EFFECT OF ALTERNATIVE FINANCIAL DELIVERY CHANNELS ON PERFORMANCE OF COMMERCIAL BANKS: A SURVEY OF COMMERCIAL BANKS IN KISUMU CITY, KENYA

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Abstract

Though commercial banks continue to invest in rolling out branches that are complimented by various delivery channels, the challenge of access to formal financial services by customers remains a big impediment to the banks' financial performance. To address these challenges, the Central Bank of Kenya released a legislation that allows commercial banks to contract third party retail networks as alternative financial delivery channel players which were to cater for 80% of the banking population by 2013. However, to date only 38% of the set target has been realised and it is not clear whether or not the realized proportion has any significant contribution on the banks' performance. It was on that basis that the study sought to establish the effect of financial delivery channels on performance of commercial banks in Kenya. Specifically the study sought to: establish the effect of mobile banking on the performance of commercial banks in Kenya, to establish the effect of agency banking on performance of commercial banks, and to establish the effect of internet banking on performance of commercial banks. The study adopted correlation research design and was guided by the Agency theory. Primary data were gathered using both structured and semi-structured questionnaires. These were supplemented with

secondary data gathered from the banks' published reports. Out of 33 commercial banks, Data from three banks were used for pretesting and a total of 30 commercial banks were visited during the actual data collection and the branch managers were interviewed. The study estimated an R^2 of 0.501, implying that 50.1% of changes in the bank's performance are explained by the independent variables. It further revealed that mobile banking (β = 0.402, p = 0.001) and agency banking (β = 0.179, p = 0.050) had significant positive effects on banks performance. It is thus, recommended that use of mobile banking and agency banking be enhanced for improved performance. The study findings may help the bank managers in the financial planning and provide literature for further research in the banking sector.

Keywords; Commercial Banks, Central Bank of Kenya, National Industrial Credit, Alternative financial delivery channels

INTRODUCTION

The Banking industry in Kenya is governed by the Companies Act (1978) the Banking Act (2010) the Central Bank of Kenya Act (2012) and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. There are currently forty six banking and non-bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests. The KBA serves as a forum to address issues affecting members (Price Waterhouse Coopers, 2012).These innovations need to be appraised to ascertain their impact on performance of commercial banks in Kenya.

Over the last few years, the banking sector in Kenya has continued to grow in assets, deposits, profits and products. The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in the East African community region; and the automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products. Players in this sector have, nevertheless, experienced increased competition over the last few years as a result of increased innovations among competitors and new platforms into the market (Njuguna, 2010). These innovation need to be appraised to ascertain their impact on performance of commercial banks in Kenya.During the last four decades, the worldwide financial sector has

developed rapidly in terms of size, industry structure and the variety of consumer and business-to-business products and services. The sector has been transformed from a relatively closed system in the 1950s and 1960s based on traditional bank activities to a more open, effective and competitive system which is able to offer a wide range of products and services (Edey, 2009). Gardener *et al.* (2011) attribute these empirical shifts to technological developments and financial liberalization (deregulation). These changes have consequently motivated commercial banks to initiate various alternative financial delivery channels in order to compete effectively and survive. Many commercial banks, according to Gyptra and Dixon (2008), face a huge challenge in reducing the number of branches they operate as down-sizing efforts bring with them complex post-merger problems such as social and political issues, organizational culture concerns, product modifications and Information Technology (IT) integration.

Banks therefore introduce alternative financial schemes to improve on their performance. These schemes, however, needs to be evaluated to ascertain whether they produce positive or negative impact on performance. Current popular alternative delivery channel technologies include services such as; the short message service (SMS) banking text alerts, bill pay, Automated Clearing House (ACH) electronic payments, mobile banking, email alerts and notifications, fax banking services, video banking, and online social media banking. These technologies are all relatively recent ICT enabled ADC strategies that banks can employ to impact on their performance(Koltveit and Owens, 2012)., however, it is not yet ascertained through empirical research on whether such alternative financial delivery channels have positive or negative effect and to what extent. (This study therefore sets out to answer these three questions).

Access to Finance is critical for sustainable economic growth and social development (Bold, 2011). Financial inclusion empowers low income people and marginalized sectors of society to actively participate in the economy, which leads to increasing employment and decreasing poverty levels (Bold, 2011). Apart from increasing access to those excluded from financial services and reducing reliance on informal financial sources such as Accumulating Savings and Credit Associations (ASCAs), Rotating Savings and Credit Associations (ROSCAs) and shylocks, agent banking has reduced the need for more staff and branches to reach customers (Arora and Ferrand, 2007). Agency banking has reduced cost and enhanced efficiency in the financial sector with a possibility and availing financial services at much lower cost to consumers (Bean, 2009). It has also increased the ease of banks' expansion hence outreach to far flung market pockets of bankable populations (Bold, 2011). From the findings of Bean, 2009, the contribution of agency banking to customers has been established however no attention has been given on the effect of the same on performance of commercial banks.

Previous studies mainly in developed countries like U.S.A and Britain shows the essence of agency banking to an economy, despite this, there has been no empirical study that has been undertaken in Kenya to establish the contributions of agency banking on financial performance of commercial banks in Kenya.

However, research findings on effect of channel banking on banks' financial performance have been mixed. Lozano and Mandrile (2010) through a case study of the commercial bank of Argentina aver that channel banking has helped banks enhanced value chain and performance through economies of scale and performance of the poor. Ivatury and Mas (2008) through a descriptive survey of South Africa's first tier commercial banks established that channel banking leads to cost minimization by reducing maintenance cost of banks fixed assets such as buildings and cost of service delivery. These studies are all authoritative in their own rights; however the methodologies used in them have significant weaknesses that can be challenged through a study like the one I intend to carry out.

