial banks in Kenya.

Table 4. 4: Effect of Increased Customers Transactions on Financial Performance

	Mean	Std. Deviation
volume of withdrawal transactions increases the bank profitability	4.1429	.80873
volume of deposits transactions increases the bank profitability	4.1667	.90292
number of active agents has been increasing	4.2381	.57286
Customers can pay their loans through agency banking	4.3095	.60073
Efficiency and convenience in operation in agency banking have increased the banks customers' transactions	4.2619	.58328

According to the findings, the respondents agreed with a mean of 4.3095 and a standard deviation of 0.60073 that customers can pay their loans through agency banking. Further, the respondents agreed with a mean of 4.2619 and a standard deviation of 0.58328 that efficiency and convenience in operation in agency banking have increased the banks customers' transactions. In addition, the respondents agreed with a mean of 4.2381 and a standard deviation of 0.57286 that the number of active agents has been increasing. Additionally, the respondents agreed with a mean of 4.1667 and a standard deviation of 0.90292 that the volume of deposits transactions increases the bank profitability. Lastly,

the respondents agreed with a mean of 4.1429 and a standard deviation of 0.80873 that the volume of withdrawal transactions increases the bank profitability.

4.7 Financial Performance

The respondents were asked to rate the financial performance of their bank after the introduction of agency banking. The findings are presented in figure 4.11 below.
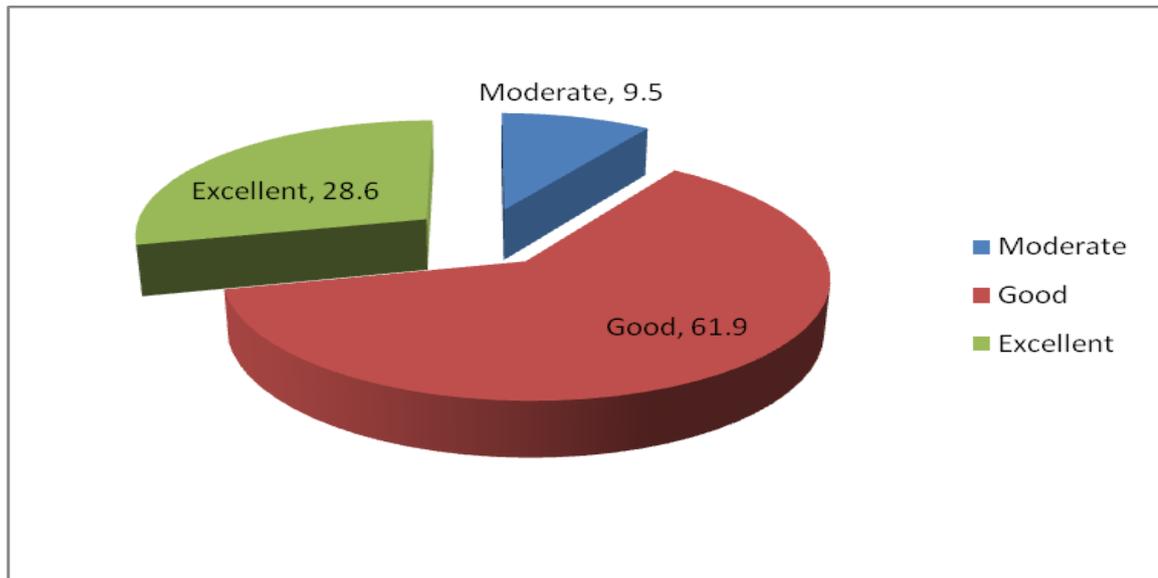
Figure 4. 11: Financial Performance in Chase Bank

According to the findings, 61.9% of the respondents indicated that the financial performance of their bank after the introduction of agency banking was good, 28.6% indicated that it was excellent and 9.5% indicated that it was moderate. From these findings we can deduce that the financial performance of Chase bank after the introduction of agency banking was good.

