EFFECT OF AGENCY BANKING ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN ISIOLO COUNTY, KENYA

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DECLARATION AND RECOMMENDATION

Declaration

I declare this thesis is my original work that has never been presented in any other university for award of any degree.

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Recommendation

This thesis has been approved by the university supervisors for the examination purposes.

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DEDICATION

I dedicate this thesis to my husband Guyo Bonaya, my father Abdi Dulacha and my mother Zeinab Hassan for being my pillars of strength.

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ABSTRACT

Commercial banks authorised for commercial purpose are the super focal empowering the economy. Therefore, the performance of agency banking stabilises the commitment of banks to the country's economic development. However, the financial performance of commercials banks in Kenya was noted to decline in 2023 partly caused by decreased agency banking transactions from Kshs 158.4 million to Kshs 145.3 million in 2022 and 2023 respectively. The purpose of the study was therefore to examine the effect of agency banking on the financial performance of commercial banks in Isiolo County, Kenya. The specific objectives were to explore the effect of agency convenience, agency cost, quality of agent services, and agency compliance on financial performance of commercial banks in Isiolo County, Kenya. The study was guided by diffusion of innovation theory, transaction cost economics theory, network effects theory and principal-agent theory. A mixed designs comprising descriptive, qualitative and quantitative were used, targeting Cooperative Bank, KCB, and Equity Bank, which control over 90% of authorized banking agents in the region. The target population included 102 staff in Equity bank, 123 staff in Cooperative bank, and 80 staff in KCB bank, which was a total of 305 banks. The study adopted the Yamane's formula (1967) to result to a sample size of 58 staff in Equity bank, 70 staff in Cooperative bank, and 45 staff in KCB bank, which was a total of 173 staff. Stratified sampling was applied to select respondents from the finance and accounts departments of these banks. Data were collected via structured questionnaires and supplemented with secondary financial data. The pilot research used a sample size of 10% for this investigation, with 17 respondents randomly selected to fill out the survey in Meru County. To ensure the data was reliable, Cronbach's alpha was applied, which measures internal consistency. The questionnaires included in this study underwent a validation process to guarantee their content and face validity, as well as to gauge their overall quality. The results were presented using Tables and explanations. The study found out that the correlation for agency cost was $r = 0.751$, $p < 0.01$; correlation for agency cost was $r = 0.702$, $p < 0.01$; correlation for quality of agent services was $r = 0.655$, $p < 0.01$; and correlation for agency compliance was $r = 0.774$, $p < 0.01$ with financial performance. Therefore, the conclusion on agency convenience some of the agency banking services were noted not to be user friendly which hampered a lot of the clients from subscribing to them. On the agency costs, the operational costs associated to installation and maintenance of IT, compliance with banking regulations and staffing the agencies to suit the needs of the bank were high. On the quality of agent services, the study noted that most of agency banking had average standards to low standards as compared to what the branch banking was offering. On regulatory compliance, conclude that it stood out as the most critical factor influencing financial performance. The study's recommendations on agency convenience are that bank managers should prioritize the convenience of agency services. This can be achieved by expanding the network of agents to ensure that services are accessible anywhere. On agency cost are that operations supervisors should consider focusing on implementing more efficient operational processes. On quality of agent services are that the senior management should develop a policy structure that ensures ongoing training programs for agents to equip them with exceptional service skills. On adherence to agency compliance are that the branch managers should foster a culture of compliance within the organization, emphasizing the importance of ethical practices and regular training on regulatory updates.

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ABBREVIATIONS AND ACRONYMS

AML	Anti-money laundering
CBA	Commercial Bank of Africa
CBE	Commercial Bank of Ethiopia
CBK	Central Bank of Kenya
CBRC	China Banking Regulatory Commission
DTB	Diamond Trust Bank
KCB	Kenya Commercial Bank
MFI	Microfinance Institutions
NACOSTI	National Commission for Science, Technology and Innovation
PAT	Principal-Agent Theory
ROA	Return on Assets
ROE	Return on Equity
TCE	Transaction Cost Economics

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

1.1.1 Financial Performance

Financial performance is the ability of a commercial bank to maximise shareholder's wealth through the available financial and non-financial resources (CBK, 2023a). In this study, financial performance will be measured through transaction volume, transaction value, customer base and number of licensed agents (CBK, 2023a). The transaction volume includes the number of times the bank's customers have used specific banking service through operations related to exchange of money (Kambua, 2021). Transaction value is the amount of monetary value attached to the transactions that customers have engaged in within a particular timeframe (Sporta & Muganda, 2021).

Customer base is the total number of clients that have subscribed to a certain product or service and directly benefit from the banking operations (Emmanuel, 2020). Number of licensed agents are authorised small sublets affiliated with commercial banks and which provide similar products and services such as the main commercial banks (Kacuucu, 2023). The purpose of the agent is to provide similar banking services but at a smaller scale to ease huge human traffic at the main bank and hence customers are not required to visit physical banking halls to transact. Commercial banks globally, regionally and locally have been establishing business models that seek to enhance their financial performance. Nevertheless, as they are doing so, it has attracted several challenges.

Globally American commercial banks in Texas have experienced weaknesses related to low training on banking staff (Texas Department of Banking, 2024). This therefore has caused poor customer service and overall operational lapses that leads to loss of commercial bank's funds. In Canada, there have been increased insecurity concerns due to fraud and conflict of interest of its staff (Afjal et al., 2023). The officers entrusted to offer supportive banking services have failed to fully represent the interests of the principal bank. As a result, increment of service charge and direct involvement in fraud have reduced the income of the banks.

In United Kingdom, commercial banks have also experienced tough competition from other financial institutions who have been offering similar banking services (Muzzupappa, 2024). In Singapore, the financial performance of the commercial banks has declined due to continuous banking network failures delaying the customer's money when due (Wang et al., 2021). This affects the trust that banking clients have on them leading to withdrawal of services hence lower number of clients is experienced.

Regionally, commercial banks in a nation like South Africa have undergone operational inefficacies partly due to poor implementation plan on banking services and poor training needs of various staff (World Bank, 2023). In West Africa, commercial banks in Nigeria have experienced tough government regulations which have put restrictions on their scope of operations, recruitment and general financial decision-making process (Kasie & Sarah, 2023).

In East Africa, inability to transact huge transactions in commercial banks of Rwanda have caused a stagnation to their performance (Rukundo, 2020). This is due to the fact that the government is excessively regulating banks not to be used as institutions that fund internal

tribal wars. A direct consequence has been wasted potential of commercial banks from making huge profits. In Tanzania, inflation has caused a marginal decline of profits derived from banking operations (Mkaro et al., 2023).

Locally, commercial banks have experienced losses due to poor risk assessment practices. Failure to acknowledge that there is a risk has caused some of the banks lose money and other lose credibility among customers (Njoroge, 2021). Previously, Kenya has witnessed sudden collapse of banks such as Chase Bank, Dubai Bank, and Imperial Bank due to poor performances and less effective management (Waswa, 2024). Further, commercial banks have also experienced increased transaction failures due to network concerns needed to run banking services successfully. Furthermore, recently, the government has raised the bar of transaction that are supposed to be declared from $10,000 to $15,000 (CBK, 2023b). This has created an opportunity for money laundering hence affecting the operations of the commercial banks.

According to Kambua (2021), other commercial banks have experienced limited infrastructure that can adequately support stable banking while other suffer from low number of customers due to poor sustainability measures. There has been poor customer service as compared to other financial institutions offering similar financial services mainstream banks, resulting to increased avoidance behaviour by the customers who opt to use other services such as mobile and online banking. To remain competitive, commercial banks have been embracing agency banking as one of its primary features. Because of this, several banks, including those in the developing world, have grown their operations and become more stable (Gurisha, 2023).

Financial institutions are always looking for new ways to streamline their operations and make them more efficient and user-friendly for their customers (Melese, 2020). Thus, banks have developed tactics to attract new clients and keep existing ones as they migrate from traditional branch banking to agency banking (Kimathi, 2012). Adopting agency banking is a response to the need to save operational and administrative expenses. Because of this, competition in the banking industry has heated up, making the shift to agency banking a must for any bank that wants to survive (Batae et al., 2021).

1.1.2 Agency Banking

Agency banking is the ability of a commercial bank acting as a principal agent to entrust designated staff called agents, to offer deposit and withdrawal banking services on its behalf. Dzapasi (2020) adds that agency banking services are services offered to clients by agents contracted under a legitimate agency arrangement, as opposed to a teller or cashier. This study examined four factors of agency banking such as agency convenience, agency cost, quality of agent services and agency compliance.

Agency convenience refers to the ease provided to customers by agency banking by offering services closer to where customers live or work (Paais & Pattiruhu, 2020). Agency banking provides a variety of services, including account opening, cash transfers, compensation and settlement assortments and distributions, outsider bill instalment, and withdrawals of funds (Ongongo & Mang'ana, 2022). This is seen as a step towards increasing efficiency and reducing huge number of staff that come to the bank to deposit, withdrawal or get consultation on other banking services. As time progresses, agency banking has expanded from offering only the most basic services to providing clients with

access to every feature of a full-service bank, including some not available in physical branches (Sporta & Muganda, 2021).

Agency cost is defined as the expenses incurred by a financial institution when delegating banking services to another entity, typically in remote areas (Sonia & Khafid, 2020). Banks favour agency banking because it provides cost effective service since it allows the bank to set up shop in places it wouldn't have otherwise been able to afford hence attracting the unbanked (Owiredu & Kwakye, 2020). The assurance of reduced expenses expanded consumer reach, and enhanced sales efficiency. New entrants are challenging more established firms by capitalizing on technological advancements and more cost-effective delivery methods, attracted by the ease of agency banking services (Namaganda, 2020).

Quality of agent services includes the standard and effectiveness of services provided by agents acting on behalf of a commercial bank to facilitate various banking transactions (Kimutai, 2022). The operations of commercial banks authorised for commercial purpose, are guided by their business strategies, operational policies, and regulatory requirements. These banks deploy sophisticated banking systems and technologies to manage their agency banking operations efficiently, enhance customer experience, and ensure compliance with regulatory standards (Musau & Jagongo, 2015). Core banking operations include deposit mobilization, funds transfer, payment processing, risk management, regulatory reporting, and customer service delivery (Kori et al., 2020).

Agency compliance is defined as adherence to government guidelines that direct agency banking (Dzapasi, 2020). Regulation of banks authorised for commercial purposes fall under the purview of the central bank, which is a country's primary regulatory authority

for the banking sector. Central banks oversee and supervise commercial banks to ensure financial stability, soundness, and compliance with agency banking’s regulatory requirements (Moyo & Tursoy, 2020). These regulations cover aspects such as capital adequacy, liquidity management, risk management, corporate governance, consumer protection, and anti-money laundering measures (Kaimu & Muba, 2021).

1.1.4 Commercial Banks in Kenya

According to Kaimu and Muba (2021), Kenyan banks that are authorised for commercial purposes are crucial to the country's economy because they act as middlemen between savers and borrowers, encouraging growth and providing assistance to different parts of the economy. Local and multinational commercial banks alike make their homes in Kenya's banking sector. Commercial banks in Kenya engage in a wide range of banking activities, including deposit-taking, lending, trade finance, treasury operations, foreign exchange services, and electronic banking (Ngaruiya et al., 2022). They offer different financial items and administrations to people, organizations, government entities, and other institutions, tailored to meet diverse customer needs and preferences (Kaimu & Muba, 2021). Typical banking services provided by commercial banks in Kenya include current accounts, savings accounts, fixed deposits, personal loans, mortgages, business loans, credit cards, overdraft facilities, trade finance solutions, cash management services, and wealth management services (Mbugua, 2015).

However, due of the limited level of adoption among target clients, many Kenyan banks already adopted to agency banking have not fully realized their profits (Ogum & Jagongo, 2022). The majority of Kenya's agency banking transactions originate from just three banks; KCB Bank, Equity Bank, and Cooperative Bank and these three account for more

than 70% of the sub-sector (CBK, 2023a). This is indicative of the widespread and inadequate performance of this banking model in the industry. Nakanwagi (2023) states that the impact of agency banking is gauged by looking at how efficient, effective, and significant it is towards performance.

Kenya banks likewise assume a functioning part in supporting monetary consideration drives and elevating admittance to banking administrations among underserved and minimized sections of the population (Nderitu, 2023). According to Natufe and Evbayiro-Osagie (2023), they collaborate with the government, development agencies, and other stakeholders to broaden their reach, introduce novel financial products and services, and improve financial education and literacy. Drives, for example, organization banking, portable banking and advanced instalments have added to expanding monetary access and consideration in both metropolitan and country areas of Kenya, engaging people and organizations to take part more effectively in the formal monetary framework (Otieno, 2016).

1.1.5 Commercial Banks in Isiolo County

Isiolo is an iconic county in Kenya's upper Eastern region occupying an area of 25,3367KM^2 (Isiolo County Government [ICG], 2023). The neighbours of the county include Marsabit, Wajir, Garissa, Tana River, Meru, Laikipia and Samburu counties which are located in the north, east, south-west, south, south-west, west and north-west respectively. There are several banks that offer financial services to the county which include Absa bank, Consolidated bank, Co-op bank, Equity bank, First Community Bank, KCB, National Bank, Post Bank, Sidian Bank (ICG, 2023). The presence of these banks

has facilitated easier deposit and withdraw of money to support various economic activities that spur across the county.

Precisely, commercials banks such as Equity, KCB, Cooperative bank which are considered as big banks have become vibrant towards boosting the income generating organizations. Isiolo county has been able to successfully support full operations of international airport due to presence of banks such as Equity, KCB, Cooperative bank that allow foreign exchange transactions, deposit and withdrawal services. Apart from that, Isiolo being part of a host of Lamu Port, Southern Sudan Ethiopia Transport [LAPSET] corridor project, has enabled long distance drivers to access their finances easily through the agency banking operations.

A bank such as KCB has experienced massive profits of 37.5 billion in 2023 as a result of increased agency banking from 21,480 in 2022 to 25,094 outlets in 2023 (Kenya Commercial Bank [KCB], 2023). Among these outlets, Isiolo County has become a great beneficiary due to the airport and LAPSET corridor. Cooperative bank has also stood out in offering access to cash to residents through the 484 FOSA outlets that have provided financial access to over 15 million people, mostly in rural areas such as interior parts of Isiolo County.

However, regardless of the impact that agency banking has made particularly in the context of the three big banks, the poverty rates in Isiolo County are extremely high with 72% (National Information Platform for Food Security and Nutrition [NIPFSN], 2019). Therefore, the study will examine the effect of agency banking on financial performance

of commercial banks in Isiolo County with an inclination of Equity bank, KCB, Cooperative bank.