On the other hand, Kamau (2012) established a low and negative impact of channel banking on financial performance. Pickens stated that banking agents have not contributed much to banks' revenue growth owing to customers' skepticism about its transactional security. Further, system failure and conservatism among customers who prefer brick-and-mortar model makes the model ineffective (Pickens, 2010).However his findings can be challenged on the ground that his variables did not incorporate all the alternative financial delivery channels since he mainly talked about agents. It is upon this weakness that I intend to build a solid case for this research. From these samples of research by various researchers it is clear to see that no researcher has carried out a study that directly ties bank performance to other banking channels. This is what this paper intends to accomplish

Statement of the Problem

Though the banks continue to invest in rolling out brick and mortar branches that are complimented by various delivery channels, the challenge of access to formal financial services remains a big impediment to financial performance. To curb these challenges, the Central Bank of Kenya released a legislation that allows commercial banks to contract third party retail networks as alternative financial delivery channel players. According to a central bank report on adoption of channels by commercial banks in Kenya (CBK 2013), it was indicated that in spite of the alternative delivery channels employed by most banks, the set targets have, in most cases, never been met. The initial target was set at 80% by the end of 2013 but to date only a paltry 38% has been realised (CBK 2013) and it is not clear whether or not the realized proportion has any significant contribution on the banks' performance.

Purpose of the Study

The overall objective of the study was to determine the effect of alternative financial delivery channels on performance of Kenyan Commercial Banks in Kisumu city, Kenya.

Specific Objectives

The following specific objectives guided the study:

    i.   To establish the effect of mobile banking on the performance of commercial banks in Kenya.

    ii.   To establish the effect of agency banking on the performance of commercial banks in Kenya.

    iii.   To establish the effect of internet banking on the performance of commercial banks in Kenya.

THEORETICAL REVIEW

The chapter presents the various literature perspectives which are relevant to the study area and whose basis the research problem is embedded. The significant areas of review included financial services innovation, impact of technology on banking, alternative financial delivery channels, and accessibility of financial services in developing economies, financial inclusion in Kenya, and empirical review and literature gaps as well as theoretical literature optimization.
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Agency Theory

Agency theory analyses the relationships between a business firm's owners and its managers who, under law, are agents for the owners. The key issues in agency theory centre upon whether adequate market mechanisms exist that compel managers to act in ways that maximize the utility of a firm's owners where ownership and control are separated. Under the terms of agency theory, a principal (P) passes on authority to an agent (A) to conduct transactions and make decisions on behalf of the principal in an effort to maximize P's utility preferences. Agency problems can arise if: P and A have different goals; P and A have disparate skills in evaluating A's performance; P and A possess different sets of information relevant to the managerial decisions A must make as a representative of P; or P and A have different degrees of risk aversion. At the core of agency problems is the fact that principals may not be able to monitor agents, either perfectly or costless, as to the agent's actions or the information behind those actions.

Agency problems emerge because contracts between principals and their agents are neither costless written nor costless enforced. Managers, as agents of a firm's shareholders,

may not devote their best efforts toward managing the firm unless those efforts are consonant with maximizing their own welfare. In the commercial banking industry, ownership is becoming increasingly diversified among individual and institutional shareholders, and the dominance of individual stockholders in the industry appears, on the whole, to be decreasing. These trends may exacerbate "agency problems" in the banking industry if these problems truly exist.

In commercial banking, agency problems may arise from three principal sources: partial ownership of a banking firm by individuals who are both owners and managers and who, therefore, may behave differently than utility-maximizing owners alone; the presence of government-sponsored deposit insurance programs that do not differentially price insurance coverage to reflect the risk exposure of each banking firm and that can elect to delay recognition of a bankruptcy, creating a moral hazard because management and stockholders can pursue high-risk investments in an attempt to transfer wealth from depositors to shareholders; and, the existence of informational asymmetry where owners and managers do not share the same information.

Williamson (1981) argues that a utility-maximizing manager may be prone to expense-preference behaviour that results in operating expenses and capital outlays carried beyond the profit-maximizing level. However, limits on managerial discretion exist that may force long-run conformity to owners' interests, including labour market constraints (such as the job mobility of existing management, as noted by Fama (1970) and capital market constraints (such as the threat of corporate takeovers).

Agent banks are retail establishments contracted by the banks and authorized by the central banks to render services for banks. They use technology and business arrangements with retailers, such as supermarkets, grocery stores, drugstores, gas stations, the postal company, and the lottery outlet chain. Agency banking offer services including savings deposits, credit withdrawals, bill payments, new account openings, money transfers, insurance, and government benefits including pension receipts to provide access to financial services people active in informal economy. However, the new channel represented by agency banking is expanding significantly, in their many ways of composition with the retailers, lottery outlets, post office agencies, register offices, retail store chains, etc. They are truly extensions of banking services installed in their partners' infrastructure.

Intermediation Theory

In the traditional Arrow Debreu model of resource allocation, and households interact through markets and financial intermediaries play no role. When markets are perfect and complete, the allocation of resources is Pareto client and there is no scope for intermediaries to improve

welfare. Moreover, the Modigliani Miller theorem applied in this context asserts that financial structure does not matter: households can construct portfolios which offset any position taken by an intermediary and intermediation cannot create value (Fama, 1980 and McDonald, 2011).

A traditional criticism of this standard market-based theory is that a large number of securities are needed for it to hold except in special cases. However, the development of continuous time techniques for option pricing models and the extension of these ideas to general equilibrium theory have negated this. Dynamic trading strategies allow markets to be effectively complete even though a limited number of securities exist. Such an extreme view that financial markets allow an efficient allocation and intermediaries have no role to play is clearly at odds with what is observed in practice.

