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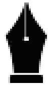

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EFFECT OF AGENCY BANKING FEATURES ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA: A CASE OF EQUITY BANK, KISII, NYAMIRA AND KEROKA BRANCHES - KENYA

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Abstract

This study sought to establish the effect of agency banking model on the financial performance of commercial banks in Kenya with special reference to equity bank, Kisii, Nyamira and Keroka branches, Kenya. The research objectives were: to establish the effect of accessibility of banking services in performance of Equity bank, to establish effect of total transaction cost in the financial performance of Equity bank, and to establish effect of market share on the performance of Equity Bank. This study was guided by agency theory, financial intermediation theory and bank led theory. The study adopted a descriptive case study design with a target population of 88 Equity bank staff and agents. The study used census method. Data was collected using questionnaires and analyzed using descriptive and inferential statistics. The study found that financial performance has strong correlation with agency banking factors that include: accessibility cost of offering financial services and market share. Agency banking significantly accounts for the variance in financial performance of Equity bank. Financial performance increases with the introduction of agency banking which increases access for financial services, reduce cost of offering the service and increased markets share. The study concluded that agency banking improves financial performance by increasing access for financial services, lowering the cost of provision of financial services and enlarging market share.

Keywords: Agency banking, Banking services, Financial intermediation, Financial performance

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INTRODUCTION

Agency offers a variety of banking comprises of activities such as bank account opening, depositing cash, withdrawing, money transfer among other activities. Through this model banks have expanded their financial services to rural areas without a financial capacity for a formal branch. This is true of remote areas with a high number of people who do not access banking services (Mulupi, 2011). This has prompted stakeholders such as policy makers and regulators to give the model attention even though banking regulations still stifles its growth. Where regulations allow, the agency model and other branchless initiatives have shown tremendous growth (Neil & Leishman, 2010). Account ownership within Africa greatly varies. In average, 23% of adults have an account in a mainstream bank. In the sub-Saharan Africa on average 24% of the adults, have accounts in formal banks. However, this varies from 11% in central Africa to about 51% in southern Africa.

It is noted that both in the Democratic Republic of Congo and Central African Republic, about 95% of the adults do not have any know how neither do they have bank accounts in a formal bank. North America is said to have at least 20% of adults having created bank accounts with financial institutions, 30% and 10% has been recorded from Morocco and Egypt respectively. The Financial Sector Deepening Kenyan report (2010) reported that 19% of adults in Kenya have access to formal financial institutions whereas about 38% of the adults do not have access to even the rudimentary form of financial service or product. This increases the percentage to 80% (The Kenya Bureau of Statistic Report, 2011).

A number of challenges have been highlighted to be affecting access to financial service and products in Africa and they include; - uneconomically banking incomes, dispersed population, distance lack of financial products and service knowledge and ignorance on issues relating to banking. To reach this untapped banking market one has to appreciate these factors. For financial institutions to position themselves successfully, they must seek to address the special needs of the unbanked. One of such approaches is agency banking (Muasya & Kerongo, 2015).

The countries that have adopted agency banking have recorded its success though in diverse degrees. In Latin America, Brazil has earned a name as the global pioneer in agency banking. It adopted the model earlier and has over time matured its agency network of agency banks covering over 99% of the country's municipalities. Brazil boasts of over 140,000 banking agents, making it the leading in deployment of third party banking correspondents in the world (Alliance for Financial Inclusion, 2012). Many other Latin America countries also adopted the agency banking model: Peru in 2005, Colombia in 2006, Bolivia in 2006, Ecuador in 2008, Mexico in 2009, Venezuela in 2009, and Argentina in 2010. Around the globe other countries

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have embraced this model to extend financial services including Pakistan, Philippines, Kenya, South Africa, Uganda, Nigeria and India (CGAP, 2011). The agency banking model has grown the numbers of the rural unbanked people. The model now serves many millions of the population initially unbanked (Mwende, Bichang'a & Mosoti, 2015).