1.2 Statement of the Problem

Commercial banks play a crucial role in accepting deposits, withdrawals, encouraging savings and investments to improve financial performance (CBK, 2023a). Therefore, dispensing these services may prove less efficient particularly when high number of banking clients are required to access them in the main stream banking halls (Ongongo & Mang'ana, 2022). To avoid these, various financial strategies such as agency banking should be adopted to enhance convenience, reduce operational costs, and promote more compliance to regulations among the banking staff. In the long run, this would promote increased financial performance in the commercial banks.

However, the financial performance of commercials banks declined from Kshs 240.4 billion in 2022 to Kshs 219.2 billion in 2023, signifying a decline of 8.8% (CBK, 2023a). This decline in profitability was partially caused by decreased agency banking transactions from Kshs 158.4 million to Kshs 145.3 million in 2022 and 2023 respectively (CBK, 2023a). Some of agent services related to deposits and withdrawals were noted to decreased. According to CBK (2023a), cash deposits declined from Kshs 74,460,575 in 2022 to Kshs 69,429,982 in 2023. Additionally, the number of withdrawals declined from Kshs 43,731,268 in 2022 to Kshs 39,172,763 in 2023. Other challenges witnessed included despite the increased agency operations costs, poor agency compliance and convenience.

According to Kambua (2021), over 92% of the growth in agency banking transactions, which increased from 139.8 million in 2017 to 158.4 million in 2022, came from three

banks: equity, KCB, and cooperative banks (CBK, 2022). Notably, agency banking has been stagnant in more than 80% of the banks, in spite of the specialists having developed from 53,833 outlets in 2017 to 87,531 in 2023. Therefore, a gap arises on whether the declined profitability and agency related transactions may be as a result of slow adoption of agency banking to all banks.

Most literature reviewed the relationship between agency banking and performance of commercial banking. For instance, Wairimu (2020) investigated how Kenyan banks were able to improve their performance due to banking transactions related to agencies Ndirangu and Kimani (2022) assessed how Kenya's banks registered as microfinance were ablet to enhance their performance as a result of agency banking. Mbugua (2021) analysed how Kenyan banks authorised to offer commercial services were able to boost their performance as a result of innovative products implementation.

Mwasakabeto (2020) examined how banks authorised to offer commercial services were able to improve their performance due to banking made through the agencies. Otigo and Muturi (2020) explored how Kenya's banks authorised to offer commercial services were able to enhance the costs of operations through agency banking. Njoroge (2021) assessed how Kenya was able to bolster its financial inclusion through the implementation of banking done by agencies. Mwangi and Kalui (2022) examined how Kenya's banks authorised to offer commercial services were able to strengthen their performance through considering agency banking. This study therefore seeks to examine the effect of agency banking on financial performance of commercial banks in Isiolo County, Kenya.

1.3 Purpose of the Study

To establish the effect of agency banking on financial performance of commercial banks in Isiolo County, Kenya

1.4 Specific Objectives

The specific objectives included:

i. To determine the effect of agency convenience on financial performance of commercial banks in Isiolo County, Kenya.

ii. To examine the effect of agency cost on financial performance of commercial banks in Isiolo County, Kenya.

iii. To assess the effect of quality of agent services on financial performance of commercial banks in Isiolo County, Kenya.

iv. To examine the effect of agency compliance on financial performance of commercial banks in Isiolo County, Kenya.

1.5 Research Hypothesis

The study was guided by the following hypotheses.

H_{01}: Agency convenience has no significant effect on financial performance of commercial banks in Isiolo County, Kenya.

H_{02}: Agency cost has no significant effect on financial performance of commercial banks in Isiolo County, Kenya.

H_{03}: Quality of agent services have no significant effect on financial performance of commercial banks in Isiolo County, Kenya.

H_{04}: Agency compliance has no significant effect on financial performance of commercial banks in Isiolo County, Kenya.

1.6 Significance of the Study

The study determined the effect of agency banking on the financial performance of commercial banks in Isiolo County. The findings from the study were of significance to a number of parties as herein discussed;

1.6.1 Financial Institutions

Banks and other financial institutions will use the survey to gauge how well they are doing in terms of agency banking and how profitable they are. Another benefit is that it will let banks who haven't tried agency banking yet see the huge effect it may have on their bottom line, which should help them decide whether or not to use this strategy.

1.6.2 Policy Makers

The results of this study would be useful for government policymakers, particularly the central bank, who are trying to decrease the overall performance of banks by reducing laws and policies that impact agent performance, such as float limitations.

1.6.3 Researchers and Academicians

This research will add to what is already known about commercial banks, agency banking, and the effects of both on bank performance. Therefore, this will boost the amount of reference materials available to scholars and researchers in the future. They may utilize the findings to bolster their own studies and also pinpoint any holes in their study that need to be filled.

1.7 Scope of the Study

This research looked into Isiolo’s commercial banks to examine how agency banking had affected their ability to improve their financial performance. Cooperative Bank, Equity Bank, and KCB Bank constituted the target population. Since these three banks accounted

for the vast majority of the country's agency banking transactions and controlled more than 70% of the sub-sector, they were the obvious option. The target population of the study were three banks (Cooperative Bank, KCB, and Equity Bank) operating in Isiolo County. This was because they controlled over 90 percent of the approved bank agents. The unit of observation was the staff from the finance and accounts department derived from branches situated in Isiolo County. The study's goals, which detailed the factors to be examined, also served to limit the scope. The study ran from June 2024 until November 2024.

1.8 Limitation of the Study

The confidentiality policy of the banks limited a few examined respondents from filling in the questionnaire because of the fear of uncovering the organizations' confidential data. This was moderated by guaranteeing the respondents the very pinnacle of privacy and obscurity of the data they gave. In order to avoid suspicion and permit respondents to disclose the requested information, an introduction letter from the university and a research permit from the NACOSTI were presented to the management of the banks. Due to misunderstandings regarding certain issues, some respondents might not have been willing to complete the questionnaire correctly. This was relieved by explaining issues that were not handily perceived by respondents. Inadequate responses to the study's questions and unanticipated events, such as respondents leaving before the questionnaire was completed, could also have occurred. Throughout the survey period, constant reminders and revisits to respondents mitigated these obstacles.

1.9 Assumptions of the Study

The study presupposed a stable regulatory environment governing agency banking practices throughout the study period and relied on the accuracy and reliability of financial data obtained from Kenya's banks authorised for commercial services. Additionally, it assumed that the sample of commercial banks selected for the study was representative of the broader industry and that agency banking practices across these banks were relatively homogeneous. Economic stability and the absence of significant external shocks were also assumed, as well as stability in customer behaviour towards agency banking. Furthermore, the study assumed no concurrent strategic changes within commercial banks that could confound the connection between agency banking and financial performance, and it relied on the availability and accessibility of sufficient data for analysis. Finally, the assumption of no endogeneity was made, implying that agency banking was not influenced by unobserved factors that also affected financial performance, or vice versa.

1.10 Operational Definition of Terms

Agency Banking: Banking services offered to clients by agents contracted under a legitimate agency arrangement, as opposed to a teller or cashier (CBK, 2023).

Agency compliance: Adherence to government guidelines that direct agency banking (Dzapasi, 2020).

Agency Convenience: The convenience provided to customers by agency banking by offering services closer to where customers live or work (Paais & Pattiruhu, 2020).

Agency Cost: The expenses incurred by a financial institution when delegating banking services to another entity, typically in remote areas (Sonia & Khafid, 2020).

Quality of Agent Services The standard and effectiveness of services provided by agents acting on behalf of a commercial bank to facilitate various banking transactions (Kimutai, 2022).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covered theoretical framework, conceptual framework, empirical literature review and explanation of variables.

2.2 Theoretical Review

The theories that were addressed in this section were the diffusion of innovation theory, transaction cost economics theory, network effects theory and principal-agent theory.

2.2.1 The Diffusion of Innovation Theory

In 1962, Everett Rogers put up the Diffusion of Innovations theory, which provides a thorough framework for comprehending the progressive diffusion of innovations across social systems (Lozano & Mandrile, 2010). This theory was particularly pertinent in the context of agency convenience and its relation to agency banking in Kenya. Agency banking offers customers convenient access to banking services through offering a significant innovation in the financial services sector via third-party agents located closer to their communities (Kamya, 2022). By applying the Diffusion of Innovations theory to this context, we can elucidate how the convenience factor inherent in agency banking contributes to its adoption and diffusion among consumers, ultimately impacting banks' performance (Gurisha, 2023).

At the core of Diffusion of Innovations theory lies the idea of adopters, arranged into trailblazers, early adopters, early larger part, late larger part, and slouches. Innovators and

early adopters are typically the first to embrace an innovation, driven by their openness to new ideas and willingness to take risks (Soetan & Umukoro, 2023). In the case of agency banking, these early adopters are likely to be individuals who value convenience and are quick to recognize the benefits of accessing banking services through nearby agents rather than traditional bank branches. These adopters serve as influential catalysts in the diffusion process, as their positive experiences and endorsements encourage others to follow suit (Alam et al., 2020).

The diffusion process is facilitated by various factors, one of the most prominent being the relative advantage of the innovation compared to existing alternatives. In the context of agency convenience, agency banking offers a distinct advantage over traditional banking methods by providing customers with greater accessibility and flexibility in conducting financial transactions (Batae et al., 2021). Customers no longer need to travel long distances to reach bank branches, as agency agents are often located within their local communities, thereby reducing both time and effort expended in accessing banking services. This relative advantage drives the adoption of agency banking among consumers seeking convenient and hassle-free banking experiences (Chamboko et al., 2021).

According to Wijaya et al. (2021), the compatibility of agency banking with existing social norms, values, and practices plays a crucial role in its diffusion. Agency convenience aligns well with the growing reliance on technology and mobile services in Kenya, where the majority of the population has access to mobile phones. By leveraging existing technological infrastructure and consumer behaviors, agency banking seamlessly integrates into the daily lives of Kenyan consumers, further accelerating its adoption and diffusion across different segments of society (Namaganda, 2020).

The observability and trialability of agency banking also contribute to its diffusion process. As consumers witness others successfully utilizing agency banking services and experience its convenience firsthand through trial transactions, they are more inclined to adopt the innovation themselves (Gurisha, 2023). This observational learning and trial-and-error experimentation serve to reduce perceived risks associated with adopting agency banking, thereby encouraging more cautious consumers to embrace the innovation over time (Okoye et al., 2020).

The diffusion of innovations theory offers valuable insights into how the convenience factor inherent in agency banking contributes to its adoption and diffusion among consumers in Kenya. By aligning with consumers' preferences for accessibility, flexibility, and ease of use, agency banking resonates with existing social norms and practices, thereby accelerating its uptake across diverse segments of society. Through the interplay of relative advantage, compatibility, observability, trialability, social networks, and opinion leadership, agency convenience emerges as a important factor in the spread of new ideas throughout the financial services industry.

2.2.2 Transaction Cost Economics (TCE) Theory

Transaction Cost Economics (TCE) theory, initially proposed by Ronald Coase in his seminal work "The Nature of the Firm" in 1937 and further developed by Oliver E. Williamson in the 1970s, offers a strong system for understanding the relationship between transaction costs and agency costs in the context of agency banking. According to TCE, firms exist to minimize transaction costs, which encompass the costs associated with negotiating, monitoring, and enforcing contracts (Sporta & Muganda, 2021). In the case of agency banking, commercial banks face the challenge of expanding their reach to

underserved areas while minimizing the costs of doing so. By engaging third-party agents, banks aim to reduce the transaction costs associated with establishing and maintaining traditional branches, such as real estate expenses, staffing costs, and regulatory compliance. However, the reliance on agents introduces new transaction costs related to monitoring and controlling the behaviour of these agents, which can manifest as agency costs (Kaimu & Muba, 2021).

One way in which TCE relates to agency cost in agency banking is through the concept of asset specificity. Onsongo et al. (2020) argued that when assets are highly specific to a particular transaction or partner, the risks of opportunistic behaviour and hold-up problems increase. In the context of agency banking, banks may invest in specialized training and technology for their agents, making it costly to switch or replace them. This asset specificity creates a dependency on agents, leading to potential agency costs if agents exploit their bargaining power to extract rents from the bank or engage in opportunistic behaviour, such as shirking (Anand & Galetovic, 2006).

TCE highlights the role of transaction frequency in determining the optimal governance structure and associated transaction costs. High-frequency transactions between banks and agents may justify investments in sophisticated governance mechanisms to safeguard against opportunistic behaviour and ensure transactional efficiency (Njoroge, 2021). Conversely, low-frequency transactions may not warrant the same level of investment in governance, leading to higher agency costs due to a lack of effective monitoring and control (Njuguna & Mathuva, 2024). Therefore, the nature and volume of transactions in agency banking influence the trade-off between transaction costs and agency costs and shape the choice of governance mechanisms (Kamande, 2022).

According to Bizah et al. (2017), TCE underscores the importance of considering alternatives to hierarchical governance structures, such as market-based coordination mechanisms or hybrid forms of organization. In agency banking, banks may choose between internalizing agent activities through employment contracts or relying on market-based contracts with independent agents. Each option involves trade-offs in terms of transaction costs and agency costs. Internalization may reduce opportunistic behaviour but increase monitoring costs, while reliance on independent agents may lower monitoring costs but heighten the risks of adverse selection and moral hazard. Thus, banks must carefully evaluate the relative efficiency of different governance structures based on their transaction-specific characteristics and the prevailing institutional environment (Shrestha, 2020).

In conclusion, Transaction Cost Economics provides a comprehensive framework for analysing the relationship between transaction costs and agency costs in agency banking. By examining factors such as asset specificity, governance mechanisms, bounded rationality, environmental uncertainty, transaction frequency, and governance structures, TCE elucidates the complexities involved in minimizing agency costs while maximizing the efficiency of banking operations. Effective management of transaction costs and agency costs is essential for ensuring the sustainability and profitability of agency banking ventures in Kenya and other emerging markets.

2.2.3 Network Effects Theory

Network Effects Theory, initially proposed by Rohlfs (1974) and further developed by economists like Michael L. Katz and Carl Shapiro, offers important bits of knowledge into understanding the relationship between agency access and the financial performance of

commercial banks in the context of agency banking in Kenya (Dianga, 2014). Network effects occur when the worth of a banking product increases as more people use it, creating a positive feedback loop. In the case of agency banking, expanding access to financial services through a network of agents can generate network effects that benefit both customers and banks (Onsongo et al., 2020). As more agents join the network, the convenience and accessibility of banking services improve, attracting more customers and transactions. This increased usage, in turn, can lead to economies of scale, reduced transaction costs, and enhanced financial performance for commercial banks (Odhiambo & Ngaba, 2019).