4.7.1 Measures of financial performance

The respondents were also asked to rate various measures of financial performance in their bank after the introduction of agency banking.

Table 4. 5: Measures of financial performance

	Mean	Std. Deviation
Profitability	4.0952	.61348
Return on Equity	4.0000	.65859
Return on Assets	3.7381	.85192
Sales volume	3.8095	.85695

From the findings, the respondents rated profitability in their bank as good as shown by a mean of 4.0952 and a standard deviation of 0.61348. The respondents further rated return on equity in their bank as good. This is shown by a mean of 4.0000 and a standard deviation of 0.65859. In addition, the respondents rated sales volume in their bank as good as shown by a mean of 3.8095 and a standard deviation of 0.85695. Lastly, the respondents rated the return on assets in their bank as good as shown by a mean of 3.7381 and a standard deviation of 0.85192. From these findings we can deduce that profitability, return on equity, sales volume and return on assets in Chase Bank after the introduction of agency banking were good.

4.8 Regression Analysis

A multivariate regression analysis was used to establish the relationship between the dependent and the independent variables.

The multivariate regression model was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where; Y = financial performance; β_0 = Constant Term; β_1, β_2, and β_3 = Beta coefficients; X_1= accessibility of banking services; X_2= low cost of service; X_3= increased customer savings; and ε = Error term

Table 4. 6 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.874[a]	.764	.755	.31092

a. Predictors: (Constant), Increased Customer Transactions, Accessibility of Banking Services, Low Cost of Service

The three independent variables (increased customer transactions, accessibility of banking services and low cost of service) in this study, explain a variation 75.5% of the financial performance of Chase Bank as represented by the adjusted R^2. This therefore means that other factors not studied in this research contribute 24.5% of the financial performance of Chase Bank. This shows that there are other factors that influence the financial performance of Chase Bank.

Table 4. 7: Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	24.971	3	8.324	86.103	.000[b]
	Residual	7.734	80	.097		
	Total	32.705	83			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Increased Customer Transactions, Accessibility of Banking Services , Low Cost of Service

The results indicated that the model was significant since the p-value is 0.000 which is less that 0.05 thus the model is statistically significance in predicting how increased customer transactions, accessibility of banking services and low cost of service influence the financial performance of Chase Bank. The F critical at 5% level of significance was 2.4472. Since F calculated (86.103) is greater than the F critical. This shows that the overall model was significant.

Table 4. 8: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.884	.259		3.410	.001
	Accessibility of Banking Services	1.251	.136	1.295	9.196	.000
	Low Cost of Service	.800	.206	.725	3.880	.000
	Increased Customer Transactions	.311	.114	.299	2.736	.008

a. Dependent Variable: Financial performance

The regression equation was;

$$Y = 0.884 + 1.251 X_1 + 0.800 X_2 + 0.311 X_3 + \varepsilon$$

The regression equation above has established that taking all factors into account (increased customer transactions, accessibility of banking services and low cost of service) constant the financial performance of Chase Bank will be 0.884 units.

The findings presented also show that there is a positive and significant relationship between accessibility of banking services as a result of agency banking and financial performance of Chase Bank as shown by a coefficient of 1.251 (p-value=0.000). This shows that a unit increase in accessibility of banking services as a result of agency banking would lead to a 1.251 improvement in financial performance of Chase Bank.

In addition, there is a positive and significant relationship between low cost of service as a result of agency banking and financial performance of Chase Bank as shown by a coefficient of 0.800 (p-value=0.000). A unit increase in low cost of service as a result of agency banking leads to a 0.800 improvement in the financial performance of Chase Bank.

Further, the findings show that there is a positive significant relationship between customer transactions as a result of agency banking and the financial performance of Chase Bank as shown by a coefficient of 0.311 (p-value = 0.008). A unit increase in customer transactions as a result of agency banking would lead to a 0.311 improvement in the financial performance of Chase Bank.