Kenya launched agency banking in 2011 and two years later in 2013 commercial banks had contracted 18082 active agents generating 48.4 million transactions worth $3 billion according to a 2014 central bank report. Agency banking was institutionalized in 2013 with a hope a similar region exponential growth. Similarly in Nigeria the central bank released guidelines for agency banking in February 2013 (Iveri payment technologies, 2014). Kenyan financial institutions have turned to agency banking to compensate for the poor retail infrastructure, minimize set up and running costs. That has worked well in providing much low income population their first experience to a range bank services. Banks have also used the model as an alternative to decongest crowded branches and allowing customers access their account information with ease (Muasya & Kerongo, 2015).

The Kenyan business environment is very dynamic and it has been reported to be having very stiff competition among the financial players and the banking industry as a whole leading to no exception. Development of mobile banking and competition has led to increased competition with increased innovativeness. Mwangi (2013), argued that evaluation of the role of agency baking in the performance of commercial banks contributed to increased performance in the agency banking largely. The Equity bank embraced the model in 2011. The approach has recorded tremendous success. An initial number of 875 agents in the start of 2011 short up 3991 agents by March 2013. This shows the huge contribution to cash transactions (Equity Bank report, 2013). In its financial results covering nine months to September 2011, the bank recorded a 39% increase of the pre-tax profit (Anyanzwa, 2012)

Statement of the Problem

Since the inception of agency banking particularly in Latin Americans, Pakistan, Philippines, Kenya, South Africa and India the model has so far shown mixed signals of success in developing countries (Venkatesh & Morris, 2003; Bloodgood, 2010). Kenya has shown a promising growth in numbers of bank agents, which stand at 26, 760 active bank agents as at, end of June 2014 (CBK, 2014). The number of agents is hundred fold, the total number of bank branches in the country (CBK, 2014). Mwando (2013) appreciates the huge contribution of agency banking to financial inclusion but uncertain on resultant profit rise of commercial banks in Kenya.

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According to Barasa & Mugambi (2013), it was reported that agency banking has increasingly being significant in developing countries. However, the extent to which agency banking can be used to deepen the financial sector which remains unidentified. The significant benefits of the agency banking is a model used on maintain the customer and agents that have not yet been studied. However, despite the efforts done on agency banking the commercial banks still remains to be achieving a lot of competitiveness hence Improving the financial performance, it has been noted that there is limited studies done locally on the contributions of agency banking on commercial banks. Aosa (1992) argued that it is not recommended to import the entire of results of a study conducted without taking into consideration the account and the contextual differences and hence calling for the needs to conduct a local study for purposes of making clear understanding on the financial performance of commercial banks. It is through this reason that the exists a knowledge gap on the effect of agency banking on performance of commercial banks leading to the development of a study on the effects of agency banking in the financial performance of commercial banks.

Research Objectives

The main objective of the study was to establish the effects of agency banking features on financial performance of commercial banks in Kenya case of Equity Bank of Kenya, Kisii County. Specific research objectives are:

i. To establish the effect of accessibility of banking services in performance of Equity bank.

ii. To establish effects of total transaction cost in the financial performance of Equity bank

iii. To determine the influence of market share on the performance of Equity Bank

LITERATURE REVIEW

Theoretical Literature Review

Agency Theory

This theory describes how one can frame the engagement in which a principal decides on the responsibilities while the agent executes them. In the association, the principal engages a hired person or entity to perform duties on behalf of the principle, if he is unable or unwilling to perform to a third party. The theory acts to address the principal-agent relationship. Agency theory is a detailed study developed to examine and analyze conflicts between key stake holders and develop resolving conflicts mechanisms (Tipuric, 2008). An agent relation involves the principal, agent and third party. The bank is the principal, the retail outlets of bank services are the agents while the bank customers are the third parties. These agents offer banks' financial services to customers on behalf of the bank. By the fact that agents are located close

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to customers, they offer to customers the bank's financial services at the convenience of the customer, lower the cost of customer in accessing bank services and even promotes a saving culture. As clients accrue benefits, on the other hand banks improve their financial performance due to increased market share, more banking by customers and lower operations costs.