One way in which Network Effects Theory relates to agency access in agency banking is through the concept of demand-side network effects. As the number of agents offering banking services increases, customers gain easier access to financial services, particularly in underserved areas where traditional bank branches are scarce (Onsongo et al., 2020). This increased accessibility can lead to a surge in demand for banking services, as customers who were previously excluded or underserved now have convenient access to basic financial transactions such as deposits, withdrawals and transfers. As more customers join the network to avail themselves of these services, the overall value of the banking network grows, creating a virtuous cycle of increasing demand and network expansion (Istan & Fahlevi, 2020).

Network Effects Theory emphasizes the role of platform effects in driving network growth and value creation. In agency banking, commercial banks serve as platforms that connect customers with agents who provide banking services on their behalf (Albert & Kung'u, 2018). As the number of agents within the network expands, the platform becomes more

attractive to customers, encouraging greater usage and adoption. This increased activity generates more revenue opportunities for banks through transaction fees, commissions, and interest income, thereby contributing to improved financial performance (Kaweesi, 2023). Additionally, as the platform grows, banks may leverage their increased market presence to introduce new products and services, further enhancing their competitive advantage and revenue streams (Braun, 2018).

Network Effects Theory emphasizes the significance of critical mass in realizing the full benefits of network expansion. In agency banking, achieving a critical mass of agents is essential for driving adoption and usage among customers (Onsongo et al., 2020). Once a certain threshold of agents is reached, the network becomes self-reinforcing, with each new agent adding value to the overall ecosystem. Customers are more likely to join and use the banking network when they perceive it as ubiquitous and reliable, leading to accelerated growth in transaction volumes and revenues for banks. Therefore, banks must focus on rapidly expanding their agent networks to reach critical mass and unlock the full potential of network effects (Szegedi et al., 2020).

According to Onsongo et al. (2020), network effects theory underscores the significance of complementary products and services in enhancing the value proposition of the banking network. In addition to basic banking transactions, commercial banks can offer a range of complementary services such as microloans, insurance products, and utility bill payments through their agent networks. By bundling these services together, banks can create synergies that attract more customers and increase usage, thereby strengthening network effects and driving financial performance. Moreover, offering a diverse portfolio of

services can deepen customer engagement and loyalty, reducing churn and increasing lifetime customer value for banks (Kaimu & Muba, 2021).

In conclusion, Network Effects Theory offers significant bits of knowledge into understanding the elements of agency access and its effect on the monetary performance of Kenyan banks. By leveraging demand-side network effects, platform effects, critical mass dynamics, complementary products and services, winner-takes-all dynamics, and ecosystem partnerships, banks can harness the power of network effects to create value for shareholders and customers alike. As the banking network expands and becomes more interconnected, the positive feedback loops generated by network effects can drive revenue growth, cost efficiencies, and competitive advantages for banks, ultimately contributing to improved financial performance and sustainable growth in the agency banking sector.

2.2.4 Principal-Agent Theory

Principal-Agent Theory, developed by Ross (1973) and further elaborated by Jensen and Meckling (1976). Principal-Agent Theory (PAT) serves as a fundamental framework in understanding the dynamics between principals, who delegate tasks, and agents, who perform these tasks on behalf of principals (Ndungu & Njeru, 2014). This theory has significant implications in the realm of regulatory compliance within commercial banks, particularly in the context of agency banking. Agency banking involves the delegation of banking functions to agents, introducing complexities in ensuring regulatory compliance. By analysing PAT, regulatory compliance, and financial performance in commercial banks, this essay aims to elucidate their interplay and effects (Gurisha, 2023).

PAT, as proposed by Jensen and Meckling (1976), posits that conflicts of interest arise between principals and agents due to differing objectives and information asymmetry. In the context of commercial banks, regulators act as principals, delegating the responsibility of complying with regulations to bank management, who serve as agents. Regulatory compliance involves adhering to laws, regulations, and industry standards, ensuring the stability and integrity of the financial system. However, the agency relationship introduces moral hazard and adverse selection issues, potentially leading to non-compliance (Kipng'etich et al., 2018).

With the advent of agency banking, commercial banks extend their reach by engaging agents to provide banking services in underserved areas. While agency banking enhances financial inclusion and market penetration, it amplifies regulatory compliance challenges (Xi, 2024). Agents operate semi-autonomously, increasing the difficulty of monitoring and ensuring adherence to regulatory requirements. This decentralized structure exacerbates the principal-agent problem, as banks may struggle to align agent actions with regulatory objectives, risking non-compliance (Ouma & Ndede, 2020).

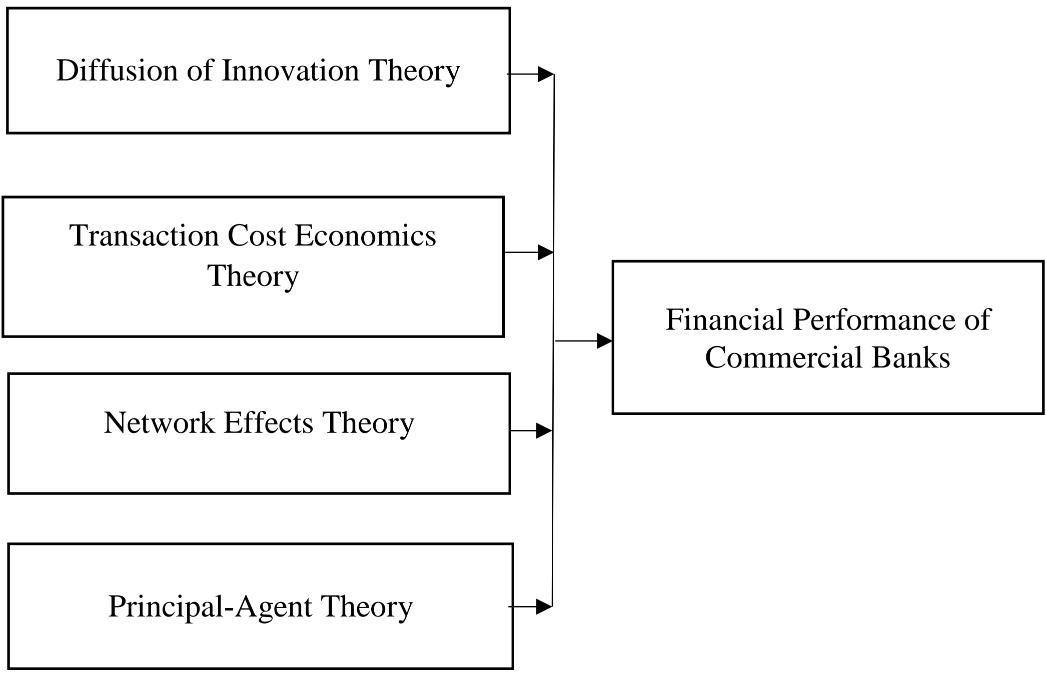
El-Chaarani et al. (2022) posits that effective regulatory compliance is crucial for maintaining the financial stability and reputation of commercial banks. Non-compliance can result in fines, legal repercussions, reputational damage, and loss of customer trust, ultimately impacting financial performance. Studies by Alam et al. (2020) and Okoye et al. (2020) have shown that regulatory compliance positively correlates with financial performance in banks. Conversely, non-compliance leads to increased operational costs, reduced profitability and diminished shareholder value.

To mitigate agency problems and enhance regulatory compliance and financial performance, commercial banks employ various mechanisms. These include executing strong inside control frameworks, directing ordinary reviews, providing incentives aligned with regulatory objectives, and fostering a culture of compliance from top management down (Owusu-Afriyie et al., 2021). Additionally, technology-driven solutions such as real-time monitoring systems and blockchain-based verification can improve transparency and accountability in agency banking operations, reducing the likelihood of non-compliance (Batae et al., 2021).

In conclusion, effective compliance management is imperative for mitigating agency problems and maintaining the trust and stability of the financial system. By aligning incentives, enhancing transparency, and fostering a culture of compliance, banks can navigate the complexities of agency relationships while ensuring adherence to regulatory requirements and optimizing financial performance.

Figure 2.1

Theoretical Framework



Source: Author 2024

2.3 Empirical Review

2.3.1 Financial Performance of Commercial Banks in Kenya

The impact of agency banking on the financial performance of Kenya's commercial banks was determined by Kambua (2021). The research strategy used in this study was descriptive. Fifteen commercial banks that have adopted agency banking made up the population for this study. The research relied on secondary data culled from a variety of sources, including records already in existence, articles published in trade journals, studies written by and for financial institutions, and reports on the supervision of CBK banks. The research period of three years, from 2018 to 2021, included an analysis of the banks' annual reports. The study analysed questionnaire data using quantitative and qualitative

methods. There is a positive correlation between the number of agents and financial success, according to the study, as more agents mean better financial results for commercial banks. Financial performance is positively correlated with cash deposits, deposit volume, and withdrawal volume, according to the study. Based on the study's findings, commercial banks should be pushed to implement better technology and embrace agency banking. This would boost the bank's size and transaction volume, which in turn will enhance its financial performance.

Monica (2016) tried to find out the effect of agency banking on the productivity of banks in Kenya. In particular, spellbinding examination was utilized in this review. Altogether, seventeen of Kenya's business banks that participated in organization banking were completely analysed. The audited financial statements and annual reports of CBK-supervised institutions served as sources for the study's secondary data. The years 2018-2021, comprehensive, were analysed in this review. This study used multiple regression analysis to determine the relationships between financial performance (return on assets), bank size (control variable), and agency banking (number of agents, volume of transactions).

As can be seen above, agency banking has a significant impact on the bottom lines of commercial banks due to the regression model's accurate prediction of the dependent variable. According to the findings of the study, the financial performance of commercial banks improved as the number of agent outlets increased. This proposes a good connection between the two. Monetary execution of business banks is well and profoundly associated with size, amount of money exchanges, and return on resources, as indicated by the

information. All of the review's factors significantly affects the reality of individual business banks.

To better understand how agency banking has helped the unbanked gain access to financial services, Barasa and Mwirigi (2013) set out to examine its advantages and provide some insight into its real performance. A total of 400 respondents participated in the survey, which was distributed throughout 40 registered outlets. Agency banking, according to the research, was a major factor in increasing the penetration of banking products into unbanked regions. The study also found that the agency banking model has helped low-income people understand banking better and has set them up for success with electronic money banking. This is because customers are able to convert their funds to electronic form through the use of bank devices, which plays a crucial role in improving the depth of the financial sector.

The impact of agency banking on the bottom lines of Kenya's commercial banks was studied by Ratemo (2015). Based on agency theory, which states that when one or more people (the principal(s)) hire another (the agent) to do a job for them, the principal(s) entrust the agent with some decision-making power. The study relied on secondary data analysis and a descriptive survey design. The research covered sixteen different commercial banks in Kenya that provided agency banking services. Cash deposits, withdrawals, agent count, and return on equity were all positively correlated in the research. The study found that the volume and complexity of transactions handled by agency banks had increased dramatically. The majority of agents do not know about the additional services that banks provide, as seen by the type of transactions they execute. The study concluded that banks should delegate primary responsibilities to agents, such

as processing loan applications and collecting payments, and that agents should be trained to carry out these additional tasks. Banks should also take precautions to protect their agents so that they can facilitate higher-value and higher-volume transactions.

The impact of agency banking on Rwandan commercial banks' non-financial performance was examined by Rukundo (2022). Descriptive and correlative research methods were both utilized in the study. A total of 43 KCB employees were chosen at random to fill out the surveys, and 5 bank middle managers were interviewed. Descriptive statistics to examine the data and see whether there was a correlation between the study's variables and the efficacy of agency banking. To investigate potential connections between the study's variables, researchers turned to multiple regression analysis.

The study found that agency banking is responsible for 68.2% of the variance in the financial performance of Rwandan commercial banks. There is a high positive link between agency banking and non-financial performance in commercial banks in Rwanda, namely KCB Rwanda, as the ANOVA p-value was determined to be smaller than alpha (5%). A large expansion of KCB's agency banking services to other secondary cities in Rwanda was suggested by the research.

Ombongi (2021) looked at how agency banking affected the bottom lines of Kenyan commercial banks. The study's goal was accomplished through the use of a descriptive research approach. The seventeen Kenyan commercial banks that had implemented the agency banking model by the end of 2020 were the ones intended to be studied. The commercial banks' audited financial statements and the CBK Bank Supervision Annual reports served as secondary sources of data.

Results showed a favourable correlation between ROA, agent volume (cash deposits and withdrawals), and number of agents. Commercial banks' ROA increased in tandem with the growth in agent volume and agent number. In order for agents to be able to provide a wider range of banking services, it was suggested that authorities expand the agency banking framework. The impact of agent banking on the bottom lines of Kenya's commercial banks was the exclusive focus of the research.

2.3.2 Agency Convenience and Financial Performance

In their study of the Kenyan banking sector, Tindi and Bogonko (2017) looked at how agency banking affected customers' happiness. Selected Eldoret local financial institutions that provide agency banking participated in the research. In order to understand the dynamic between a company's principle and agent, this research relied on agency theory. This study utilized a descriptive research approach. Customers of nine chosen banks that provide agency banking made up the study's population.

A total of 297 agency banking dealers were included in the study. In order to conduct this study, questionnaires were used to gather primary data. After pilot research, the content was thoroughly examined to ensure validity. By comparing the objectives with their corresponding elements, the researcher made sure that all objectives were sufficiently addressed. Both qualitative and quantitative approaches were used to assess the data. According to the results, agency banking's ease has a significant impact on commercial banks' client satisfaction levels.

Customer satisfaction was the focus of Mburu's (2018) investigation of the impact of agency banking service delivery. The research goals were investigated using a descriptive survey approach in the study. Clients of DTB agents were the focus of this research. In

Nairobi, there were 165 agents from DTB. The DTB region of Nairobi is comprised of the following areas: Town, Mombasa Road/Industrial Area, Buruburu Branch, Nairobi South, Thika Road, Meru, Ngong Road/Ngong, Kitengela/Machakos, and Thika Branch accordingly.

To get the necessary sample size of 117 DTB agents, the researcher employed stratified selection. From this pool, 351 clients were selected. Questions were asked in order to gather information. A pilot study, as well as testing for validity and reliability, were conducted on the questionnaire prior to collection. The results showed that many people were satisfied with the service's ease, particularly with its post-benefit, benefit, decision-, transaction-, and access-related aspects. Not all aspects of service ease were significantly related to customer satisfaction, according to the multiple regression results.