This infers that accessibility of banking services as a result of agency banking influences the financial performance of Chase Bank most followed by low cost of service and increased customer transactions.

4.9 Chapter Summary

The results and findings of the study are presented in this chapter. The chapter begins with an introduction followed by general information, increased customer transactions, accessibility of banking services, low cost of service, financial performance and regression analysis. Chapter five provides a summary of the conclusions, recommendation, discussion and findings of the study.

CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion on key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the purpose of the study.

5.2 Summary

The aim of this study was to establish the effect of agency banking on the financial performance of Chase Bank. The study also sought to establish the effect of accessibility of banking services, low cost of service and increased customer transactions through agency banking on the financial performance of Chase Bank.

Descriptive research design was used in the methodology of this research. Furthermore, the study incorporated both quantitative and qualitative research. The target population of this study was therefore 174 staff working in the headquarters of Chase Bank. This study applied stratified random sampling to select 50% of the target population and hence the sample size of this study was 87 respondents. Both secondary and primary data was used for the current study. Primary data was collected by use of semi structured questionnaires were used in research study. Quantitative and qualitative data was collected and used for this study. Descriptive statistics and inferential statistics analyzed quantitative data. Descriptive statistics include percentages, measures of central tendencies (mean) and frequency distribution. The data was then presented in tables and in bar and pie charts. On the other hand, content analysis analyzed qualitative data from open ended questions and the findings presented in a prose form. A multivariate regression analysis was further used to establish the relationship between the dependent and the independent variables.

The study established that there is a positive relationship between the accessibility of banking services through agency banking and financial performance of commercial banks in Kenya (p-value=0.000). In addition, the study found that accessibility of banking service through agency banking has led to profitability of commercial banks (90.5%). Further, the study found that agency banking is accessible, in terms of agency locations and general national footprint (M=4.0714, σ=0.70772). Additionally, agency banking has

led to accessibility of financial service to many customer in remote areas and it increases effectiveness and efficiency of service delivery in commercial banks in Kenya (M=4.1190, σ=0.66595).

The study also found that there is a positive relationship between low cost of service through agency banking and the financial performance of commercial banks in Kenya (p-value=0.000). The study also established that agency banking has low infrastructural cost and hence reduction in cost (92.9%). Further, the study found that time spent in agency banking is low compared to the normal banking and the presence of Chase Popote help low income earners to save (M=4.2143, σ=0.67790). Additionally, the study found that agency banking reduces transactional related costs and overheads (M=4.1667, σ=0.69131).

The study further established that there is a positive relationship between increased customer transactions through agency banking on the financial performance of commercial banks in Kenya (p-value = 0.008). The study established that customers can pay their loans through agency banking (M=4.3095, σ=0.60073). Further, the study found that efficiency and convenience in operation in agency banking have increased the banks customers' transactions (M=4.2619, σ=0.58328). In addition, the study established that the number of active agents has been increasing (M=4.2381, σ=0.57286). Additionally, the study revealed that the volume of deposits and withdrawals transactions increases the bank profitability (M=4.1667, σ=0.90292).

5.3 Discussion of key findings

5.3.1 Accessibility of Banking Services and Financial Performance

The study sought to establish the effect of accessibility of banking services through agency banking on the financial performance of commercial banks in Kenya. The study established that accessibility of banking services through agency banking affects the financial performance of commercial banks in Kenya to a very great extent (38.1%). These findings agreed with Kirui, Okello and Nyikal (2012) findings that mobile phone money transfer (MMT) systems in increasing accessibility of financial services especially to farmers in rural areas have improved the financial performance of commercial banks in Kenya.