Bank Led Theory

The bank led theory is composed of three parties; the bank who distribute financial services and products to the customer through a retail agent. The series of associated activities begins with the bank. The banks come up with final financial products and services to be offered to customers. The products and services are made available or provided to customers through retail agents with whom they are directly involved with customer on behalf of the bank (Lyman, Ivatury & Staschen, 2006). Essentially, banks open and hold accounts for customers. The retail agents comes in to verify customers identity, process applications, conduct one on one transactions like group forming, collecting loans and small deposits on behalf of the bank, they handle low value payments and sell insurance related products (Chowdhury, 2010). Through this arrangement customers access a variety of financial and non-financial services on offer (Owens, 2006).

The bank installs electronic technology like mobile phones and point of sale gadgets for the retail outlet. These facilitate exchange between bank and customer at the agent point (Lyman, 2006). This bank led model is applauded due to its close interactive ways that is between banks and far way located customers. It has enabled the low income remote clients to get both financial and non-financial products and services from retail agents. Risks relating to this structure are: the security system and lack of qualified trained agents (Kumar, et al. 2006; State Bank of Pakistan, 2011). However, these are the same challenges conventional branch based banking faces.

The bank lead theory application in financial institution suck financial institution deliver financial products and service through third parties such as retail agents which corresponds with the current study which focuses on product and service delivery to particular customers since financial institutions have come up with financial products and services which deliver various services though agents who have access to many customers. Currently, Equity bank has increased the number of licensed agents in Kenya purposely for facilitating the distribution of financial products and services. The bank agent conducts cash flow function whereby deposit or withdraw which services are also provided by branch teller. The agent customer interaction facilitates face to face interaction at a lower cost conveniently increasing customer satisfaction.

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Bank-Focused Theory

The bank-focused theory is based on situations whereby traditional financial institutions used traditional low cost delivery procedures to deliver financial products and services to their respective customers. For instance, employees vary on the usage of automated teller machines (ATMs) to access internet banking or cell phone banking to enable limited access to available financial institutions' clients. This theoretical model tends to be additive in the normal situation leading to reserving of conventional branch based banking. Many banks have tried to apply favorable outcome which involve branding and control to financial institutions interested, it may not lack challenges. Customers are keen on the kind of quality services offered and how secure their transaction activities are in financial institutions, (Kapoor, 2010).

Empirical Literature Review

In the past in Africa, poor people experienced many challenges in their attempt to have access to financial products and services. This was a result of the banks proximity which was far apart in their localities leading to individuals being forced to walk for long distances in search of financial institution to provide banking services and products. This could only mean that those in informal settlements would only have to spend a bigger part of their day travelling to banking facilities and their bear with long queues to access financial products and services. The whole process would prove to be time consuming and costly since transportation cost would also be taken into consideration. Despite that the banking industry has been facing gradual development with the introduction of agent baking, which is an innovative delivery approach which is determined to have accessibility to financial services and products which are far much closer to the local citizens, (Making Finance Work, 2013).

Many formal financial institutions in Kenya are situated in urban and peri-urban area across the country. In simple terms, the people in the remote areas and slums are trying to overcome the challenges of accessing financial services and products provided through provision of brick banking and conventional mortar. All over the world, it has been noted that financial access has been in supposition with empirical evidence that acts as a link between wider accessibility and development outcomes has been very finite (World Bank, 2006). The development of the banking sector has a very close tie with financial inclusion. It is confirmed that financial inclusion describes wider access to banking services. The application and use of agents for financial transactions and services help to propel and significantly improve and increase the accessibility by the poor and marginalized populations to have a formal financial products and service, including savings, payments transfers and selling insurance (Bold, 2011).