According to a literature analysis by Ndungu and Njeru (2014), agency banking in Kenya has caused banks to open as early as 6:00 AM and close as late as 1:00 AM. This exemplifies the ease that agency banking provides. This research looked into what made agency banking so popular in Kenya. This research looked at how ease and customer service influenced productivity. Agents' 6-month commission totals served as the independent variable. A high degree of system availability, and by extension, service convenience, is demonstrated by the results. The study found that a high rate of adoption of agency banking was correlated with a high rate of convenience. Also, the supply of financial services at more convenient hours adds to the convenience.

Using the Commercial Bank of Ethiopia as a case study, Melese (2020) examined how agency banking services affected customer satisfaction. To carry out the research, the study used a descriptive research strategy and a qualitative research methodology. The

Addis Abeba location of the Commercial Bank of Ethiopia served as the site of the research. Participants were clients of CBE-based agents that provide agency banking services. A total of 384 agency bank clients were surveyed for the study. In order to conduct this study, questionnaires were used to gather primary data. After pilot research, the content was thoroughly examined to ensure validity. By comparing the objectives with their corresponding elements, the researcher made sure that all objectives were sufficiently addressed. We used quantitative approaches to examine the data. Explanatory, correlational, and multiple regression analyses were all employed in the research. The survey found that customers are more satisfied when services are easy to use.

Research conducted by Silva et al. (2020) examined the effects of agency banking on financial performance, specifically looking at evidence from Brazilian commercial banks. The study used regression analysis on financial data from major Brazilian banks, employing a quantitative research technique. Agency banking greatly improved client convenience, especially in underserved areas, which resulted to higher service use and better financial results, according to the study's findings.

The authors Jadiyappa et al. (2018) looked at the relationship between agency banking and financial inclusion using data from commercial banks in India. The research employed a mixed-methods strategy, surveying bank clients and employees in addition to analysing financial data quantitatively. According to the findings, agency banking was essential in making banking more convenient for consumers by bringing services directly to their homes, which was particularly helpful for those living in rural regions. The convenience factor has a favourable effect on the financial performance of commercial banks and helped increase financial inclusion.

In their study titled "Insights from Peruvian Commercial Banks," De Janvry et al. (2003) investigated how agency banking affected financial performance. looked at the connection between agency banking and the bottom line. This study used econometric analysis to determine the effect by following financial data over time, using a longitudinal research design. The results showed that agency banking greatly facilitated client convenience, especially in outlying locations, which in turn raised consumer happiness and boosted commercial banks' bottom lines.

Mwenda et al. (2015) study in Kenya highlighted how agency banking introduced unprecedented convenience to banking services. The study utilized a quantitative research methodology, conducting regression analysis on financial data to assess the impact of agency banking on convenience. This methodological approach ensured robust statistical analysis, providing empirical evidence of the convenience factor associated with agency banking.

Their findings are consistent with the research of Jack and Suri (2014) who demonstrated the convenience and cost-effectiveness of mobile money services in facilitating financial transactions for rural households in Kenya. The findings revealed that by decentralizing banking operations through agents, customers can access services closer to their homes or businesses, saving time and effort. This convenience factor not only attracts previously unbanked individuals into the formal financial system but also encourages existing customers to increase their usage of banking services, bolstering the financial performance of commercial banks.

2.3.3 Agency Cost and Financial Performance

The competitive strategy of agency banking at Kenya Commercial Bank was investigated by Kipng'etich et al. (2018) with regard to the cost of banking transactions. Financial intermediation theory and Porter's theory of competitive strategies formed the basis of the theoretical framework. The study used a descriptive survey design for its investigation. Using the Yaro Yamane methodology, a total of 236 respondents were surveyed. In order to ensure that the sample was representative of all KCB locations, the stratified sampling approach was employed.

Structured questionnaires were also utilized to gather data for the investigation. Tables displaying the outcomes of the study analysis performed using SPSS. Both chi-square and frequency distributions were utilized as descriptive statistics. According to the research, agency banking has grown in importance as a means of delivering financial services, both to help banks with operational expenses and to achieve the objective of competition. As a means of maintaining pricing and service control over the already-captured market, it suggests that financial institutions develop "lock in" techniques.

Enock (2021) focused on four commercial banks in Rwanda to investigate the impact of agency banking on their financial performance. Four Rwandan commercial banks that engage in agency banking were the focus of a descriptive study strategy that yielded these results. The survey included all four banks; hence it was a census, due to its small size and the ease with which the intended respondents could participate. We used secondary data from the institutions' financial statements in addition to primary data obtained through structured questionnaires. According to the results, commercial banks in Rwanda saw an improvement in their operational and financial performance as a result of the declining

cost of transactions processed through agency banking. As a result, this suggests that agency banking is a cost-cutting tactic that banks employ.

Musau and Jagongo (2015) applied a descriptive study strategy to examine the impact of agency banking on the efficiency of Kenyan financial institutions. In an effort to raise the financial inclusion levels in their regions, particularly among low-income families, the research results give a timeline on how banks throughout developing nations are adopting branchless banking. The study set out to accomplish several goals, such as figuring out how agency costs affect bank performance, gauging the impact of agency security on bank performance, and analysing the impact of security agency regulations on bank performance. According to the results, agency banking has made financial services more accessible and cost-effective for both banks and their consumers. The unbanked population might be reached by banks through agency banking.

According to research by Simwaka et al. (2012) on the effects of bank agency adoption on cost reduction, financial sector operators can save money on office equipment. The agents earn commissions by making purchases for themselves, such as P.O.S. machines and mobile phones, which they utilize to conduct transactions from other stores. It is well-known that banks invest substantial sums into purchasing furnishings for staff and computers that are utilized at each branch to facilitate the day-to-day operations of the bank. According to research out of Nigeria, local banks have been able to expand their operations while drastically cutting operational expenses after using agency banking.

Mwangi and Kalui (2022) contend that banks are perpetually driven to minimize operational costs while maximizing profits, a principle underscored by the adoption of agency banking. This strategic shift enables financial institutions to reallocate resources

previously earmarked for personnel expenses towards profit-maximizing activities. By engaging contracted agents to execute banking transactions, banks substantially reduce overhead costs associated with staffing and managing traditional brick-and-mortar branches. Furthermore, agency banking facilitates market expansion and risk mitigation by extending banking services to previously underserved regions while decentralizing operational infrastructure. Consequently, agency banking emerges as a pivotal strategy for banks to optimize cost structures, enhance competitiveness, and bolster profitability within the dynamic landscape of the financial services industry.

Otieno (2016) aimed to determine what led KCB Bank Kenya Limited to use agency banking. The research used a qualitative case study technique. Mean and standard deviation were used for descriptive analysis of the data. Tables and narratives were used to present the findings. Reducing expenses and using agency banking were found to be positively related. Due to the high level of competition across banks offering agency banking services, the researcher suggests that additional measures be taken to further lower these costs.

2.3.4 Quality of Agent Services and Financial Performance

Sahoo and Mishra (2023) conducted a comprehensive empirical study to ascertain the nuanced relationship between agent service quality and the financial performance of commercial banks operating within the Indian banking sector. Employing a mixed-methods approach, incorporating both quantitative financial analysis and qualitative surveys among bank customers, their research illuminated the critical role played by superior agent service delivery in fostering heightened levels of customer satisfaction and trust. Through meticulous statistical modelling and hypothesis testing, Singh and Mishra

unearthed compelling evidence demonstrating a robust positive correlation between investments in agent training and technology infrastructure and key financial performance metrics such as profitability, asset quality, and customer retention rates. Their findings underscored the imperative for commercial banks to prioritize strategic investments in enhancing the quality of their agent-assisted services as a potent mechanism for driving sustainable financial growth and competitive advantage in an increasingly dynamic and customer-centric banking landscape.

Patel (2018) embarked on an exploratory inquiry into the ramifications of agent network expansion on the financial performance dynamics of commercial banks, with a particular focus on rural banking contexts prevalent across India. Employing a rigorous mix of quantitative data analysis and qualitative field research methodologies, their study unearthed nuanced insights into the multifaceted impacts of agent network expansion strategies on key financial performance indicators such as deposit mobilization, loan disbursement, and market penetration.

Through a meticulous examination of case studies and in-depth interviews with bank executives and rural customers, Patel (2018) elucidated the pivotal role played by robust agent training programs in facilitating the seamless delivery of banking services in underserved rural areas. Their research underscored the strategic imperative for commercial banks to adopt a holistic approach to agent network expansion, encompassing targeted investments in both physical infrastructure and human capital development initiatives, to unlock latent growth opportunities and foster inclusive financial development across diverse geographical terrains.

Kenye and Kumar (2024) endeavoured to unravel the intricate nexus between agent service quality and customer loyalty within the intricate ecosystem of commercial banking operations in India. Leveraging a meticulously crafted research design encompassing a blend of quantitative survey instruments and econometric modelling techniques, their study provided compelling empirical evidence elucidating the profound impact of superior agent-assisted services on fostering enduring customer relationships and loyalty. Through a granular analysis of customer feedback data and financial performance metrics spanning multiple banking institutions.

Kenye and Kumar (2024) unearthed compelling evidence showcasing the pivotal role played by personalized service interactions, prompt issue resolution, and effective communication channels in nurturing deep-seated bonds of trust and loyalty among bank clientele. Their findings underscored the strategic imperative for commercial banks to prioritize investments in enhancing the quality of their agent-driven service offerings as a potent mechanism for driving sustainable customer retention and long-term profitability amidst intensifying competition and evolving customer preferences within the contemporary banking landscape.

Through a meticulous examination of case studies and qualitative interviews with bank executives and frontline staff, Chatterjee and Dasgupta elucidated the strategic imperatives driving banks to prioritize investments in agent training, technology infrastructure, and service standardization initiatives as critical levers for enhancing customer satisfaction levels, fostering long-term loyalty, and sustaining competitive advantage in an increasingly commoditized banking landscape characterized by escalating customer expectations and digital disruption.

Jain and Gupta (2024) aimed at unravelling the complex interplay between regulatory compliance frameworks, agent-driven service initiatives, and financial performance dynamics within the intricate ecosystem of commercial banking operations in India. Employing a comprehensive research design encompassing a blend of quantitative data analysis, regulatory compliance audits, and stakeholder interviews with banking executives and regulatory authorities, their study provided compelling empirical evidence elucidating the profound impact of regulatory compliance on shaping banks' strategic priorities and operational decision-making processes.

Through a meticulous examination of case studies and compliance performance metrics, Jain and Gupta underscored the strategic imperatives driving banks to adopt a proactive approach towards aligning their agent service practices with evolving regulatory mandates and industry best practices as critical enablers for enhancing stakeholder trust, preserving reputational capital, and sustaining long-term financial resilience amidst escalating regulatory complexities and compliance challenges prevalent within the contemporary banking landscape.

2.3.5 Agency Compliance and Financial Performance

Research by Johnson (2021) looked at how agency banking restrictions affected Nigeria's financial performance. A quantitative analysis was carried out in the study using financial data from a sample of Nigerian commercial banks both before and after agency banking laws were implemented. Also, to get a feel for the qualitative side of things, we talked to bank executives and regulators. Agency banking laws were shown to have a favourable effect on commercial banks' financial performance in Nigeria, according to the study. Banking institutions were able to contact more people and process more transactions once

they began using agents to reach out to underserved regions. Also, the regulatory structure made customers more comfortable with financial services, which led to more deposits and more profits for Nigerian banks.

Agency banking was analysed by Susanto et al. (2013) who compared South Korea and Indonesia to determine the effects of regulations. Through the use of a comparative case study methodology, the research examined the regulatory environments and financial performance metrics of South Korean and Indonesian commercial banks. Document analysis, which included financial records and regulatory papers, was used to gather data. Agency banking's acceptance and effect on commercial banks' financial performance are both affected by the regulatory climate, according to the study. Banks in South Korea saw massive increases in both clientele and profits as a result of the country's strict rules that govern the dependability of agents and the protection of consumers. On the other hand, commercial banks in Indonesia suffered problems with agent dishonesty and fraud, which hurt their financial performance, because regulatory control was lax.

The relationship between agency banking rules and financial performance was examined in research by Chombo (2020) that compared Tanzania and Kenya. Combining quantitative data analysis with qualitative interviews with banking executives and regulatory authorities, the researcher undertook a mixed-methods study including commercial banks in Tanzania and Kenya.

The study found that commercial banks in Tanzania and Kenya had different financial results once agency banking restrictions were put in place. In Kenya, banks saw increases in both profitability and market share as a result of rules that prioritized the dependability of agents and the safety of customers. Banks in Tanzania had a rough go of it due to agent

fraud and unhappy customers caused by lax regulatory control, which damaged the country's financial standing.

The effects of agency banking laws were examined in a case study of the Philippines by Garcia (2021). This study used a longitudinal case study approach to examine the impact of agency banking laws on the five-year financial performance of Philippine commercial banks. To compile this data, we analysed financial records quantitatively and spoke with bank executives qualitatively. In the Philippines, commercial banks' bottom lines improved after implementing well-thought-out agency banking policies, according to the research.

Banking services were more widely used and profitable for financial institutions as a consequence of regulations that prioritized agent training, monitoring, and compliance, which in turn raised consumer trust and satisfaction. In addition to boosting the banking sector as a whole, the regulatory framework allowed for more financial inclusion by making banking services available to previously unbanked communities.

Evidence from China was examined by Wang et al. (2021) to determine the effect of agency banking laws on financial performance. Financial data from commercial banks in China were analysed quantitatively in the study both before and after agency banking laws were put in place. To have a better understanding of the regulatory environment and its effects, the study also interviewed banking executives for qualitative data. Findings from the study highlighted the critical importance of agency banking laws in improving commercial banks' financial performance in China. The use of agent networks allowed banks to expand their client base and process more transactions in underserved and rural areas. Furthermore, the legal structure encouraged openness and responsibility in agent

activities, which in turn increased customer trust in financial institutions. Financial institutions in China saw increases to their profits and competitiveness in the market because of this.

Agency banking in Japan and Thailand: a regulatory effect study (Kim, 2021). Commercial banks in Thailand and Japan were the subjects of this study, which used a comparative case study methodology to examine their respective regulatory environments and financial performance metrics. Document analysis, which included financial records and regulatory papers, was used to gather data. The research concluded that agency banking's acceptance and effect on commercial banks' bottom lines were greatly affected by regulatory variations between Thailand and Japan.

Banks in Japan gained a lot of customers and made a lot of money because the government there put an emphasis on protecting consumers and making agents reliable. In contrast, commercial banks in Thailand had difficulties caused by agent misbehaviour and operational risks, which had a detrimental impact on their financial performance, due to the laxity of regulatory control in that country.