Historically, banks and insurance companies have played a central role. This appears to be true in virtually all economies except emerging economies which are at a very early stage. Even here, however, the development of intermediaries tends to lead the development of financial markets themselves (McKinnon, 1973). In short, banks have existed since ancient times, taking deposits from households and making loans to economic agents requiring capital. Insurance, and in particular marine insurance, also has a very long history. In contrast, financial markets have only been important recently, and then only in a few countries, primarily the UK and the US. Even there, banks and insurance companies have played a major role in the transformation of savings from the household sector into investments in real assets.

Roles played by these intermediaries in the financial sector is found in the many and varied models in the area known as intermediation theory. These theories of intermediation have been built on the models of resource allocation based on perfect and complete markets by suggesting that it is frictions such as transaction costs and asymmetric information that are important in understanding intermediation. Gurley and Shaw (1960) and many subsequent authors have stressed the role of transaction costs. For example, fixed costs of asset evaluation mean that intermediaries have an advantage over individuals because they allow such costs to be shared. Similarly, trading costs mean that intermediaries can more easily be diversified than individuals.

Looking for frictions that relate more to investors' information sets, numerous authors have stressed the role of asymmetric information as an alternative rationalization for the importance of intermediaries. One of the earliest and most cited papers, Leland and Pyle (1977), suggests that an intermediary can signal its informed status by investing its wealth in assets about which it has special knowledge. In another important paper, Diamond (1984) has argued that intermediaries overcome asymmetric information problems by acting as ``delegated monitors.'' Bhattacharya and Thakor (1993) have provided an excellent survey of the current

state of the literature on banking, building on an earlier review of the banking literature .The traditional view of the role and functions performed by intermediaries with the evolution of these institutions over the last few decades. It is an attempt to confront the literature with a view of the practice to see if the literature adequately addresses the reasons that these institutions exist in the financial markets, and how they perform value added activity.

To understand how physical coverage translates into improved usage and how particular banking models can impact financial intermediation and financial performance, by extension, it is important to consider the issue of the non-exclusivity of agents. Non-exclusivity improves outreach by allowing agents to represent more than one financial institution, in effect allowing them to serve more customers. Non-exclusivity of agents is especially important in rural areas where bank branch coverage is minimal and qualified agents are also scarce. In rural areas, an agent will often be the only banking outlet available to the local population. It is critical that these agents are allowed to serve as much of the local population as possible, which would mean representing multiple financial institutions, from mainstream commercial banks to state-run development banks that cater to the needs of low-income populations.

Mobile Banking Business Models

A wide spectrum of agency banking models, which operate like branchless banking, is evolving. However, no matter what business model, if agency banking is being used to attract low-income populations in often rural locations, the business model depends on banking agents, i.e. retail or postal outlets that process financial transactions on behalf banks. The banking agent is an important part of the branchless banking business model since customer care, service quality, and cash management depend on them. These models differ primarily on the question that who establishes the relationship (account opening, deposit taking, lending etc.) to the end customer, the Bank or the Non-Bank. Another difference lies in the nature of agency agreement between bank and the Non-Bank. Models of branchless banking can be classified into three broad categories - Bank Focused, Bank-Led and Nonbank-Led.

Bank-Focused Model: The bank-focused model emerges when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers. Examples range from use of automatic teller machines (ATMs) to internet banking or mobile phone banking to provide certain limited banking services to banks‟ customers. This model is additive in nature and may be seen as a modest extension of conventional branch-based banking. Bank-Led Model: The bank-led model offers a distinct alternative to conventional

branch-based banking in that customer conducts financial transactions at a whole range of retail agents (or through mobile phone) instead of at bank branches or through bank employees.

This model promises the potential to substantially increase the financial services outreach by using a different delivery channel (retailers/ mobile phones), a different trade partner (telco / chain store) having experience and target market distinct from traditional banks, and may be significantly cheaper than the bank-based alternatives. The bank-led model may be implemented by using correspondent arrangements. In this model customer account relationship rests with the bank. Non-Bank-Led Model: The non-bank-led model is where a bank does not come into the picture (except possibly as a safe-keeper of surplus funds) and the non-bank (e.g. telco) performs all the functions.

Branchless banking may be based on many configurations between banks and business partners. However, the most successful experiences of the last decade rely on infrastructure that connects a diverse group of actors involved in the network arrangement designed to deliver financial services outside regular bank channels. Mas (2009) note that three main elements typically compose the network: retail stores easily accessible by low-income clients; an electronic payment infrastructure; and, an account platform. The latter is provided mostly by traditional banks. Account platforms necessarily operated internally within banks. Retail establishments, in contrast, are obviously outside agents, acting as intermediaries between the institution and its customers. The payment infrastructure may either be operated internally by the bank or supplied by third parties.

There are two main approaches for ICT-based branch less banking, one of them related to mobile phone networks and the other one to points-of-service (POS) or personal computers (PC) terminals (Prochaska & Brix, 2008). The first approach tends to be dominant where bank penetration is very low and client interaction with the network is driven by mobile phone use and so controlled by telecom firms. These experiences related to mobile phone projects tend to be more common in Africa and Asia.

Agency banking networks can be seen as technological innovation from a supply-side perspective. Each correspondent network provides a flexible and low-cost technological infrastructure to ensure access of microfinance services in a more cost-effective way than other alternatives. From a demand-side perspective, agency networks represent a social achievement, a social innovation, giving the poor easier access to essential banking services, even in remote locations where traditional banks branches usually do not reach. Finally, agency networks can also be an adaptive innovation, but here we need more knowledge about what adaptations are necessary regarding the integration microcredit-correspondents in order to increase their scale and transferability to other contexts. Agency banks networks have

dramatically increased bank outreach and proved an attractive way for banks to reach the populace that was previously bank less (Soares & MeloSobrinho, 2007). This use of ICT significantly reduces the costs and increases the reach of banking, making correspondents an attractive vehicle for the underserved low income population (Kumar, 2005).