The study also established that agency banking excels in service quality (M=4.1667, σ=0.61768). The study also established that agency banking excels in Service delivery (M=4.1190, σ=0.66595). These findings agree with Okiro & Ndungu (2013) argument that internet banking, online banking and agency banking lead to a notable increase in effectiveness, efficiency and productivity of commercial banks in Kenya. Further, the study revealed that accessibility of banking service through agency banking has led to profitability of commercial banks (M=4.0714, σ=0.67281). In addition, the study found that agency banking is accessible, in terms of agency locations and general national footprint (M=4.0714, σ=0.70772). These findings concur with Kirui, Okello and Nyikal (2012) findings that accessibility to banking services improves the financial performance of banks like profitability and sales.

The study also revealed that agency banking has led to accessibility of financial service to many customer in remote areas (M=4.0000, σ=0.72809). According to Aduda, Kiragu and Ndwiga (2013), customers in rural and remote areas travel long distances to access financial services a fact that makes banking and other financial services unpopular in such areas. This has led to poor performances by some institutions. The study also found that that agency banking increases effectiveness and efficiency of service delivery in commercial banks in Kenya (M=4.0000, σ=0.76047). In addition, the study established that there is great potential of using this in agent banking for provision of banking services to unbanked community (M=3.9762, σ=0.71095). Lastly, the study revealed that agency banking improves its banking Environment (M=3.9524, σ=0.72652).

5.3.2 Low Cost of Service and financial performance

The study also sought to find out the impact of low cost of service as a result of agency banking on the financial performance of Kenyan commercial banks. The study found that low transaction cost of agency banking affects the financial performance of commercial banks in Kenya to a great extent (40.5%). These findings agree with Calleo (2014) argument that low cost of service in commercial banks increases the number of transactions and hence improvement of financial performance. The study also established that agency banking has low infrastructural cost and hence reduction in cost (M=4.2857, σ=0.66896). The study also found that Chase Popote Pricing help low income earners to save (M=4.1667, σ=0.72533).

In addition, the study revealed that agents prior experience with the banks customers is positively related to both performance and survival (M=4.2381, σ=.65158). Further, the study found that time spent in agency banking is low compared to the normal banking (M=4.2143, σ=0.67790). These findings agree with Younus (2013) argument that the cost of running a agency banking is low compared to the cost of running a bank branch. The study also established that the presence of Chase Popote help low income earners to save (M=4.1667, σ=0.72533).

Additionally, the study found that agency banking reduces transactional related costs and overheads (M=4.2857, σ=0.66896). These findings concur with Mutua (2012) earlier findings that through agency banking, transactional related costs and overheads are reduced therefore improving financial performance. Further, the study found that cost involved in agency banking positively influence performance of commercial banks (M=4.1190, SD=0.66595). In addition, the study established that the cost of setting up the agency is transferred to agents and hence low cost of offering service (M=4.1190, σ=0.85595). The study also established that cost involved in transacting in agency banking is low compared to banking hall (M=4.0476, σ=0.79007).

5.3.3 Increased Customer Transactions

The study further sought to determine the effect increased customer transactions through agency banking had on the financial performance of Kenyan commercial banks. The study established that the increase in the number of customers transaction influence the financial performance of Chase bank to a very great extent (43.9%). These findings agree Younus (2013) argument that an increase in the number of transactions increase the profitability of the bank. The study established that customers can pay their loans through agency banking (M=4.3095, σ=0.60073). Further, the study found that efficiency and convenience in operation in agency banking have increased the banks customers' transactions (M=4.2619, σ=0.58328).

In addition, the study established that the number of active agents has been increasing (M=4.2381, σ=0.57286). Additionally, the study revealed that the volume of deposits transactions increases the bank profitability (M=4.1667, σ=0.90292). Lastly, the study revealed that the volume of withdrawal transactions increases the bank profitability (M=4.1429, σ=0.80873). The findings agree with Aduda, Kiragu and Ndwiga (2013)

findings that agency banking increases cash withdrawal and deposit transactions, which in turn improves the financial performance of commercial banks.

5.4 Conclusions

5.4.1 What is the effect of accessibility of banking services through agency banking on the financial performance of commercial banks in Kenya?