The impact of agency banking laws in India: a case study (Patel, 2018). For this five-year case study, the researcher followed the financial results of commercial banks in India to see how agency banking restrictions affected their bottom lines. The data was gathered through qualitative interviews with banking executives and quantitative examination of financial records. Business banks in India saw an uptick in their bottom lines after implementing well-thought-out agency banking laws, according to the research. Banking services were more widely utilized and trusted by customers when regulations strengthened agent education, oversight, and consumer protection. The result was an

increase in banks' market share and greater profitability. The stability and expansion of India's banking industry were both aided by the regulatory structure, which made it easier for underserved communities to have access to banking services.

The effects of regulations on agency banking were studied by Nguyen and Nguyen (2020) who compared Vietnam and Malaysia. Through the use of a comparative analytical technique, the researcher looked at the financial performance indicators and regulatory frameworks of commercial banks in Vietnam and Malaysia. The data was gathered via analysing documents and conducting interviews with banking executives and regulatory agencies.

Financial performance of commercial banks involved in agency banking was affected by regulatory differences between Vietnam and Malaysia, according to the study. Banks in Vietnam made a lot more money and gained a lot more customers when the government passed laws that made it easier for customers and agents to be reliable. Malaysia, on the other hand, had problems with regulatory fragmentation and inconsistency, which affected the financial performance of banks and made agency banking activities less successful.

In their 2013 study, Lee and Chih looked at the effects of financial regulation on banks' risk management and profit efficiency. Evidence derived from commercial banks in China. Increasing the provision coverage ratio can lower risks for big banks, according to the research. For big banks, a higher cost-to-income ratio means less efficiency and more risk.

When it came to tiny banks, though, none of these ratios mattered. Given the importance of these ratios to major banks, the China Banking Regulatory Commission (CBRC)

enforces regulations on provision coverage and cost-to-income. Leverage and a high capital adequacy ratio led to greater efficiency and reduced risk for small banks. A higher loan-to-deposit ratio indicates a higher level of risk for small banks. One indicator of inefficiency is a high loan-to-deposit ratio. Nonetheless, the risks faced by major banks were unaffected by these three ratios.

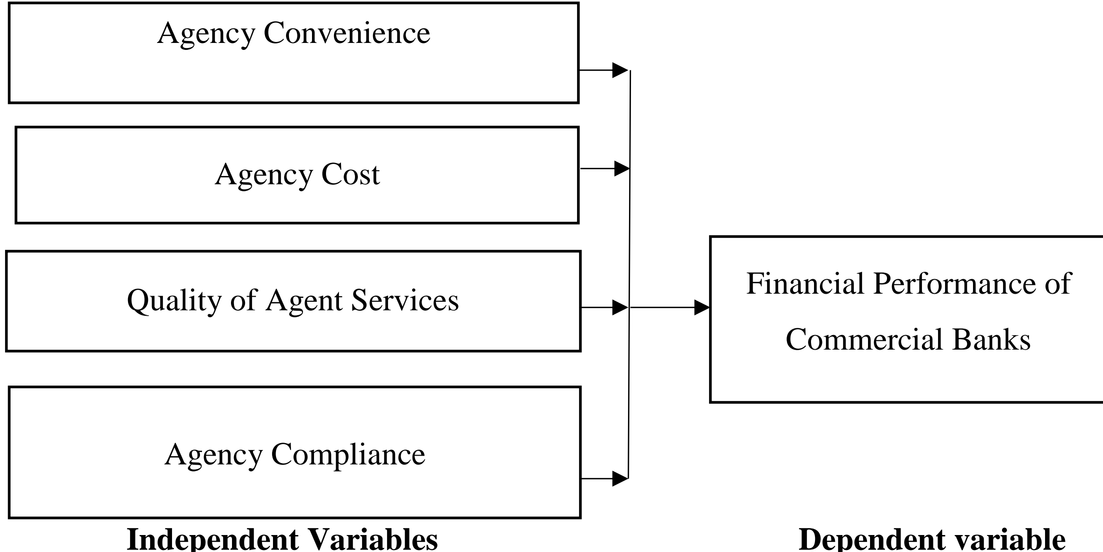
The CBRC also oversees the loan-to-deposit, capital adequacy, and leverage ratios, all of which appear to be important for smaller financial institutions. The CBRC also controls the current ratio to make banks safer. According to the findings, the current ratio had no effect on the risks and caused big and small banks to achieve varying levels of efficiency. A bank's decision-making process is opaque in an information-asymmetric setting. The traits of financial regulation show investors how efficiently and safely a bank is running its operations.

2.4 Conceptual Framework

A conceptual framework serves as a theoretical structure that organizes ideas, concepts, variables, relationships, and assumptions within a specific field of study or research. It provides a foundational framework for understanding, analysing and interpreting complex phenomena by defining fundamental concepts, identifying observable variables, hypothesizing relationships between them and acknowledging underlying assumptions (Abu-Bader, 2021). This framework guides researchers in formulating research questions, developing hypotheses, and conducting empirical investigations within a broader social, cultural, or environmental context. Figure 2.1 demonstrates this study’s conceptual framework.

Figure 2.2

Conceptual Framework



2.5 Operational Framework

Figure 2.3

Operational Framework

Agency Convenience
- Ease of use
- Frequency of use
- Time of use
- Length of use
- Access
- Non-complicated

Agency Cost
- Operational Costs
- Transaction Costs
- Time Costs
- Technology
- Investment Costs
- Integration

Quality of Agent Services
- Service response time
- Customer Satisfaction Scores
- Service Availability
- Transaction Accuracy Rates
- Customer retention
- Customer loyalty

Agency Compliance
- Central Bank Guidelines
- Anti-Money Laundering
- Auditing
- Internal Control
- Financial Reporting
- Financial Transparency

Financial Performance of Commercial Banks
- Transaction Volume
- Transaction Value
- Customer base
- Number of Licensed Agents

Independent variables **Dependent variable**

2.5 Explanations of Variables

An explanation of the connection between the two sets of variables, dependent and independent, was provided by the framework.

2.5.1 Financial Performance

Examining the financial performance of commercial banks in Kenya within the framework of agency banking entails a thorough analysis of various key indicators. Among these, transaction volume stands out as a crucial metric that reflects the extent of banking activities facilitated through agency channels (Ratemo, 2015). The adoption of agency banking has significantly bolstered transaction volumes for commercial banks by providing customers with greater accessibility to banking services. With an extensive network of agents spread across diverse geographical locations, banks can process a higher number of transactions, including cash deposits, withdrawals, fund transfers, and bill payments (Ombongi, 2021). This surge in transaction volume not only signifies increased customer engagement but also translates into enhanced revenue streams for banks through transaction fees and commissions (Mburu, 2018).

Profitability emerges as another critical measure of financial performance, profoundly influenced by the adoption of agency banking by commercial banks in Kenya. The integration of agency banking into banks' operations has proven instrumental in driving profitability through various channels (Mbugua, 2021). By leveraging third-party agents to offer financial services, banks can significantly reduce operational costs associated with establishing and maintaining physical branches. This cost-saving mechanism directly contributes to improving the bottom line of banks, as they can channel resources more efficiently towards revenue-generating activities (Kipng'etich et al., 2018). Additionally,

the revenue generated from increased transaction volumes facilitated by agency banking channels serves to augment banks' profitability metrics, further solidifying the financial viability of the model (Melese, 2020).

The expansion of the customer base serves as another significant indicator of the financial performance of commercial banks within the realm of agency banking. The adoption of this model has enabled banks to reach previously underserved or unbanked segments of the population, thereby fostering financial inclusion and deepening the penetration of banking services (Kambua, 2021). By tapping into the extensive networks of agents operating in both urban and rural areas, banks can attract a broader spectrum of customers, ranging from individuals to small businesses. The resultant increase in the number of bank accounts opened not only reflects growing customer confidence but also translates into a more diversified deposit base for banks, strengthening their financial resilience (Otieno, 2016).

In evaluating the financial performance of commercial banks in Kenya, the proliferation of agency banking outlets emerges as a tangible manifestation of their market reach and expansion strategy. The establishment of a robust network of agency banking outlets plays a pivotal role in enhancing banks' accessibility and visibility across diverse geographical locations (Mwende et al., 2015). By strategically positioning agents in areas with high customer traffic and demand for banking services, banks can effectively extend their market presence and capture a larger share of the customer base. Moreover, the continuous expansion of agency banking outlets underscores banks' commitment to promoting financial inclusion and driving economic empowerment at the grassroots level, thereby contributing to sustainable growth and development (Lee & Chih, 2013).

According to Ngaruiya et al. (2022), the effectiveness of agency banking in bolstering the financial performance of commercial banks lies in its ability to optimize operational efficiency. Through the utilization of technology-driven solutions such as mobile banking platforms and point-of-sale devices at agent locations, banks can streamline transaction processes and reduce operational overheads. This operational efficiency translates into cost savings for banks, enabling them to allocate resources more judiciously towards value-adding activities. Moreover, the extended service hours offered through agency channels enhance customer convenience and satisfaction, fostering long-term loyalty and retention (Chamboko et al., 2021).

Despite the evident benefits associated with agency banking, commercial banks in Kenya encounter certain challenges that impact their financial performance. One such challenge revolves around the need for effective agent management and oversight to ensure compliance with regulatory requirements and mitigate risks such as fraud and money laundering (Dianga, 2014). The success of agency banking hinges on the capability and reliability of agents, necessitating robust recruitment, training, and supervision mechanisms by banks. Moreover, the proliferation of agency outlets demands substantial investment in technological infrastructure and human resources, which may exert pressure on banks' operational expenses and profitability in the short term (Otieno, 2016).

2.5.2 Agency Convenience and Financial Performance

The symbiotic relationship between convenience and financial performance serves as a cornerstone for commercial banks operating in Kenya, especially within the realm of agency banking. The concept of convenience encompasses various dimensions that

significantly impact customer engagement and satisfaction (Rachmawati & Setiyono, 2020).

According to Njoroge. (2021), the ease of use emerges as a fundamental aspect, delineating the simplicity and accessibility of banking services. In Kenya, where a substantial portion of the population may have limited exposure to formal banking, ensuring that services are intuitive and user-friendly becomes imperative. Banks that prioritize ease of use through streamlined processes, clear interfaces, and accessible platforms are better positioned to attract and retain customers, thereby bolstering their financial performance (Njuguna & Mathuva, 2024).

Frequency of use stands as another critical measure of convenience, reflecting the extent to which customers engage with banking services on a regular basis. Within the Kenyan context, where banking activities permeate daily life, facilitating frequent interactions and transactions is paramount (Kori et al., 2024). Commercial banks that leverage agency banking effectively to extend their reach into remote and underserved areas can significantly enhance the frequency of use among their customer bases. By providing convenient access points and reliable services, banks encourage customers to engage with their offerings more frequently, thereby driving higher transaction volumes and contributing to improved financial performance (Kaaroud et al., 2020).

According to Kacuucu (2023), time of use represents a crucial dimension of convenience, particularly in a fast-paced society like Kenya where individuals value flexibility and accessibility in their banking experiences. Banks that offer extended operating hours through agency banking networks or provide 24/7 digital banking platforms cater to the diverse needs of customers with varying schedules and preferences. By enabling

customers to access banking services at their convenience, regardless of the time of day, banks can enhance customer satisfaction and loyalty, which in turn positively impacts financial performance through increased usage and engagement (Kori et al., 2024).

The length of use plays a significant role in shaping the convenience of banking services. This aspect pertains to the time taken to complete various transactions or processes, including waiting times and processing delays (Mbugua, 2021). In Kenya, where efficiency and speed are highly valued, banks that optimize their systems and workflows to minimize transaction times can offer a superior customer experience. Through efficient agency banking channels and self-service options, banks enable customers to complete transactions swiftly and conveniently, enhancing overall satisfaction and contributing to the bank's financial performance by attracting and retaining customers (Kori et al., 2024).

In assessing the impact of convenience on financial performance, it is essential to recognize the interplay between customer satisfaction, loyalty, and profitability. Convenience serves as a catalyst for enhancing customer experience and fostering long-term relationships (Kaaroud et al., 2020). Satisfied and loyal customers are more likely to engage in repeat business, recommend the bank to others, and potentially expand their usage of additional products and services. This translates into higher customer lifetime value and increased revenue streams for the bank. Moreover, positive word-of-mouth and reputation enhancement resulting from convenient banking experiences can attract new customers and further bolster financial performance (Lee & Chih, 2013).

Kaweesi (2023) asserts that it is crucial for commercial banks to strike a balance between convenience and security to ensure the integrity of their services and safeguard against fraud and other risks. While convenience is essential for attracting and retaining

customers, banks must also invest in robust security measures to protect customer data and transactions. Failure to maintain this balance could undermine customer trust and erode the bank's reputation, ultimately impacting financial performance negatively.

2.5.3 Agency Cost and Financial Performance

Commercial banks play a pivotal role in the financial ecosystem by facilitating economic activities through lending, deposit-taking, and various financial services. The evaluation of their cost and financial performance is paramount for stakeholders, including investors, regulators, and customers, to gauge their efficiency and sustainability (Njoroge, 2021). In recent years, the advent of agency banking has introduced a transformative paradigm by leveraging third-party agents to extend banking services to underserved areas and populations. Understanding the cost dynamics within this framework is crucial for assessing its impact on the financial viability and outreach of commercial banks (Onsongo et al., 2020)

Operational costs represent a significant component of a commercial bank's expenditure, encompassing expenses related to staffing, infrastructure, and administrative functions. In the context of agency banking, operational costs are influenced by the expansion of the bank's network through agent outlets (Kaaroud et al., 2020). While this expansion entails initial setup costs, including agent training and technology deployment, it can lead to economies of scale as the network grows. However, managing a widespread network of agents also introduces complexities in oversight and coordination, potentially escalating operational costs. Therefore, optimizing operational processes and leveraging technological solutions are imperative strategies for mitigating these costs while maintaining service quality and compliance standards (Kaimu & Muba, 2021).

Transaction costs constitute another critical aspect of cost analysis in the context of agency banking. These costs encompass expenses associated with processing financial transactions, including payments, deposits, and withdrawals (Onsongo et al., 2020). With the proliferation of digital payment channels and mobile banking, transaction costs have witnessed a transformative shift towards electronic platforms, reducing the reliance on traditional brick-and-mortar infrastructure. In the agency banking model, transaction costs may vary depending on factors such as transaction volume, agent commissions, and technology infrastructure (Wijaya et al., 2021). Efficient transaction cost management involves streamlining processes, promoting digital adoption among customers, and negotiating favourable terms with agents to optimize cost-effectiveness (Onsongo et al., 2020).