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According to CBK (2013), the agency banking structural measures which was launched in 2010 has continued to contribute to increased access to banking services.

The application of agency banking is expected to propel financial institutions to offer banking services are more cost effectively and customer friendly. The objective of this initiative is that it is expected to enhance and yield financial access for those people who are currently not reached by financial inclusion (CBK, 2011). Han & Melecky (2013) found out that in times of financial stress a variety and broader access to use bank deposits can greatly reduce deposit withdrawals or cause growth slowdown. As integration in global financial flows is growing there is still a large population share that still lack accessibility to bank deposits thus making it hard to establish trust in banks. Additionally the use of bank deposits, bank stability, accessibility and a substitute for occurrence of banking stress or dangers are most notable explanations variable in regression. Even when accounting for the possible leverage effects of outliers the results are usually the same, (Han, *et al.,* 2013).

There is a practical correlation along bank deposits and banking service expansion. Since it's costly to build banking halls in every town, banks opted to increase their service provision through agents. These agents not only influence deposits but agency banking is also influenced by the level of deposits in a certain area. It is expected that banks expand their facilities and service provision by considering factors such as competition, deposit potential, regional income and existence to infrastructure. Thus deposits can also be a factor to consider when in need of an agency banking expansion strategy. By creating greater access to financial services, agency banking has in turn increased the level of deposits for banks. Providing the 'un-banked' access to safer and cheaper financial services has led to banks recording more deposits than ever before. Equity bank attributes two thirds of the income from agency banking as a result of deposits and the remainder on withdrawals (Bankelele, 2015).

Cheyech, Kitilit, Bowen & Amata (2016) did a study on The Role of Agency Banking In enhancing Financial Accessibility in Kenya: A Case Study of Langata Constituency. The study finalized that agency banking is a great role player in the convergence of variety banking and non-banking players to provide financial services to all end consumers of financial services. In addition, it increases the number of access points that provide financial services. The level of utilization of agency banking was high. It was revealed that an agency unit served above 200 clients a month. It is therefore clear that the agencies serve quite a good number of clients with most of the agencies serving more than 100 clients a month.

Afande and Mbugua, (2015) researched on specific duties of agent banking products and services in improvement of financial inclusion in Nyeri town. The study has established that agent banking had brought services closer to the people through agent banking. The researcher

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at the end brings out the statement that the strongest predictor of financial inclusion is greater geographical and regional penetration brought about by agent banking. This is because the services are brought proximitically nearer to the people and thus saves a lot of time which in turn could be used to making long queue in banking institutions or ATMs. The strongest evidence to this effect is the fact that customers were ready to forego the extra charges at a retail agent banking outlets to have their banking requirements sorted. It is the conclusion of the researcher that as far as financial inclusion is involved retail agent banking model is a success.

A percentage of an industry or market's total sales or percentage that is occupied by a particular company over a specified time period is the market share. Many firms seek to raise their sales relative to competitors in the market thus associating market share with profitability. Calculation of Market share is achieved by noting the company's sales over the period of operation and dividing it by the cumulative total sales of the industry over the same period. This system of measurement is used to give a more general view of the size of a company as at according to its market and its competitors. An increase in market share allows a company to reach a greater scale in its operations and increase profitability. Companies and industries are always focusing to increasing their share of the market, in addition to efforts of growing the percentage of the total market by enhancing to larger demographics, reducing prices and marketing through advertising.

Entrepreneurs often look at market share trends that either increases or decreases carefully since they could inform on relative competitiveness of the company's products or services in the market population. As the overall size of the market of a product or service increase, a company holding constant its market share is likely to growing revenues at the equal rate as the total market share. A company that is expanding its market share will also be increasing its revenues rapidly as compared to its competitors. Additionally, under the presumption that firms will acquire a larger market share and increase their profitability due to their greater efficiency thus the market share is considered as a profitability determinant. A larger market share also means there will be more power to the bank in controlling the prices and rates of services it offers to the customers. Heggested & Mongo (1976) discovered that the more the market share, the greater it for a bank’s control over its prices and the services it offers to customers. Heggested (1977) and Mullineaux (1978), however, noticed that market share had an unfavourable relationship with profitability.