Conceptual Framework

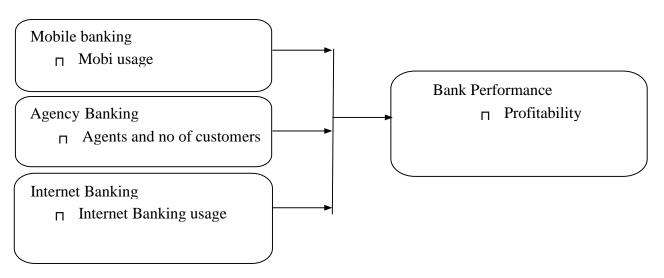Banks use online banking as it is one of the cheapest delivery channels for banking products (Pikkarainen et al., 2004). Such service also saves the time and money of the bank with an added benefit of minimizing the likelihood of committing errors by bank tellers (Jayawardhena& Foley, 2000). Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices, and many more. For this study, three variables are isolated as the potential variables that influence the use of alternative banking channels by the customers. The variables include; mobile banking, internet banking and agency banking. These were considered as independent variables. All these independent variables were expected to have effects on the performance of the banks which were the dependent variables as shown figure 1.

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

This was a correlation research design. According to Jackson 2009, a correlation research design allows the researcher to describe the relationships that exist between two or more variables. Also, correlation studies allow the researcher to make predictions from one variable to another. A correlation coefficient allows the researcher to assign a numerical value to the observed relationship (Jackson, 2009).Cross-sectional research design on the other hand,

allows the researcher to study the possible differences in the operations across the commercial banks selected for the study (Jackson, 2009).

Study Area

The study was conducted within Commercial Banks in Kisumu town. The town is located south of the Equator, along the shores of Lake Victoria. It is bordered by Homa-Bay County to the South, Kericho County to the East and Siaya to the North. The targeted banks included Kenya Commercial Bank, Equity Bank, National Bank of Kenya, Cooperative Bank of Kenya, Diamond Trust Bank, Credit Bank of Africa, Bank of Baroda, Faulu, K-Rep, Family bank amongst others

Target Population

The study targeted a population of thirty three (33) licensed commercial banks operating in Kisumu City, whose most of their customers had adopted alternative service delivery channels. This formed a sampling frame for the study.

Sample Size and Sampling Technique

A census of thirty (30) commercial banks was taken, where a manager of every bank was interviewed. This gave a total of 30 respondents. The sample size was arrived at using Kothari (2005) formula given as below:

The sample size was arrived at using the formula below adopted from Kothari C. (2005).

$$n = \frac{z^2 \cdot p \cdot q \cdot N}{e^2 (N - 1) + z^2 \cdot p \cdot q}$$

Where, n – sample size

z = standard variant at a given confidence level under normal curve

p – Sampling proportion

q = 1 – p

N = Target population

e = Margin of error.

Thus;

$$n = \frac{(1.96)^2 \cdot (0.5) \cdot (1 - 0.5) \cdot 33}{(0.05)^2 \cdot (33 - 1) + (1.96)^2 \cdot (0.5) \cdot (1 - 0.5)}$$

= 30.4625

= 30 branches.

Data Sources and Data Collection Instruments

The study used both primary and secondary data. Primary data was collected using both structured and semi - structured questionnaires which were distributed to all the banks which were involved in the study. This was supplemented by the use of secondary data obtained from the commercial banks' annual published reports and other relevant literature including journals and records available.

Reliability and Validity of Data Collection Instruments

Pilot study was undertaken with 10% of the targeted 33 banks (3 banks) and the bank's staff who are internal customers to detect any weaknesses in the collection instrument and the results were found to be consistent. Cronbach's coefficient alpha method was used to measure data reliability. It normally ranges between 0 and 1. And from the study it the result was found to be 0.949 which is closer to 1 hence the greater reliability.

Data Analysis and Presentation

Data collected were processed and analysed using Pearson correlation to show the association between the research variables. Regression analysis was used to show relationship between the variables in which the regression equation was in the form given below:

$$Yi = a + b_1X_{1i} + b_2X_{2i} + b_3X_{3i} + \mu i$$

Where, X_1 represents mobile banking, X_2 represents agency banking, and X_3 represents internet banking are the independent variables and *Y (*performance of commercial banks*)* is the dependent variable; and, *a, is a constant (y-intercept; μ is stochastic term, b_1, b_2, and b_3(*regression coefficients) are the estimated parameters for X_1, X_2 and X_3 respectively). Solving the above equation to determine the value of the regression coefficients allows the researcher to determine the nature of the relationships between the dependent variable *Y* and the independent variables X_1, X_2 and X_3.

RESULTS AND DISCUSSIONS

Banking services used in Commercial banks in Kenya

There are three major banking services used in Commercial banks in Kenya, namely Mobile banking, Agency banking and Manual banking. The table 1 shows the summary of the banking services in Kenya Commercial Banks in Kenya. The findings in Table shows that mobile banking platform as a channel is used a lot in Kenya compared to other channels. The frequency Table below shows that Mobile banking is the most used service delivery in Commercial banks in Kenya which translated to 46.7%. This has opened a new frontier for

growth of commercial banks since almost every person who runs a bank account owns a mobile phone (Mwangi 2011). A good number of individuals still prefer Manual banking to Internet banking translating to 33.3% and 16.7% respectively.