The study concludes that there is a positive and significant relationship between accessibility of banking services as a result of agency banking and financial performance of Chase Bank (p-value=0.000). The study, also, concludes that banking excels in service quality and service delivery. In addition, agency banking has led to accessibility of financial service to many customer in remote areas and hence an increase in effectiveness and efficiency in service delivery. Agency banking is accessible in terms of agency locations and general national footprint has led to an increase in profitability of commercial banks.

5.4.2 What is the effect of low cost of service through agency banking on the financial performance of commercial banks in Kenya?

The study also concludes there is a positive significant relationship between low cost of service as a result of agency banking and financial performance of Chase Bank (p-value=0.000). Agency banking has low infrastructural cost and hence reduction in cost. Further, time spent in agency banking is low compared to the normal banking the presence of Chase Popote helps low income earners to save. In agency banking, the cost involved in setting up the agency is transferred to agents and hence low cost of offering service.

5.4.3 What is the effect increased customer transactions through agency banking on the financial performance of commercial banks in Kenya?

Further, the study concludes that there is a significant positive relationship between customer transactions as a result of agency banking and the financial performance of Chase Bank (p-value=0.008). The study also concludes that customers can pay their loans through agency banking. Further, efficiency and convenience in operation in agency banking have increased the banks customers' transactions. In addition, the number of active agents has been increasing and the volume of deposits and withdrawals transactions increases the bank profitability.

5.5 Recommendations

5.5.1 Recommendations of the Study

5.5.1.1 What is the effect of accessibility of banking services through agency banking on the financial performance of commercial banks in Kenya?

The study found that the agency banking improves accessibility to financial services. The study therefore recommends that Chase bank as well as other commercial banks in Kenya should increase the number of agents in estates and in the rural areas. This can be done by reducing the requirements of becoming a bank agent. The study also recommends that the government of Kenya should improve security in towns, estates and in the rural areas.

5.5.1.2 What is the effect of low cost of service through agency banking on the financial performance of commercial banks in Kenya?

The study also found that agency banking reduces the cost of offering financial services recommends that commercial banks should also lower the charges of making transactions in agency banks. This will help to increase the number of transactions made my customers through agency banking.

5.5.1.3 What is the effect increased customer transactions through agency banking on the financial performance of commercial banks in Kenya?

The study also found that agency banking increases the number of transactions made by customers. This in turn helps the customers to save more and hence the amount the bank can loan increases. This helps to improve the financial performance of commercial banks.

To improve the adoption of agency banking, commercial banks in Kenya should improve customers perception by making more advertisements and increase promotion activities. This will especially improve Chase Popote adoption like its competitors such as Equity agent, Co-op Kwa Jirani and KCB mtaani.

5.5.2 Recommendation for further studies

This study was limited to Chase Bank in Kenya only. The study therefore recommends that further studies should be conducted on the effect of agency banking on the financial performance of commercial banks in Kenya with a survey on all commercial banks in Kenya. The study also recommends further studies on the challenges facing the adoption of agency banking by commercial banks in Kenya. The study further recommends studies on the customer related challenges facing the adoption of agency banking in Kenya.

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Appendix I: Questionnaire

I am an MBA student at United States International University. As part of the requirement for graduation, I'm undertaking a research to establish the "impact of agency banking specifically on the commercial banks' financial performance in Kenya". I am therefore, kindly requesting for your support in terms of time, and by responding to the questions below.

General Information

1. Please indicate your gender

     Male   [ ]   Female   [ ]

2. Indicate your age bracket

     18-26 yrs   [ ]   27-35 yrs   [ ]

     36-45 yrs   [ ]   46 and above [ ]

3. State your highest level of education

     Secondary   [ ]   College   [ ]

     Undergraduate   [ ]   Post Graduate   [ ]

4.   How long have you been operating agency banking?

     0-6 Months   [ ]   7-12 Months [ ]   13-18 Months [ ]

     18-24 Months [ ]   Over 2 Years [ ]

Accessibility of Banking Services and Financial Performance

5. Does accessibility of banking services of agency banking affect the financial performance of commercial banks in Kenya?