Time costs represent the opportunity cost incurred by customers and banks in accessing and delivering financial services. In the context of agency banking, time costs are influenced by factors such as agent availability, service turnaround time, and transaction processing speed. For customers in remote or rural areas, the accessibility of banking services through local agents can significantly reduce time costs associated with traveling to distant bank branches (Mwasakabeto, 2020). However, ensuring timely service delivery and minimizing waiting times at agent outlets are critical considerations for enhancing customer satisfaction and operational efficiency. From the bank's perspective, investing in robust technology infrastructure and agent training programs can streamline processes and reduce time costs associated with service delivery (Wijaya et al., 2021).

Technology investment costs constitute a fundamental aspect of commercial banks' expenditure, particularly in the context of digitization and innovation. In the realm of

agency banking, technology investment is pivotal for enabling seamless transactions, ensuring data security, and enhancing agent efficiency (Kaweesi, 2023). This includes investments in core banking systems, mobile banking platforms, biometric authentication technologies, and agent management software. While upfront technology investment costs may seem substantial, they are essential for driving operational efficiency, expanding service reach and remaining competitive in a rapidly evolving financial landscape (Otieno 2016). Moreover, technology investments can yield long-term benefits by facilitating scalability, improving risk management capabilities, and fostering innovation in service delivery channels (Wairimu, 2020).

Analysing the cost and financial performance of commercial banks within the framework of agency banking requires a comprehensive understanding of various cost indicators and their interplay with operational dynamics (Njuguna & Mathuva, 2024). Operational costs, transaction costs, time costs, and technology investment costs are integral components that influence the efficiency and sustainability of agency banking initiatives. Effectively managing these costs necessitates a strategic approach encompassing process optimization, digital transformation, and prudent investment in technology infrastructure (Kaweesi, 2023). By balancing cost considerations with service quality and outreach objectives, commercial banks can harness the potential of agency banking to enhance financial inclusion, drive economic growth, and create value for stakeholders in the long run (Rukundo, 2020).

2.5.4 Quality of Agent Services and Financial Performance

The quality of agent services plays a pivotal role in shaping the financial performance of commercial banks. Exceptional agent services enhance customer satisfaction, leading to

increased loyalty and retention (Wijaya et al., 2021). When customers have positive experiences with agents, they are more likely to engage in various banking activities, such as deposits, withdrawals, and account inquiries. This heightened customer activity translates into higher transaction volumes, which can boost the bank's fee-based income and overall revenue (Onsongo et al., 2020).

Superior agent services contribute to expanding the bank's reach in underserved or remote areas. Agents act as intermediaries, providing banking services in locations where establishing traditional brick-and-mortar branches may not be feasible (Kacuucu, 2023). By leveraging agents effectively, banks can tap into new customer segments and markets, thereby driving growth and revenue generation. This broader market penetration not only improves financial performance but also strengthens the bank's competitive position in the industry (Ngaruiya et al., 2022).

The quality of agent services influences the efficiency of banking operations. Well-trained agents equipped with robust technology solutions can process transactions swiftly and accurately, reducing operational costs associated with manual processing errors or inefficiencies (Kacuucu, 2023). Moreover, efficient agent networks enable banks to streamline their distribution channels, optimizing resource allocation and improving overall operational effectiveness. This operational efficiency translates into cost savings and higher profit margins, ultimately bolstering the bank's financial performance (Ngaruiya et al., 2022).

According to Wijaya et al. (2021), the reputation of a bank heavily relies on the quality of its agent services. Positive word-of-mouth and customer referrals stemming from excellent agent interactions can enhance the bank's brand image and credibility.

Conversely, poor agent services can tarnish the bank's reputation, leading to customer dissatisfaction, negative publicity, and potential loss of business. A strong reputation not only attracts more customers but also helps retain existing ones, fostering long-term profitability and sustainability for the bank (Kimutai, 2022).

High-quality agent services foster innovation and adaptability within the banking ecosystem. Agents often serve as frontline ambassadors for introducing new products, services, and digital banking solutions to customers. By continuously innovating and upgrading their agent networks, banks can stay ahead of evolving customer needs and market trends (Kaimu & Muba, 2021). This proactive approach not only drives revenue growth through cross-selling opportunities but also positions the bank as a forward-thinking industry leader, capable of navigating dynamic market landscapes and achieving sustained financial success (Mbugua, 2021).

2.5.5 Agency compliance and Financial Performance

Agency compliance plays a pivotal role in shaping the financial performance of commercial banks, especially in the context of agency banking. Central to this compliance framework are various measures and indicators that assess the adherence of banks to regulatory guidelines and standards (Mwasakabeto, 2020). The first key measure is compliance with Central Bank guidelines, which serve as the cornerstone of regulatory oversight in the banking sector. These guidelines encompass a wide range of requirements spanning from capital adequacy ratios to risk management practices (Kimathi, 2012). By ensuring compliance with these guidelines, commercial banks mitigate regulatory risks and foster stability in their operations. Non-compliance can lead to regulatory penalties,

reputational damage, and even legal repercussions, all of which can significantly impact a bank’s financial performance (Otieno, 2016).

Anti-money laundering (AML) compliance is another critical aspect of regulation that significantly influences the financial performance of commercial banks engaged in agency banking. AML compliance measures are designed to prevent the illicit flow of funds through the banking system, safeguarding the integrity of financial markets (Onsongo et al., 2020). Failure to comply with AML regulations not only exposes banks to regulatory sanctions but also heightens the risk of facilitating money laundering activities, which can tarnish their reputation and erode customer trust (Ombui, 2021). Consequently, adherence to AML compliance standards not only ensures regulatory compliance but also protects the financial interests of the bank and its stakeholders, thereby bolstering its long-term financial performance (Namaganda, 2020)

Audit and internal control compliance represent essential pillars of regulatory adherence for commercial banks operating in the agency banking space. Robust internal control mechanisms are crucial for identifying and mitigating operational risks, ensuring the accuracy and reliability of financial reporting, and safeguarding assets against fraud and mismanagement (Okoye, 2020). Through regular audits and assessments, banks can validate the effectiveness of their internal controls, identify areas for improvement, and demonstrate their commitment to regulatory compliance. Effective internal controls not only enhance the efficiency of banking operations but also inspire confidence among investors and regulators, positively impacting the bank's financial performance and overall market standing (Namaganda, 2020).

Financial reporting and transparency constitute fundamental elements of regulatory compliance for commercial banks involved in agency banking. Accurate and transparent financial reporting is essential for providing stakeholders with timely and reliable information about the bank's financial health and performance (Ojedokun & Ilori, 2023). By adhering to established accounting standards and regulatory requirements, banks ensure the integrity and credibility of their financial statements, fostering investor confidence and facilitating informed decision-making (Nderitu, 2023). Therefore, maintaining high standards of financial reporting and transparency is not only a regulatory requirement but also a strategic imperative for commercial banks seeking to optimize their financial performance and sustain long-term growth (Namaganda, 2020).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Methods for conducting the study are covered in this chapter. Study population, sampling method, sample size, research instrument, instrument pre-testing, data collecting procedure, data processing, and analysis are all detailed and addressed in the document. It further stated how the study results will be presented.

3.2 Research Design

According to Abu-Bader (2021), research designs provide a detailed account of the technique and methodologies that have been purposefully selected for the study. According to Abu-Bader (2021), a research design is the whole strategy for answering the research questions and overcoming some of the challenges that may arise. Mahoney (2021) defined a research design as a plan for gathering and analysing data that attempts to strike a balance between efficiency and relevance to the research question. This research made use of mixed designs comprising descriptive, qualitative and quantitative. A descriptive research design was appropriate for capturing the characteristics, practices, and interactions among the various departments involved in agency banking within Cooperative Bank, Equity Bank, and KCB. It allowed for a systematic exploration of the roles and contributions of each department without attempting to establish causality or manipulate variables.

3.3 Target Population

According to Walliman (2021), a researcher's population consists of all the components from which they want to draw judgments. The term "population" can also mean the total number of an entity that fits a certain description, whether that description is based on size, shape, colour, or any other trait (May & Perry, 2022). The target population of study were three banks (Cooperative Bank, KCB and Equity bank) operating in Isiolo county. This is because they control over 90 percent of the approved bank agents. The unit of observation were the staff from the finance and accounts department derived from branches situated in Isiolo county. This will constitute 102 staff in Equity Bank, 123 in Cooperative Bank and 80 staff in KCB.

Staff members in the finance and accounting department were selected as the unit of observation due to their specialized knowledge and skills, which were crucial for evaluating banks' financial performance. Their accurate and extensive insights into the effects of agency banking on overall financial results were made possible by their active involvement in monitoring, analysing, and reporting financial activities. It was essential that they managed financial records, created budgets, and conducted performance analyses in order to assess the efficiency and profitability of agency banking activities. Staff in these departments were in a prime position to offer thorough and informed viewpoints on how agency banking affected the profitability, cost efficiency, and revenue generation of Isiolo County’s banks because of their central role in financial oversight and strategic decision-making. The fact that they were in charge of financial planning and control and had access to financial data made them the best and most trustworthy sources of information for this study.

Table 3.1

Target Population

Category	Population
Equity Bank	102
Cooperative Bank	123
Kenya Commercial Bank	80
Total	**305**

Source: CBK Bank Supervision Annual Report (2023)

3.4 Sampling Frame

A sampling frame, as defined by Budianto (2020), is the list of the target population from which the sample is taken, typically consists of a limited population for descriptive survey designs. A sampling frame is a comprehensive inventory of all individuals in the research population that may be utilized for the purpose of selecting a random sample (Fellows and Liu, 2021). Just three banks Equity Bank, The Cooperative Bank Limited, and KCB made up the sample frame for this study. As of December 2023, just three of these banks have more than 90% of their agents certified (CBK Bank Supervision Annual Report, 2023a). The CBK supervisory report included the names, locations, and contact details of all of these commercial banks in Kenya.

3.5 Sample Size and Sampling Technique

To make a judgment or inference about an aggregate or totality based on the selection of some component of it is the definition of sampling. Simply said, it's the method of learning about a whole population from a sample (Bell et al., 2022). According to Mahoney (2021), a study's sample is a subset of the population that is chosen to take part in the research. In

order to pick a representative sample from a larger population, sampling procedures are employed to decrease the size of the population (May & Perry, 2022).

The study adopted a stratified sampling technique. Stratified sampling was a prudent choice for this study, given the diverse departments within the banks. This method allowed for the proportional inclusion of employees from each department, mitigating the risk of oversampling or under sampling particular categories. Additionally, it enhanced the precision and reliability of the findings by capturing the unique perspectives and experiences within each department. The quantitative method proposed by Yamane's formula (1967) was used to compute the required sample size for the research.

$$\mathbf{n = \frac{N}{1+N(e^2)}}$$

Therefore, the size of the sample based on the formula was depicted in equation below;

$$\mathbf{n = \frac{305}{1+305(0.05^2)}}$$

n = 173

Table 3.2

Sample Size

Category	**Sample Size**
Equity Bank	58
Cooperative Bank	70
Kenya Commercial Bank	45
Total	**173**

3.6 Data Collection Methods

Data collection was described by Bibi et al. (2022) as a method of gathering information from a certain population. Any study's data should be reasonable in both kind and quality. The study approach relied on trustworthy data gathering tools, such as a questionnaire, interviews, and document analysis, to guarantee the accuracy of the data. According to Bell et al. (2022), research instruments are devices used for testing and evaluating certain phenomena.

Questions were asked through the use of surveys. As the main research instrument for collecting primary data, the survey was designed according to the study's aims and significant hypotheses. Structured questionnaires were chosen as they are ideal for descriptive studies, as noted by Straub et al. (2022), due to their simplicity and low skill requirements. Dawadi et al. (2021) propose a broad definition of a questionnaire as an umbrella term for all methods of data collection involving a predetermined method of asking respondents questions. This includes structured interviews and telephone surveys, which can be completed even when the interviewer isn't physically present.

Secondary data was gathered from various sources, including websites, journals, annual and published financial statements in national newspapers, annual general meetings, and in-house magazines. The secondary data gathered was utilized for the purpose of cross-validating the information obtained from the original data.

3.7 Pilot Study

The researcher conducted a pilot survey and pre-test to fine-tune the research tools and guarantee their validity and reliability. This served as a pilot study for the larger survey, aimed at evaluating the effectiveness of question preparation (Straub et al., 2022). The

pilot research used a sample size of 10% for this investigation, with 17 respondents randomly selected to fill out the survey. According to May and Perry (2022), this kind of pilot study ensures that the questions and phrasing used in the main survey are free of bias, ambiguity, and unclear communication.

A different county with comparable banking activities, such as Meru County, might have hosted the branches of the same three banks (Equity Bank, KCB, and Cooperative Bank) instead of Isiolo County. This would have enabled the evaluation of the research instruments and methodology in a similar setting before their implementation in the main study in Isiolo County. By doing so, any necessary alterations could have been identified and addressed beforehand.

3.7.1 Reliability

One way to ensure that a measurement device is reliable is to check its stability and consistency (Budianto, 2020). To determine the overall validity of a scientific investigation, reliability is an essential component that strengthens the results (Thomas, 2022). The reliability of a measurement device is demonstrated by a higher coefficient. The researcher used factor analysis and Cronbach's alpha to assess validity and reliability. To ensure the data was reliable, Cronbach's alpha was applied, which measures internal consistency. Cronbach's alpha provides a measure of the average correlation among measurement items. The reliability of the overall scales was assessed using Cronbach's alpha, which exceeded the acceptable limit of 0.70, indicating satisfactory reliability.

3.7.2 Validity

Validity is defined as "the degree to which the obtained data provides a measurement that is believed to be true" (Jones, 2022). According to Mahoney (2021), in order to evaluate

the validity of a questionnaire, validity is proof that the tool, method, or procedure employed to assess a concept actually measures the chosen concept. A measurement taken by an instrument is considered valid if the measured quantity is consistent with its expected value.

Thorough consideration was given to the design of research instruments to guarantee that they measured and gathered the intended data, and the researcher verified that the instruments produced legitimate results. A pre-test analysis of the instruments was also conducted in a comparable field of research. Where adjustments were required, they were made to ensure the intended outcomes. To enhance the tool, expert opinions were sought from supervisors, other researchers, and peers. The questionnaires included in this study underwent a validation process to guarantee their content and face validity, as well as to gauge their overall quality.

3.8 Data Collection Procedures

Through an introduction letter, the researcher obtained all the essential approvals from Kenya Methodist University. Following this, the researcher submitted an application for the NACOSTI research permit, which is an absolute must for any kind of data gathering in Kenya. To get a feel for the study region, the researcher also conducted a pre-visit. After that, a sample was chosen, and surveys were sent out to that group. The researcher used a drop-and-pick method to administer the surveys in order to enhance the response rate.