Table 1. Frequency table showing the banking services used in Kenya Commercial banks

Banking Channels	Frequency	Valid Percent	Cumulative Percent
Mobile banking	14	46.7	46.7
Manual banking	10	33.3	80.0
Agency banking	5	16.7	96.7
Internet banking	1	3.3	100.0
Total	30	100.0	

The findings in table 1 clearly shows that mobile banking platform as a channel is used a lot in Kenya compared to other channels. This has opened a new frontier for growth of commercial banks since almost every person who runs a bank account owns a mobile phone (Mwangi 2011).

Banking Services preferred in Commercial Banks in Kenya

Despite the use of the three banking services in Commercial banks, most individuals still prefer Mobile banking to either Agency and Internet banking mode of delivery which translates to 46.7%, 30.0% and 23.3% respectively as indicated in the frequency table 2.

Table 2. Banking Services preferred in Commercial Banks in Kenya

Banking Channels	Frequency	Valid Percent	Cumulative Percent
Mobile banking	14	46.7	46.7
Agency banking	9	30.0	76.7
Internet baking	7	23.3	100.0
Total	30	100.0	

Usage of Alternative financial delivery channels in Kenyan Commercial Banks

a. Mobile banking

The performance of Kenya Commercial banks has very greatly increased due to the introduction of Mobile banking mode of service delivery. 43.3% of the total population interviewed believed that the performance is greatly increased due to the use of Mobile banking services. 30%

believed the performance was great since the introduction of mobile banking. The lowest percentage (16.7%) of the respondents believed that the performance was moderate with the introduction of mobile banking as a channel. The findings in the study indicate that mobile banking was of great importance to commercial banks. The findings indicate that mobile banking is proving to be a great channel for KCB business.

Table 3. Frequency table showing Kenya Commercial bank performance with regards to Mobile banking service delivery

Extent of use	Frequency	Valid Percent	Cumulative Percent
Very great	13	43.3	43.3
Great	9	30.0	73.3
Moderate	5	16.7	90.0
Low	2	6.7	96.7
Not at all	1	3.3	100.0
Total	30	100.0	

b. Agency banking

Though Mobile banking is widely used by the Kenya Commercial banks to increase their performance, Agency banking has also been embraced to improve the performance in the bank. This is observed in the frequency table 4 since 36.7% of the respondents interviewed believed that agency banking greatly influenced commercial banks performance, thirty percent (30%) believed agency banking greatly influenced commercial banks performance and 20% believed agency banking moderately affects banks performance.

Table 4. Frequency table showing Kenya Commercial bank performance with regards to Agency banking service delivery

Extent of Use	Frequency	Valid Percent	Cumulative Percent
Very great	11	36.7	36.7
Great	9	30.0	66.7
Moderate	6	20.0	86.7
Low	3	10.0	96.7
Not at all	1	3.3	100.0
Total	30	100.0	

c. Internet banking

There is moderate performance by Kenya Commercial banks in terms of Internet banking mode of service delivery. This constitutes to 36.7% of the population interviewed as summarized in the table 5.

Table 5. Frequency table showing Kenya Commercial bank performance with regards to Internet banking service delivery

Extent of use	Frequency	Valid Percent	Cumulative Percent
Moderate	11	36.7	36.7
Very great	7	23.3	60.0
Great	5	16.7	76.7
Low	4	13.3	90.0
Not at all	3	10.0	100.0
Total	30	100.0	

Kenyan Commercial Banks performance with regards to Profit Maximization

a. Mobile banking

When asked about the rate at which Mobile banking services has improved the performance of Kenyan Commercial Banks; 46.7 of respondents polled very much,23% noted just much, 20% were of the view that mobile banking has done little to improve performance of commercial banks while 6.7% of respondents noted that there was very little impact on profitability since mobile banking platforms were adopted by banks and another 3.3% of respondents were of the view that mobile banking contributes to loss by commercial banks as shown in table 6.

Table 6. Frequency table showing Profit Maximization in relation to Mobile banking services

Extent in Performance	Frequency	Valid Percent	Cumulative Percent
Very much	14	46.7	46.7
Much	7	23.3	70.0
Little	6	20.0	90.0
Very little profit	2	6.7	96.7
Loss	1	3.3	100.0
Total	30	100.0	

b. Agency banking

When asked about the rate at which agency banking services has improved the performance of Kenyan Commercial Banks; 46.7 of respondents polled very much, 23.3 % noted just much, 20% were of the view that agency banking has done little to improve performance of commercial banks while 6.7% of respondents noted that there was very little impact on profitability since agency banking platforms were adopted by banks and another 3.3% of respondents were of the view that agency banking contributes to loss by commercial banks as shown in table 7.

Table 7. Frequency table showing Profit Maximization in relation to Agency banking services

Extent Change	Frequency	Valid %	Cumulative %
Much	14	46.7	46.7
Very much	7	23.3	70.0
Little	6	20.0	90.0
Very little profit	2	6.7	96.7
Loss	1	3.3	100.0
Total	30	100.0	

c. Internet banking

When asked about the rate at which internet banking services has improved the performance of Kenyan Commercial Banks; 33.3 of respondents polled very much, 23.3 % noted just much, 20% were of the view that internet banking has done little to improve performance of commercial banks while 13.3% of respondents noted that there was very little impact on profitability since internet banking platforms were adopted by banks and another 10% of respondents were of the view that internet banking contributes to loss by commercial banks as shown in table 8.

Table 8. Frequency table showing Profit Maximization in relation to Internet banking service

Extent use	Frequency	Valid Percent	Cumulative Percent
Very much	10	33.3	33.3
Much	7	23.3	56.7
Little	6	20.0	76.7
Very little profit	4	13.3	90.0
Loss	3	10.0	100.0
Total	30	100.0	

Kenya Commercial Bank performance with regards to Cost Reduction

a. Mobile banking services

When asked whether Kenyan Commercial banks has improved in their performance in terms of Cost reduction due to the introduction of Mobile banking service delivery. 36.7% of the population interviewed believed that, cost reduction is very much reduced; 30% much reduced, 20% less reduced, 10% very little reduced and 3.3% were of the opinion that the use of mobile banking as an alternative channel has not reduced banking cost as shown in table 9.