Short (1979) was convicted that some banks may forego current profits by developing at a faster rate or expanding their market share with the intention of yielding more profits in the future. He used the increase of assets rate as a representation for measuring the effect of market share on profitability and noticed that growth and expanding of assets did not have a

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outstanding effect on profit. Smirlock (1985) not only was he convinced that market share had an effect on profitability but also that development in the market created more chances for a bank and thus earning more profits. His discovery indicated that growth had a remarkably positive relationship with profits. Larger banks have a larger share of their income in terms of non-interest income (Huizinga, 2012). The market share will give the bank size. This comprises of net asset deposits, capital, number of loan accounts and number of deposits.

Essentially, the financial institutions should shift their attention away from the singular obsession with perfection of recent years, and refocus their gaze to revenue growth and increase, market share, and put back in the center of focus the very stream of that revenue: the customer. The consumers marketplace is continuing to segment into smaller subsections of requirement and behaviors, which is influencing the way banks and other financial institutions advertise their products and services Drawing new customer segments and region as a potential source of additional revenue streams would mostly reduce, but ensure secure income regions with retired people and public institutions employees (e.g. teachers) as potential arranged groups for cheaper and low volume loan products (cash loan, credit card) that increase the revenues streams of the financial institution (Ruttoh, 2013).

Muriungi (2012), reports that through associations with different businesses throughout the country, financial institutions will take their services nearer to the areas populated with potentially low and reduced number of transactions. This in will after all lead to an improved and increase number customer base and thus the market share would increase its coverage with low cost solution, increased levels of revenue from improved indirect efficiency by reducing long queus in existing branches. According to the Central Bank yearly Supervision report of (2006), job opportunities in the banking segments increased by 23 percent. The report recognizes the quality because of the increase of the institutions branch network and increased the volume of business transactions. Agency banking has driven an increase in financial service which penetrated to local and rural areas that have led to increase in market share for financial institutions using agency banking.

Applications are set up in the mobile devices to provide for the agents to transact through data sending to the central processing center where the information is recorded and data reconciled to rhyme. Therefore branding the outlets is the only cost to be incurred by financial institutions. The financial institution reduces costs in terms of advertising and employing sales personnel. This is the specific performance of the agent as he is paid a commission according to the extent of transactions and accounts created therefore the agent strives to ensure there is enough traffic in his outlet to allow him earn more commission (Watiri,

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2013). This in turn will ensure an increased client base and therefore the market share, widened coverage with low cost expenses, resulting in realization of revenue through improved indirect productivity by minimizing congestion and reducing queues in existing branches. Customers will in turn benefit from agency services since the cost of travelling distances has been reduced considerably with the service being at close proximity.

METHODOLOGY

Research Design

This study was the descriptive case study design. This research design facilitates gathering of data at a particular point time with an idea of describing the nature of the available conditions, recognizing the standards based on the conditions compared and determined through relationship between specific event, (Cooper & Schindler, 2003; Orodho, 2005). Descriptive research design gives the study more external validity more generalizable results to a big population. The descriptive research method was appropriate because of the fact that it facilitates analysis and relation of variables.

Target Population

According to Mugenda and Mugenda (1999), population refers to the entire group of individuals, units, events or objects which share common observable features which the study intends to generalize its results. Ngechu (2004) noted that target population comprises of well-defined set of individuals, services, elements, event being investigated. This particular study targeted all the 88 Equity Bank Employees in Kisii, Nyamira and Keroka Branches.

Sample Design

Gay (1992) argued that sampling involves the process of selecting some individuals for a given study in a way that the selected individuals represent the entire group from which the sample is selected. With a target population of 88, the study used a census

Data Collection and Instrumentation

Data collection entailed formulation of data collection instruments, confirming their validity, reliability and other ethical considerations. The research instruments are tools used to collect information from the intended target population. The researcher developed the research instruments used. The study used questionnaire to collect data. The questionnaire comprised of questions that answer questions related to the study objectives.