3.9 Data Analysis and Presentation

Analysing data entails taking a close look at the encoded information and drawing conclusions to help make it more understandable. The research proceeded with the finished research tools and document analysis logs. Descriptive statistics using the

Statistical Package for the Social Sciences (Version 29.0) were used to analyze quantitative data acquired through questionnaires. This approach included new formulae for statistics and presented quantitative data through percentages, means, and frequencies. The information was displayed using frequency tables, charts, and other relevant figures for data presentation. Inferential statistics, such as regression and correlation analysis, were also employed. The regression analysis was informed by the model-fitted data.

$Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

Y = Dependent Variable (financial performance)

‘$\mathbf{B_0}$ = Constant

X_1 = Agency Convenience

X_2 = Agency Cost

X_3 = Quality of Agent Services

X_4 = Agency compliance

ε = error term

3.10 Diagnostic Tests

Prior to performing regression, the research performed diagnostic tests to assess the assumptions. When the assumptions of regressions are not broken, most parametric tests, including regression and correlations, provide adequate findings.

3.10.1 Multicollinearity

Collinearity, according to Thomas (2022), denotes a singular perfect linear relationship between variables, whereas multicollinearity denotes several similar relationships. There is multicollinearity when two or more independent variables are highly correlated with

one another, making it impossible to disentangle their effects (Jones, 2022). Since the details of multicollinearity are unknown, there is no universal metric to assess it.

Simply removing one of the highly linked variables resolved multicollinearity. Assumptions about multicollinearity in data being either sampling artifacts or accurate representations of connections in the population are made by Dawadi et al. (2021). When conducting data analysis using regression analysis, it is important to consider the following issues: the difficulty in determining the relative importance of multicollinearity variables; potentially harmful consequences, such as misleading parameter estimates based on theoretical considerations; theoretically important variables with insignificant coefficients; and estimates that fluctuate significantly due to small changes in the sample.

3.10.2 Normality

The likelihood that a sample is representative of a normally distributed population may be determined using a normality test. According to Straub et al. (2022), statistical tests for normalcy are more accurate since they use computed probabilities. To find out if a data set fits well with a normal distribution and to estimate the probability that the underlying random variable in the data set follows a normal distribution, the researcher employed normality tests.

Different probability theories allowed for various interpretations of the tests, which were essentially models of selection. Normality tests, including skewness and kurtosis, were used to examine the assumptions of many statistical processes that relied on a normal distribution. Skewness indicated how symmetrical or asymmetrical a graph was. For a distribution to be considered symmetric, its appearance to the left and right of the central point had to be identical. The kurtosis statistic indicated the degree to which the data

deviated from the normal distribution, specifically in terms of how heavy or light its tails were. Datasets with significant kurtosis often had extreme outliers or heavy tails. The standard normal distribution, due to its symmetry, had a mean of 0 and a standard deviation of 1. When data did not follow a normal distribution, this research employed a Kolmogorov-Smirnov (K-S) test to address the issue.

3.10.3 Heteroscedasticity

The homoscedasticity statistic indicates that the variance in the error terms is constant across all observations. If there is a non-constant variation in the error term(s), the converse is true. Assumption of heteroscedasticity is made in such a situation. When the dependent variable is homoscedastic over its whole range, it means that the connection under study is constant (Bibi et al., 2022). The absence of homoscedasticity is shown by the fact that certain portions of the inquiry have larger mistakes (residues) than others. To account for heteroscedasticity, the Levenes test was used. For this test, we will not reject the null hypothesis, which asserts that the data is homoscedastic, if the p-value is greater than or equal to 0.05. Even if the BLUE property is not applicable when heteroscedasticity is present, unbiased coefficient estimates will still be produced (Bell et al., 2022).

3.10.4 Autocorrelation

The possibility of residual autocorrelation is highlighted by the linear regression assumption. When a time series is correlated with its own historical and predicted values, this phenomenon is called autocorrelation. Serial correlation, which describes the relationship between successive integers across time, is another name for this phenomenon (Fellows & Liu, 2021). The researcher utilized Durbin-Watson, which gave a score between 0 and 4, to test for autocorrelation in continuous time series derived from

continuously collected data. According to Dawadi et al. (2021), when the residual values are not completely independent of each other, we say that autocorrelation has occurred. This implies that the values of y(x+1) rely on the values of y(x).

3.11 Hypothesis Testing

According to Jones (2022), one way to test a theory is to look for evidence that either supports or refutes it. This led to the development of T-tests and F-tests, which either confirmed or refuted the hypothesis. Two tests were used to fit the regression model in this investigation. The tests in question were the F test and the T-test. While the overall regression model was tested using the statistical F test, the independent variables of the research were tested using the T-test to determine if they had a statistically significant impact on the dependent variable. H1 (alternative) was accepted, and H0 (null) was rejected if the p-values for all the independent variables were larger than 0.05.

The researcher conducted the tests at the 5% level of significance to determine the impact of the study's independent variable. In the absence of a probability that met the 5% significance threshold, the researcher continued to use the null hypothesis, which stated that the independent variables (predictors) did not have any significant impact on predicting the dependent variable. The level of certainty was 95% when the confidence interval was 95%. At the 5% level of significance (or 0.05), there was a 5% possibility of rejecting the null hypothesis even though it was actually true.

Table 3.3

Hypothesis Testing

Objectives	Hypothesis Statement	Analysis	Interpretation
To determine the effect of agency convenience on financial performance of commercial banks in Isiolo County, Kenya.	**H_{01}:** Agency convenience has no significant effect on financial performance of commercial banks in Isiolo County, Kenya.	Linear regression	If P value < 0.05, Reject the null hypothesis.
To examine the effect of agency cost on financial performance of commercial banks in Isiolo County, Kenya.	**H_{02}:** Agency cost has no significant effect on financial performance of commercial banks in Isiolo County, Kenya.	Linear regression	If P value < 0.05, Reject the null hypothesis.
To assess the effect of quality of agent services on financial performance of commercial banks in Isiolo County, Kenya.	**H_{03}:** Quality of agent services has no significant effect on financial performance of commercial banks Isiolo County, Kenya.	Linear regression	If P value < 0.05, Reject the null hypothesis.
To examine the effect of agency compliance on financial performance of commercial banks in Isiolo County, Kenya.	**H_{04}:** Agency compliance has no significant effect on financial performance of commercial banks in Isiolo County, Kenya.	Linear regression	If P value < 0.05, Reject the null hypothesis.

3.12 Ethical Considerations

Maintaining ethical standards throughout data collection was a primary goal of the undertaking. One of the many ethical considerations involved obtaining the necessary

permissions, such as those from KeMU and NACOSTI, in the form of introduction letters and research permits, respectively. Before participants were involved in the data collection procedure, the researcher explained the study's details and obtained their consent.

In addition, their responses remained private, as neither the survey nor the interviews asked for any identifying information (name, phone number, email address, etc.). As part of the research, all of the survey and interview data was securely stored in an unchangeable location. Additionally, the study sought out research assistants who had high moral character and were polite in their communication. The researcher also ensured that the study’s conclusions were accessible to everyone by posting the entire study on public domains like google.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

In this chapter, both descriptive and inferential analyses were used to examine the data. The study's findings were shaped by the conceptual relationships outlined in the conceptual framework. Topics such as response rate, validity, reliability, and assumptions related to regression analysis were also covered.

4.2 Response Rate

Dawadi et al. (2021) emphasized that response rate analysis is crucial for determining whether a study has achieved the necessary number of participants to be considered valid, effective, and representative of the targeted population. In this study, a sample of 173 respondents was selected. All 173 respondents were issued questionnaires, and 145 of these were returned fully completed, resulting in a response rate of 84%. Meanwhile, 28 questionnaires were either partially filled, left blank, or not returned, indicating a non-response rate of 16%. Dawadi et al. (2021) noted that a response rate between 40% and 80% is sufficient to draw conclusions and make recommendations. Therefore, this study met the necessary threshold.

4.3 Reliability Results

Table 4.1 presents the results of a reliability test conducted on five key variables related to the evaluation of agency services. The test utilized Cronbach's Alpha, a statistical measure widely recognized for assessing the internal consistency of a set of items or scale. In this context, Cronbach's Alpha values range between 0 and 1, with higher values

indicating greater reliability. The benchmark for acceptable reliability is typically set at 0.7, meaning that all variables with a Cronbach's Alpha of 0.7 or above are considered to demonstrate adequate internal consistency.

The first variable, Agency Convenience, achieved a Cronbach's Alpha of 0.796 across six items. This indicates a strong level of internal consistency, suggesting that the items used to measure the convenience provided by the agency are closely related in content and likely measure the same underlying construct. The fact that the reliability coefficient is well above the acceptable threshold of 0.7 means that the results related to this variable can be considered reliable for further analysis.

Agency cost, the second variable, yielded a Cronbach's Alpha of 0.801, also across six items. This slightly higher value compared to Agency Convenience further reinforces the reliability of the scale used to measure the cost-related aspects of the agency's services. A Cronbach's Alpha above 0.8 typically indicates very good reliability, suggesting that the items used are consistent in capturing the concept of cost effectiveness or the financial burden imposed by the agency.

The third variable, quality of agent services, produced an even higher Cronbach's Alpha of 0.823, again with six items. This value suggests a very strong internal consistency among the items, indicating that they reliably measure the perceived quality of the services provided by the agents. Given the importance of service quality in evaluating agency performance, the high reliability score here is particularly significant as it underscores the trustworthiness of the related findings.

Agency compliance, measured with five items, achieved the highest Cronbach's Alpha of 0.873 among the variables tested. This exceptionally high level of internal consistency suggests that the items used to measure compliance with regulations are highly interrelated, providing a very reliable measure of this aspect. Agency compliance is often a critical factor in assessing overall agency performance, and this result supports the robustness of any conclusions drawn regarding this variable.

Finally, the variable financial performance, assessed with five items, had a Cronbach's Alpha of 0.711. Although this is the lowest alpha among the five variables, it still exceeds the acceptable threshold of 0.7, indicating that the items used are adequately consistent in measuring financial performance. While this value suggests moderate reliability, it is sufficient to justify the use of this variable in subsequent analyses, although with a slightly higher degree of caution compared to the other variables.

In summary, the results from Table 4.1 confirm that all five variables possess acceptable levels of internal consistency, as indicated by their respective Cronbach's Alpha values. The high reliability scores across most variables suggest that the data collected using these items is robust and suitable for in-depth analysis. These results provide a strong foundation for further statistical testing, such as factor analysis or regression modelling, which will build on the reliability established here to draw substantive conclusions about the relationships between these variables and the overall performance of the agencies under study.

Table 4.1

Reliability Test

Variable	Cronbach's Alpha	No. of Items	Comments
Agency Convenience	0.796	6	Accepted
Agency Cost	0.801	6	Accepted
Quality Of Agent Services	0.823	6	Accepted
Agency compliance	0.873	5	Accepted
Financial Performance	0.711	5	Accepted

4.3.2 Validity

Table 4.2 provides the results of the Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Bartlett's Test of Sphericity, both of which are essential diagnostic tools in factor analysis. These tests help determine the suitability of the data for such analysis by assessing the strength of relationships among variables. The Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy is reported as 0.841. The KMO value ranges from 0 to 1, where a value closer to 1 indicates that the sample is adequate for factor analysis, while a value closer to 0 suggests that the correlations between pairs of variables cannot be explained by other variables. A KMO value above 0.8, as in this case, is generally considered to be very good, indicating that the patterns of correlations are relatively compact and that factor analysis should yield distinct and reliable factors. The result of 0.841, therefore, suggests that the data is well-suited for factor analysis, and the sampling adequacy is more than sufficient to proceed with this statistical method.

Bartlett's Test of Sphericity is another critical test that checks whether the correlation matrix is an identity matrix, which would indicate that variables are unrelated and thus

unsuitable for factor analysis. The results show an approximate Chi-Square value of 429.446 with 10 degrees of freedom and a significance level (Sig.) of 0.000. The significance level is crucial here; a value of 0.000 (which is less than 0.05) strongly rejects the null hypothesis that the correlation matrix is an identity matrix. This result implies that the variables are indeed correlated at a statistically significant level, justifying the use of factor analysis to explore underlying relationships among the variables.

In conclusion, the results presented in Table 4.2, with a high KMO value of 0.841 and a highly significant Bartlett's Test of Sphericity, provide strong evidence that the data is appropriate for factor analysis. The KMO value suggests that the sampling is adequate, while the Bartlett's Test confirms that there are significant correlations among the variables. These findings support the robustness of subsequent factor analyses, indicating that they will likely yield meaningful and interpretable factors, which can be used to understand the underlying dimensions of the variables in question.

Table 4.2

KMO and Bart Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.841
Bartlett's Test of Sphericity	Approx. Chi-Square	429.446
	df	10
	Sig.	.000

4.4 General Information of the Respondents

4.4.1 Level of Education

Table 4.3 presents a detailed breakdown of the respondents' level of education, providing both the frequency and the percentage distribution for each category. This data is crucial for understanding the educational composition of the sample population, which can influence the interpretation of other variables under study. The most prevalent educational attainment among the respondents is an Undergraduate degree, with 64 individuals, accounting for 44% of the total sample. This suggests that nearly half of the respondents have completed a bachelor’s degree, indicating a relatively high level of education within the population. The dominance of undergraduate degree holders might suggest that the sample is comprised primarily of individuals who have pursued higher education, potentially reflecting the educational requirements or expectations within the field or industry under investigation.

Following the undergraduate degree holders, the Master’s degree category is the second most common, with 46 respondents, representing 32% of the total. This indicates that almost one-third of the sample population has pursued advanced studies beyond the undergraduate level. The substantial proportion of respondents with a master's degree highlights the importance of postgraduate education in this context and suggests that a significant portion of the population has invested in further specialization or professional development. This could have implications for their expertise, earning potential, and roles within their respective organizations.

The College Diploma category accounts for 22 respondents, or 15% of the sample. While less prevalent than undergraduate and master's degrees, this figure still represents a

significant portion of the population. The presence of diploma holders suggests a diversity of educational backgrounds within the sample, where some individuals have pursued vocational or technical education as an alternative to a traditional four-year degree. This diversity in educational attainment could reflect varied career paths and professional trajectories within the industry.

Lastly, the PhD category, with 13 respondents or 9% of the total sample, represents the smallest group. Although this is the least represented educational level, it is still notable that nearly one in ten respondents has achieved the highest level of academic qualification. The presence of PhD holders in the sample could indicate a focus on research, specialized knowledge, or leadership roles that require a deep understanding of the field. The relatively small proportion of PhD holders may also reflect the more limited availability or need for such advanced qualifications in the broader population.