Table 9. Frequency table showing Cost Reduction in relation to Mobile banking services

Extent in Performance	Frequency	Valid Percent	Cumulative Percent
Very much reduced	11	36.7	36.7
Much reduced	9	30.0	66.7
Less reduced	6	20.0	86.7
Very little reduced	3	10.0	96.7
Not reduced	1	3.3	100.0
Total	30	100.0	

b. Agency Banking

When asked whether Kenyan Commercial banks has improved in their performance in terms of Cost reduction due to the introduction of agency banking service delivery. 30% of the population interviewed believed that, cost reduction is very much reduced; 26.7% much reduced, 20% less reduced, 13% very little reduced and 10% were of the opinion that the use of agency banking as an alternative channel has not reduced banking cost as shown in table 10.

Table 10. Frequency table showing Cost Reduction in relation to Agency banking services

Extent in Performance	Frequency	Valid Percent	Cumulative Percent
Much reduced	9	30.0	30.0
Very much reduced	8	26.7	56.7
Less reduced	6	20.0	76.7
Very little reduced	4	13.3	90.0
Not reduced	3	10.0	100.0
Total	30	100.0	

c. Internet banking

When asked whether Kenyan Commercial banks has improved in their performance in terms of Cost reduction due to the introduction of internet banking service delivery. 36.7% of the population interviewed believed that, cost reduction is very much reduced; 23.3% much reduced, 20% less reduced, 13% very little reduced and 10% were of the opinion that the use of internet banking as an alternative channel has not reduced banking cost as shown in table 11.

Table 11. Frequency table showing Cost Reduction in relation to Internet banking services

Extent in Performance	Frequency	Valid Percent	Cumulative Percent
Much reduced	11	36.7	36.7
Less much reduced	7	23.3	60.0
Much reduced	5	16.7	76.7
Not reduced	4	13.3	90.0
Very little reduced	3	10.0	100.0
Total	30	100.0	

Kenya Commercial Bank performance with regards to Customer Numbers

a. Mobile Banking

When asked whether Kenyan Commercial banks has improved their deposits and customer numbers due to the introduction of mobile banking service delivery. 43.3% of the population interviewed believed that, deposits and customer numbers are very much improved since the advent of mobile banking as an alternative financial service delivery channel; 30% much improved, 16.7% little increased, 6.7% very little increased and 3.3% were of the opinion that the use of mobile banking as an alternative channel has not increased deposits and customer numbers as shown in table 12.

Table 12. Frequency table showing improvement in Customer numbers
with regards to Mobile banking services

Extent in Performance	Frequency	Valid Percent	Cumulative Percent
Very much improved	13	43.3	43.3
Much improved	9	30.0	73.3
Little increased	5	16.7	90.0
Very little improved	2	6.7	96.7
Not all	1	3.3	100.0
Total	30	100.0	

b. Agency banking

When asked whether Kenyan Commercial banks has improved their deposits and customer numbers due to the introduction of agency banking service delivery. 36.7% of the population interviewed believed that, deposits and customer numbers are very much improved since the advent of agency banking as an alternative financial service delivery channel; 30% much improved, 20% little increased, 10 % very little increased and 3.3% were of the opinion that the use of agency banking as an alternative channel has not increased deposits and customer numbers as shown in table 13.

Table 13. Frequency table showing improvement in Customer numbers
with regards to Agency banking services

Extent in Performance	Frequency	Valid Percent	Cumulative Percent
Very much improved	11	36.7	36.7
Much improved	9	30.0	66.7
Little increased	6	20.0	86.7
Very little improved	3	10.0	96.7
Not at all	1	3.3	100.0
Total	30	100.0	

c. Internet Banking

When asked whether Kenyan Commercial banks has improved their deposits and customer numbers due to the introduction of internet banking service delivery. 36.7% of the population interviewed believed that, deposits and customer numbers are very much improved since the advent of agency banking as an alternative financial service delivery channel; 16.7% much improved, 13.3% not at all increased, 10 % very little increased and 3.3% were of the opinion that the use of internet banking as an alternative channel has not increased deposits and customer numbers as shown in table 14.

Table 14. Extent of improvement in Customer numbers with regards to Internet banking services

	Frequency	Valid Percent	Cumulative Percent
Very much improved	13	43.3	43.3
Much improved	9	30.0	73.3
Little increased	5	16.7	90.0
Very little improved	2	6.7	96.7
Not all	1	3.3	100.0

Effect of alternative financial delivery channels on the performance of commercial banks

Table 15 shows that the proportion of variance in bank performance explained by the independent variables is 44.3% while 50.1% variations in bank performance could be explained by the variations in the independent variables. The value of Durbin-Watson is 2.240, which is close to 2, an indication of the absence of serial correlation.

Table 15. Summary of the Regression Model

R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
				R Square Change	F Change	df1	df2	Sig. F Change	
.708	.501	.443	.41104	.501	8.695	3	26	.000	2.240

Table 16 shows that F (3, 26) = 8.695, which is significant at p = 0.000, is a likely indication that the estimated model fits the research data well and that the agency banking, mobile banking and internet banking jointly explain bank performance.

Table 16. ANOVA Results for the Estimated Regression Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.407	3	1.469	8.695	.000
	Residual	4.393	26	.169		
	Total	8.800	29			

a. Predictors: (Constant), agency banking, use of mobile banking, internet banking

b. Dependent Variable: bank performance

Table 17 shows that mobile banking (β = 0.402, p = 0.001) and agency banking (β = 0.179, p = 0.050), both had significant positive effects on Bank.