     Yes   [ ]   No   [ ]

6. To what extent does accessibility of banking services of agency banking affect the financial performance of commercial banks in low transaction cost Kenya?

     To a very great extent   [ ]

     To a great extent   [ ]

     To a moderate extent   [ ]

     To a little extent   [ ]

     To no extent   [ ]

7. Please indicate the extent to which you agree with accessibility as being important in performance of agency banking in chase bank. (Where; 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree)

	5	4	3	2	1
Agency banking is accessible, in terms of agency locations and general national footprint					
Agency banking excels in Service delivery					
Agency banking excels in Service Quality					
Agency banking improves its banking Environment					
There is great potential of using this in agent banking for provision of banking services to unbanked community					
Agency banking has led to accessibility of financial service to many customer in remote areas					
Accessibility of banking service through agency banking has led to profitability of commercial banks					
Agency banking increases effectiveness and efficiency of service delivery in commercial banks in Kenya					

8. What are the effects of accessibility of finances on the financial performance of Chase Bank?

....
....
....

Low Cost of Service and financial performance

9. Does low transaction cost of agency banking affect the financial performance of commercial banks in Kenya?

Yes   [ ]   No   [ ]

10. To what extent does low transaction cost of agency banking affect the financial performance of commercial banks in Kenya?

To a very great extent   [   ]   To a great extent   [   ]

To a moderate extent   [   ]   To a little extent   [   ]

To no extent   [   ]

11. To what extent do you agree with the following statement relating to low transaction cost of agency banking and its effects on financial performance of commercial banks in Kenya? (Where; 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree)

	5	4	3	2	1
Cost involved in transacting in agency banking is low compared to banking hall					
The cost of setting up the agency is transferred to agents and hence low cost of offering service					
Agency banking has low infrastructural cost and hence reduction in cost					
Time spent in agency banking is low compared to the normal banking					
Cost involved in agency banking positively influence performance of commercial banks					
Agents prior experience with the banks customers is positively related to both performance and survival					
The presence of Chase Popote help low income earners to save					
Chase Popote Pricing help low income earners to save					
Agency banking reduces transactional related costs and overheads					

12. What are the effects of low transaction cost of agency banking on the financial performance of Chase Bank?

....
....
....

Increased Customer Transactions

13. Do you think customers transactions in your bank have increased as a result of agency banking?

    Yes   [ ]   No   [ ]

14. To what extent does the increase in the number of customers transaction influence the financial performance of your bank?

    To a very great extent   [ ]
    To a great extent   [ ]
    To a moderate extent   [ ]
    To a little extent   [ ]
    To no extent   [ ]

15. To what extent do you agree with the following statement relating to increased customer transactions of agency banking and its effects on financial performance of commercial banks in Kenya? (Where; 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree).

	5	4	3	2	1
volume of withdrawal transactions increases the bank profitability					
volume of deposits transactions increases the bank profitability					
number of active agents has been increasing					
Customers can pay their loans through agency banking					
Efficiency and convenience in operation in agency banking have increased the banks customers' transactions					

16. What are the effects of increased customers transactions as a result of agency banking on the financial performance of Chase Bank?

    ....

....

....63..

Financial Performance

17. How do you rate the financial performance of your bank after the introduction of agency banking

    Excellent   [ ]   Good   [ ]

    Moderate   [ ]   Bad   [ ]

    Poor   [ ]

18. How do you rate the following measures of financial performance in your bank after the introduction of agency banking? (Where; 1=poor, 2=bad, 3=moderate, 4=good and 5=excellent).

	5	4	3	2	1
Profitability					
Return on Equity					
Return on Assets					
Sales volume					