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Validity and Reliability of Research Instruments

Before administration, the questionnaires were pretested to facilitate clarity and validity of the research instrument. Validity refers to the level to which the research instrument measures the right questions in terms of accuracy (Mugenda & Mugenda, 2003). To measure the validity of the research instrument, the researcher pre-tested the questionnaires on ten respondents who were finally excluded from the study to test research instruments. This ensured face validity.

Reliability of an instrument is the extent to which the research instruments offer regular results or data after repetitive attempts (Mugenda & Mugenda, 2003). To ensure reliability, the researcher used Cronbach's alpha which was found to be 0.8. The instrument was therefore found to be reliable.

Data Analysis

The data collected was cleaned, coded, tabulated, translated into specific categories, record them appropriately and computing them using appropriate statistical techniques. Reliability and validity were tested using Cronbach's alpha.

In this study, descriptive and inferential statistical techniques were used. Descriptive statistics included the mean, standard deviation and correlation analysis. Inferential statistics included regression analysis. To establish the influence of agency banking on customer satisfaction in equity bank in Kisii County the study adopted the use of multivariate regression analysis was done on the data collected.

The model took the following structure;

$$Y= \beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\varepsilon$$

Where;

Y= Financial performance

β_0 = Constant

X_1 = Accessibility of Bank Services

X_2 = Transaction Cost

X_3= Market Share

β_n= coefficients to be determined while,

ε = error term.

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RESULTS AND DISCUSSION

The information about the response rate is shown in Table 1 below.

Table 1: Response Rate

Respondents' Response	Frequency	Percentage
Responded	78	88.63
Did not respond	10	11.37
Sample size	88	100

The response rate refers to percentage of the sample that returns the questionnaires completed (Bryman and Bell, 2007). The study targeted 88 respondents; 33 bank staff and 57 agents of Equity bank in Kisii County. From the study, 78 of the targeted respondents filled the questionnaires making a response rate of 88.63%. Mugenda & Mugenda (2003) observed that a 50% response rate is adequate, 60% good and above, while 70% is rated very well.

Table 2: Correlation

Pearson Correlation	Financial Performance	Accessibility	Cost	Market share
Financial Performance	1.000			
Accessibility	.745	1.000		
Cost	.823	.889	1.000	
Market share	.761	.932	.943	1.000

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

Table 2 shows that financial performance has a 0.745 correlation with access to financial services, 0.823 correlations with cost of providing the service, and 0.761 correlations with market share. The correlations are strong for all the independent variables meaning an increase in access to banking services, reduction on the cost of providing financial services and increase in market share translated to increased financial performance of Equity bank.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.551[a]	.304	.294	.909

a. Predictors: (Constant), M3 Marketshare, M2 Transaction Cost, M1 Accessibility

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The Adjusted R^2 is the coefficient of determination that tells us the variation in the dependent variable due to changes in the independent variable. The value of adjusted R^2 was 30.4% indicating the variability of financial performance caused by its relationship to agency banking in Equity bank. R is the correlation coefficient that shows the relationship between the study variables. From the findings, there was a positive relationship between the study variables as shown by R= 0.551 which is agency banking and financial performance.

Table 4: Regression Model

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.891	.376		5.032	.000
	M1 Accessibility	.290	.514	-.022	.0537	.000
	M2 Trans. Cost	.130	.538	-.173	.242	.000
	M3 Marketshare	.169	.625	.114	.270	.000

a. Dependent Variable: B8: Financial Performance

From the table 4, the regression model of the relationship between agency banking and financial performance was $Y= 1.891+0.290X_1+0.130X_2+0.169X_{3.}$

The Y-intercept was 1.891 meaning that if accessibility, cost of offering the service and market share were not influenced financial performance will be affected by 1.891. Accessibility of financial services through agency banking accounts for 0.290 of financial performance, while cost of providing the service accounts 0.130 of financial performance, market share accounts for 0.169 of financial performance. The t-vales of the variable – accessibility, cost and market share – are less than 2. This implies that whereas the agency model affects financial performance of Equity bank, the effect in not significant.