Table 17. Estimated regression coefficients of the independent variables

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	.949	.578		1.642	.113		
mobile banking	.402	.112	.524	3.576	.001	.893	1.120
internet banking	.087	.104	.123	.835	.411	.890	1.124
agency banking	.179	.089	.292	2.010	.050	.909	1.100

The established regression equation was

$Y = 0.949 + 0.402 X_1 + 0.087X_2 + 0.179 X_3$

S.E= (0.578), (0.112), (0.104), (0.089)

t = (1.642), (3.576), (0.835),(2.010)

$R^2 = 0.501$

From the above regression model, holding mobile banking, internet banking and agency banking to a constant zero, financial performance of commercial banks would be 0.949, its established that a unit increase in internet baking would cause an increase in financial performance of commercial banks by a factor of 0.087, a unit increase in mobile banking would cause an increase financial performance of the bank by a factor of 0.402, a unit increase in agency banking would lead to an increase financial performance of the bank by a factor of 0.179. This clearly shows that there is a positive relationship between financial performance of commercial banks and internet banking, mobile banking and agency banking. The study further revealed that the P-value were less than 0.05 in all the variables, which shows that all the independent variable were statistically significant and thus in position to make conclusion for the study .

Discussion of the Findings

From the findings on the coefficient of determination, the study found that there was a great variation in the financial performance of commercial banks in Kenya could be accounted to changes in mobile banking and agency banking at 95% confidence interval. From the findings on the R correlation the study found that there was a strong relationship between financial performance of commercial bank and internet banking, agency banking and mobile banking. From the coefficient result the study revealed that there is a positive relationship between

financial performance of commercial banks and the use of the alternative banking channels. The study further revealed that that there was a statically significant relationship between financial performance of commercial banks and use of the alternative banking channels.

The introduction of electronic banking has revolutionized and redefined the ways banks were operating. As technology is now considered as the main contribution for the organizations' success and as their core competencies. So the banks, be it domestic or foreign are investing more on providing customers with the new technologies through mobile banking. Back in Kenya the scenario is no better. Astonishingly half of the Kenyan populations especially the rural folk do not have a clue on mobile banking. However, the outreach of the mobile banking sector has been found to vary across country.

There have been several studies conducted on effects of financial delivery channels on performance of commercial banks which concur with the above findings. This study concurs with the findings of Parsons and Urdapilleta (2006), who found that the empirical results indicated that financial delivery channels allows banks to serve more clients at lower cost, increases reach into areas where a full branch would not be cost-justified, and allows clients to access their accounts more frequently and manage their loan funds more easily thus leading to increased revenue. The finding of this study were found to be in agreement with the finding of Getenga (2010) who found out that due to low cost banking through alternative channels has increased the ease of bank's expansion hence outreach to remote areas consequently increasing revenue and profit.

These finding also concur with the findings of Ivatury and Mas (2008)) which established that banking through alternative channels leads to cost minimization by reducing maintenance cost of banks fixed assets such as buildings and cost of service delivery. Furthermore, the study showed that the benefits of agency, mobile and internet banking as an alternative delivery channel were increased sales, an increase in market share, outreach to strategic customers and improvement in operations. Mwangi (2012) showed that agency banking plays a key role in the performance of commercial banks in Kenya by establishing that cost effectiveness (infrastructure, human resource and security cost) associated with agency banks positively influence banks financial performance.

Kamau (2012) showed that Financial Innovations like internet and mobile banking indeed contributed to and was positively correlated to profitability in the banking sector, particularly that of commercial banks. This was further supported by the high uptake of efficient financial systems in substitute of the less efficient traditional systems. These finding concur with the finding of Kithuka (2012) who studied factors influencing growth of agency banking in Kenya and established that convenience of its technology, accessibility and cost has influenced its use.

Ivatury and Mas (2008) established that agency banking which is a variable used in this current study, leads to cost minimization by reducing maintenance cost of banks fixed assets such as buildings and cost of service delivery. Kumar, Nair, Parsons and Urdapilleta (2006) state that agency banking enhances banks turnover by making banking services available to the vast but higher risk populace through friendly format or medium. On the other hand, Kamau (2012) established a low and negative impact of agency banking on financial performance. Pickens stated that agency banks have not contributed much to banks' revenue growth owing to customers' skepticism about its transactional security. Further, system failure and conservatism among customers who prefer brick-and-mortar model makes the model ineffective (Pickens, 2010).

However, it is equally important to note that the findings of the study fails to agree with the findings of Waithanji (2012) stated that relationship between agency banking and financial deepening could not be conclusively determined due to the low number of banks that have implemented it and impact may become clearer once all banks adopt agency banking which is one of the alternative banking channel variables that was determine by this current study.

CONCLUSION
Mobile Banking
The study thus, concludes that the banks' performance is positively and significantly affected by mobile banking and agency banking. Among the three channels mobile banking is the most preferred service delivery in commercial banks which was at 46.7%. Thus, mobile banking has the highest positive significance effects on commercial bank performance.

Agency banking
The study concludes that the uptake for mobile banking is still lower than the mobile banking but higher than the internet banking. The usage of agency banking was at 30.0%.

Internet Banking
The study also concludes that agency banking has the least usage at 23.3%. Thus, internet banking has the least positive significance effects on commercial bank performance since most customers have not adopted it.

RECOMMENDATIONS

Mobile banking

The study recommends that, the banks should invest much on the mobile banking platform in order to increase on their customer base which will eventually increase on their profitability through the cost minimization.