SUMMARY OF THE FINDINGS

The study found out that agency baking enables equity bank increase access of their financial services to people closer to where they are for an extended period including early mornings, late evenings, weekends and public holidays. Due to increased access, people can open and run accounts and are enticed to transact quite often even with low values. That there is little or no documentation; even the illiterate can operate bank accounts. Because there are many agents, when is closed the customers can still access the service form the next available agent. Resultantly, More access to banking services translates to more customers, more transaction and more profit.

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Through Banking agency model has, banks have lowered the high initial cost of setting up uneconomical branch in remote areas. Further, fixed cost, operational costs and transactional cost have also been reduced. As a result, the savings experienced is passed to customers. Moreover, agency banking accommodates well the huge volumes of transaction with low values that cannot warrant opening of a brick and mortar branch. Low cost of provision of financial services attracts more customers hence more profits.

More access of financial services couples with low cost of providing the services encourage more people to have accounts with Equity bank and are further, encourage to transact on them. In the process low income earners san save and offer the bank money to lend and they can also borrow to earn the bank interest. More customer give the banks its size and the power to control prices and services it offers to customers. A large and growing market share enables a bank to grow its revenues faster.

CONCLUSIONS

From the study findings, it can be concluded that:

Increasing access of financial services to customers entices them to use them, by opening and running accounts. This is true more too remote low-income earners who are financially excluded. More, access, more use leads to better financial performance of the bank Agency bank has enabled equity bank not to incur the high initial cost of setting up of a brick and mortar branch, further, the operational and transactional cost are also greatly reduced. This lowers the cost of providing the service and when the same is passed to the customers in terms of low cost of getting financial services, more transactions are realized translating to more profits.

Market share influences financial performance of equity bank because the more the customers the more the transaction of savings and lending which lead to more revenues generated. The study concludes that increase in the number of agents of commercial banks lead to an increase in the financial performance of commercial banks hence there is a positive relationship between number of agents and financial performance. This is because as agency banking grows, the level of financial inclusion is also growing proportionately hence increasing profitability. The study also concludes that there is a positive relationship between cash deposits, volume of deposits, volume of withdraws and financial performance, this is because as the number of agents through agency banking grows there is increased number of transactions facilitated by bank agents. This is largely attribute to increases in transactions relating to payment of bills, mini statement requests, cash withdrawals and cash deposits which in turn improves profitability of commercial banks.

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However, the above conclusions should be evaluated from the point of view of the following limitations:

(i) That the study used a case study of only one bank and its two branches in Nyamira and Keroka. This implies that other equally important financial institutions such as Saccos were excluded from the study.

(ii) The study was only limited to three agency banking constructs. Other agency banking constructs were therefore not factored.

The above limitations therefore limit the generalization of findings of the study.

RECOMMENDATIONS

Based on the findings, this study makes the following recommendations:

The study recommends that; commercial banks should be encouraged to embrace agency banking through adoption of improved technology. This will increase volume of transactions and bank size which will lead to financial performance. Security enhances accessibility and operation of agents' banks; the government of Kenya should thus improve security to enhance operation of the agents' bank. This will enable commercial banks in Kenya increase the number of agents. This can be done by reducing the requirements of becoming a bank agent. Commercial banks in Kenya should improve customers' perception by making more advertisements and increase promotion activities of agent's banking. By doing this the number of transactions made by customers will increase. 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. The government should support the program of operation of agency banking. This can be done by reducing the high compliance costs, bureaucracy in registration and high cost of taxation. This will increase the number of transaction by the banks hence profitability.

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