Agency banking

The study recommends that agency banking should be improved by spreading it to the rural areas so that the usage could be increased which will eventually make an improvement on the commercial bank's performance and growth.

Internet Banking

The study recommends that the commercial banks should revamp on the internet banking to establish why most clients do not prefer using it. The study also recommends that the technology should be improved to the clients to enable them access their banking services at affordable rates.

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APPENDIX I: Questionnaire

Dear participant,

This questionnaire is aimed at obtaining information about the influence of Alternative Service delivery Channels in the performance of Kenya Commercial Bank. In meeting this objective, I request you to kindly provide relevant and objective data needed to satisfy the quest for this knowledge. The information provided in this questionnaire will be treated with utmost confidentiality and used for academic purpose only.

Your cooperation will highly be appreciated.

Part I: Demographic Information

Kindly respond to the following statements by ticking (√) the appropriate answer that applies to your circumstances.

(a)   Sex: Male   [   ]

                          Female   [   ]

(b)   Age:

18 – 26yrs   [   ]

27 – 34yrs   [   ]

35 – 42yrs   [   ]

Above 42yrs   [   ]

(c)   Educational level:

Doctorate   [   ]

Masters   [   ]

Bachelors   [   ]

Diploma   [   ]

Certificate   [   ]

Other, (please specify)...

(d)   Duration you have worked with the bank:

0 - 5yrs   [   ]

6 – 10yrs   [   ]

Above10 years [   ]

Part II: Banking Service Delivery Items.

Kindly select the most appropriate response suitable for you for the following item questions:

1.   Which of these banking services do you mostly use?

(a) Manual banking   [   ]

(b) Mobile banking.   [   ]

(c) Internet banking   [   ]

(d) All   [   ]

2.   Which specific alternative banking service do you prefer using?

(a)internet banking (b)mobile banking (c)agency banking (d)none (e)all

3.   Kindly indicate your level of satisfaction with the alternative banking service delivery channels offered at your bank.

Very Much   [   ]

Much   [   ]

Moderate   [   ]

Low   [   ]

Very Low   [   ]

4.   Rank the banking channels in order of frequency of use.

	Very Low (1)	Low (2)	Moderate (3)	High (4)	Very High (5)
Mobile banking					
Internet Banking					
Agency Banking					

5.   The introduction of alternative banking services has positively affected service   delivery:

Not at all   [ ]

Very little   [ ]

Little   [ ]

Much   [ ]

Very much   [ ]

6.   Before the introduction alternative banking service delivery channels, how would you rate your perception on service delivery in Kenyan banks?

            Worse   [ ]

            Moderate   [ ]

            Good   [ ]

            Very Good   [ ]

7.   How has the introduction of alternative service delivery channels by Kenyan

Commercial banks changed your perception about banking service delivery?

Very Much   [ ]

Much   [ ]

Not at all   [ ]

Little   [ ]

Very Little   [ ]

 8.   Kindly state how you now perceive the banking sector.

            Very Good   [ ]

            Good   [ ]

            Don't Know   [ ]

            Bad   [ ]

            Worse   [ ]

 9.   How would you rate the problems associated with the alternative banking services?

            Very High   [ ]

            High   [ ]

            Moderate   [ ]

            Little   [ ]

Very Little   [ ]

10.   Kindly give suggestions that you think would help improve the alternative delivery channels...

11.   In terms of service delivery, how would you rate your bank's performance since the introduction of alternative financial delivery channels?

	Not at all (1)	Very little (2)	Little (3)	Much (4)	Very much (5)
Mobile banking					
Internet Banking					
Agency Banking					

Please indicate using a tick (√) the degree to which you agree or disagree with the following statements regarding alternative banking services. Use the scales below.

Strongly Agree   (5)

Agree   (4)

Don't Know   (3)

Disagree   (2)

Strongly Disagree   (1)

Question	1	2	3	4	5
12. Using alternative service delivery channels saves time.					
13. I find alternative banking services useful.					
14. I find alternative banking service delivery channels a convenient service.					
15. Using alternative banking services enable me to accomplish my banking activities more quickly.					
16. Alternative banking service delivery channels have impacted positively on service delivery of the bank.					

Part III: Alternative Service Delivery Items

Please, using a tick (√), indicate the extent of your agreement or disagreement with the following items. Use the scales below:

Strongly Agree   (5)

Agree   (4)

Don't Know   (3)

Disagree   (2)

Strongly agree   (1)

Question	1	2	3	4	5
17. My bank always keeps me updated of the latest development that I need to get for the best use of alternative banking services.					
18. Staff of my bank makes an effort to explain issues to customers in a simple way.					
19. My bank provides best of alternative service delivery channels.					
20. I spent less time banking due to efficient alternative service delivery channels.					

21. My bank staff is courteous when serving customers using the alternative channels.					
22. Whenever something goes wrong with service delivery, the bank takes corrective action without delay.					
23. Alternative service delivery has made the bank's services are very reliable.					
24. My bank offers all the alternative delivery services as I expect.					

25. How would you rate your bank's performance with reference to profit maximisation since the introduction of alternative financial delivery channels?

	loss (1)	Very low (2)	Low (3)	high (4)	Very high (5)
Mobile banking					
Internet Banking					
Agency Banking					

26. How would you rate your bank's performance with reference to cost reduction since the introduction of alternative financial delivery channels?

	Not reduced (1)	Very little reduced (2)	Less reduced (3)	Much (4)	Very much reduced (5)
Mobile banking					
Internet Banking					
Agency Banking					

27. How would you rate your bank's performance in terms of customer numbers since the introduction of alternative financial delivery channels?

	Not at all (1)	Very little improved (2)	Little increased (3)	Much improved (4)	Very much improved (5)
Mobile banking					
Internet Banking					
Agency Banking					