Overall, the educational distribution presented in Table 4.3 reveals a well-educated sample, with a majority of respondents holding undergraduate or higher degrees. This high level of education within the sample is likely to influence the findings of the study, particularly if the research examines issues related to professional competency, knowledge application, or career progression. The diversity in educational attainment, from college diplomas to PhDs, underscores the range of educational experiences among the respondents, which could contribute to varied perspectives and insights in the study's results. These variations in educational levels should be carefully considered in the analysis and interpretation of other variables to ensure a nuanced understanding of the data.

Table 4.3

Level of Education

Level of Education	Frequency	Percent (%)
College Diploma	22	15
Undergraduate	64	44
Masters	46	32
PhD	13	9
TOTAL	**145**	**100.0**

4.4.2 Operation Period

Table 4.4 provides a comprehensive analysis of the operation periods of the entities or individuals within the sample, offering insight into the length of time these entities have been active in their respective fields. The distribution of these operation periods is crucial in understanding the maturity and experience level within the sample, which can significantly influence the interpretation of the study's findings.

The table reveals that the largest proportion of the sample, 35%, consists of entities that have been in operation for above 15 years. This substantial percentage indicates that a significant portion of the sample is composed of seasoned entities with extensive experience and likely well-established practices. Entities operating for over 15 years may possess a wealth of knowledge and have developed sophisticated operational strategies, which could contribute to stability and sustained performance. Their longevity suggests resilience and the ability to adapt to industry changes, factors that are often associated with successful long-term outcomes.

The next largest group, comprising 11-15 years of operation, accounts for 29% of the sample. This group represents entities that have reached a significant milestone in their

operational lifespan. Entities within this range are likely to have moved beyond the early stages of development and growth, entering a phase of consolidation where they refine their processes and strengthen their market position. The relatively high percentage of entities within this category highlights the presence of experienced players in the sample who have likely navigated various market challenges and are now focused on achieving steady growth and sustainability.

Entities that have been in operation for **6-10 years** constitute 20% of the sample. This group represents entities that are still within their first decade of operation but have surpassed the initial critical years often associated with high failure rates. These entities may still be in the growth phase, expanding their market presence, refining their product or service offerings, and stabilizing their financial performance. The representation of this group suggests that a significant portion of the sample is in a phase of active growth and development, contributing to the dynamism within the sample.

Lastly, entities with an operational period of **Less than 5 years** make up 16% of the sample. This group is the smallest in the sample, which may reflect the challenges associated with establishing a foothold in the industry. Entities in this category are likely to be in the early stages of their lifecycle, focusing on building brand recognition, acquiring customers, and developing operational efficiencies. The lower percentage of entities in this group could indicate a relatively high barrier to entry or the challenges associated with surviving the early years of operation.

Overall, the distribution of operation periods in Table 4.4 highlights a sample that is predominantly composed of well-established entities, with a significant portion having over a decade of operational experience. This skew towards longer operational periods

suggests that the sample is likely to include entities with stable practices and considerable industry experience, which could influence the findings related to operational efficiency, financial performance, and strategic decision-making. The relatively smaller representation of newer entities may also imply that the insights derived from this study could be more reflective of established practices rather than emerging trends or innovations.

The diversity in operation periods from less than 5 years to over 15 years—provides a broad perspective on the various stages of organizational development within the sample, allowing for a nuanced analysis that can account for both the challenges faced by newer entities and the strategies employed by more seasoned ones. This understanding is crucial for interpreting the data in relation to the longevity and experience of the entities, particularly when analysing their performance, growth trajectories, and responses to market dynamics.

Table 4.4

Operation Period

Operation Period	Frequency	Percent (%)
Less than 5 years	23	16
6-10 years	29	20
11 - 15 years	42	29
Above 15 years	51	35
TOTAL	**145**	**100.0**

4.5 Descriptive Results

This section presents the descriptive findings. The analysis in the study utilized percentages, frequencies, mean values, and standard deviations. The results indicated the

respondents' reactions to different assertions in the surveys using a scale ranging from strongly agree to strongly disagree. This section provides an overview of the descriptive findings for the dependent variable.

4.5.1 Agency Convenience

Table 4.5 provides a detailed statistical summary of respondents' perceptions of agency convenience, as measured through six specific statements. These statements assess various aspects of convenience related to the use of bank agency services, with each response rated on a Likert scale ranging from 2.00 to 5.00. The analysis of mean values and standard deviations offers valuable insights into the consistency and central tendencies of the responses.

The first statement, "Using our bank's agency services is straightforward and uncomplicated," has a mean score of 4.0690, with a standard deviation of 0.71351. This relatively high mean indicates that respondents generally agree that the bank's agency services are easy to use. The standard deviation suggests moderate variability in responses, indicating that while most respondents find the services straightforward, there is some degree of disagreement or varied experience among the users.

For the second statement, "Accessing and utilizing our bank's agency services is easy," the mean score is slightly lower at 3.7862, with a higher standard deviation of 0.88338. The lower mean, compared to the first statement, suggests that while respondents generally agree that accessing the services is easy, there is a slightly lower level of consensus on this aspect of convenience. The higher standard deviation indicates greater

variability in responses, which could reflect differences in accessibility across different locations or for different customer demographics.

The statement “Customers frequently utilize our bank's agency services for their transactions” has the highest mean score of 4.2069, with a standard deviation of 0.59973. This indicates strong agreement among respondents that the bank’s agency services are widely used by customers. The relatively low standard deviation suggests a high level of consensus, implying that customer utilization of these services is consistently recognized as a significant aspect of agency convenience.

Regarding the statement on the operating hours of our bank’s agency services are convenient for customers, the mean score is 4.0345, with a standard deviation of 0.66053. The mean score indicates that respondents generally agree that the operating hours are convenient, though the slightly lower mean compared to other statements suggests there may be some room for improvement in this area. The standard deviation, while moderate, indicates that most respondents share this perception, with some variability likely due to differences in individual customer needs or preferences.

The statement “the availability of our bank's agency services for extended periods meets customers’ needs” has a mean score of 3.8759 and a standard deviation of 0.79829. The mean score, slightly below 4.0, suggests that while respondents generally agree that extended availability meets customer needs, there is some variability in this perception. The higher standard deviation indicates that opinions on this aspect are more diverse, possibly reflecting differences in customer requirements for extended service hours.

Finally, the statement “the agency convenience provided by our bank positively impacts its financial performance” has the highest mean score of 4.2690, with the lowest standard deviation of 0.54333 among all the statements. This high mean score reflects a strong agreement among respondents that agency convenience has a positive impact on the bank’s financial performance. The low standard deviation indicates a high level of consensus, suggesting that this is a widely accepted view among the respondents.

In summary, the analysis of Table 4.5 reveals that respondents generally perceive the bank's agency services as convenient, with high mean scores across all statements. The data suggests strong agreement on the positive impact of agency convenience on financial performance, the frequent utilization of services by customers, and the straightforward nature of the services. However, there is slightly more variability in perceptions related to the ease of access, operating hours, and extended availability, indicating areas where customer experiences may differ more widely. These findings highlight the importance of agency convenience as a key factor in customer satisfaction and financial performance, while also pointing to potential areas for improvement in service delivery.

Dimbia and Wanjohi (2023) examines the role of agency banking in promoting financial inclusion in Kenya. The study reveals that the convenience offered by agency banking, including extended operating hours and ease of access, significantly improves financial inclusion and customer satisfaction. This aligns with the reported high means for statements like “The operating hours of our bank's agency services are convenient for customers” and “Customers frequently utilize our bank's agency services for their transactions" in the provided table. The second study by Lamey et al. (2024) titled “Fintech Adoption and Banks' Non-Financial Performance” explores how the adoption of

fintech, including agency banking models, enhances non-financial performance in banks across several developing countries. The findings indicate that customer satisfaction and internal process improvements are significantly enhanced by the convenience and accessibility of these services, which in turn positively impact financial performance, resonating with the high mean scores for agency service convenience reported in your data.

Table 4.5

Agency Convenience

Statement	N	Mean	Std. Dev
Using our bank's agency services is straightforward and uncomplicated	145	4.0690	.71351
Accessing and utilizing our bank's agency services is easy	145	3.7862	.88338
Customers frequently utilize our bank's agency services for their transactions	145	4.2069	.59973
The operating hours of our bank's agency services are convenient for customers	145	4.0345	.66053
The availability of our banks agency services for extended periods meets customers' needs	145	3.8759	.79829
The agency convenience provided by our bank positively impacts its financial performance	145	4.2690	.54333
Valid N (listwise)	145		

4.5.2 Agency Cost

Table 4.6 provides a statistical summary of respondents' perceptions regarding the impact of agency banking on various aspects of operational costs within their bank. The table includes six key statements that measure different dimensions of cost efficiency and

savings attributed to the adoption of agency banking. The analysis of the mean values and standard deviations for each statement offers insights into the overall sentiment and the degree of consensus among respondents.

The first statement on “integrating agency banking has reduced the operational costs of our bank,” has a mean score of 3.9586 and a standard deviation of 0.67573. This indicates that respondents generally agree that agency banking has contributed to lowering the bank's operational costs. The mean score, close to 4.0, suggests a positive perception, though not overwhelmingly so. The standard deviation indicates moderate variability in responses, suggesting that while the majority see cost reductions, some may have different experiences or perceptions of the extent of these reductions.

For the second statement, "the utilization of agency banking has resulted in more efficient operational processes, thus lowering costs,” the mean score is 4.0000, with a higher standard deviation of 0.88192. The mean score reflects a general agreement among respondents that agency banking has enhanced operational efficiency, leading to cost reductions. However, the relatively higher standard deviation points to greater variability in responses, indicating that the extent to which efficiency has been achieved may vary across different contexts or departments within the bank.

The statement “the implementation of agency banking has led to reductions in transaction-related expenses” exhibits a higher mean score of 4.2621, with a standard deviation of 0.64572. This higher mean suggests strong agreement that agency banking has effectively reduced transaction-related expenses, a critical aspect of operational cost savings. The relatively low standard deviation implies that this perception is widely shared among

respondents, with less variability in their experiences regarding transaction cost reductions.

Regarding the statement on “our bank has experienced significant time cost reductions as a result of adopting agency banking services,” the mean score is 4.1379, with the lowest standard deviation of 0.46578 among all statements. This high mean score indicates a strong consensus that agency banking has led to notable reductions in time-related costs, reflecting improvements in operational efficiency. The low standard deviation further reinforces the consistency of this perception across the respondent group, suggesting that time cost savings are a well-recognized benefit of agency banking.

The fifth statement on the “investment in technology required for agency banking has been justified by cost savings,” has a mean score of 4.0069 and a standard deviation of 0.65082. The mean score indicates a general agreement that the technological investments necessary for implementing agency banking have been validated by the resulting cost savings. The moderate standard deviation suggests some variation in respondents' views, possibly reflecting differing assessments of the return on investment in technology across different branches or units within the bank.

Lastly, the statement “agency banking has positively contributed to reducing the operational costs of our bank” shows a mean score of 4.0690, with a standard deviation of 0.82205. This score reflects a strong agreement that agency banking has had a positive impact on reducing operational costs overall. The somewhat higher standard deviation indicates that while this view is prevalent, there is still some variation in the degree to which respondents perceive the cost benefits of agency banking.

In summary, the analysis of Table 4.6 reveals that respondents generally perceive agency banking as having a positive impact on reducing various operational costs within their bank. The consistently high mean scores across all statements indicate a widespread belief in the cost-saving benefits of agency banking, particularly in terms of transaction-related expenses and time cost reductions. However, the variation in standard deviations suggests that while the overall sentiment is positive, the extent of perceived benefits may vary depending on specific contexts or experiences within the bank. These findings underscore the importance of agency banking as a strategic tool for enhancing operational efficiency and achieving cost savings, though they also point to the need for continued evaluation to ensure that these benefits are maximized across all areas of the bank's operations.

The findings are in line with those by Ayunku and Uzochukwu (2020) who investigated how agency costs influence credit risk management and, consequently, financial performance in Nigerian commercial banks. The study, which spans data from 2007 to 2019 across 12 listed banks, finds that higher agency costs, primarily driven by managerial inefficiencies, are strongly associated with increased non-performing loans. This suggests that when banks fail to manage agency costs effectively, it directly impacts their financial stability and performance, particularly by elevating credit risk. The findings underscore the need for banks to develop strategies that reduce agency costs, such as improving managerial efficiency and tightening corporate governance, to enhance financial performance.

Similarly, Mbugua et al. (2015), explored the role of financial resources in the performance of agency banking and its impact on overall financial performance. The study, which targets 18 commercial banks in Kenya, demonstrates that adequate financial

resources, which mitigate agency costs by ensuring efficient operations and service delivery, are crucial for the successful implementation and performance of agency banking. The research concludes that banks that effectively allocate and manage financial resources not only reduce operational costs but also improve their financial performance, as evidenced by the positive correlation between resource allocation and performance metrics. These studies collectively reinforce the importance of managing agency costs to optimize financial performance in commercial banks. Effective management of these costs, through better resource allocation and reduction of inefficiencies, is crucial in enhancing the profitability and sustainability of banks.

Table 4.6

Agency Cost

Statements	N	Mean	Std. Dev
Integrating agency banking has reduced the operational costs of our bank.	145	3.9586	.67573
The utilization of agency banking has resulted in more efficient operational processes, thus lowering costs.	145	4.0000	.88192
The implementation of agency banking has led to reductions in transaction-related expenses.	145	4.2621	.64572
Our bank has experienced significant time cost reductions as a result of adopting agency banking services.	145	4.1379	.46578
The investment in technology required for agency banking has been justified by cost savings.	145	4.0069	.65082
Agency banking has positively contributed to reducing the operational costs of our bank.	145	4.0690	.82205
Valid N (listwise)	145		

4.5.3 Quality of Agent Services

Table 4.7 provides an in-depth statistical analysis of the respondents' perceptions regarding the quality of services provided by agents within their bank. The first statement, “The quality of service provided by our agents contributes to positive customer satisfaction scores,” has a mean score of 3.3172 with a standard deviation of 1.45155. The relatively low mean suggests that respondents are moderately neutral or varied in their perceptions of the direct contribution of agent service quality to customer satisfaction. The high standard deviation indicates significant variability in responses, suggesting that while some respondents may see a strong link between service quality and customer satisfaction, others may perceive this relationship as weaker or inconsistent. This could reflect differences in customer experiences or service quality across different agents or branches.

For the second statement, “Agent-assisted transactions are processed accurately and without errors,” the mean score is 3.8345, with a standard deviation of 0.84995. This higher mean indicates that respondents generally agree that agent-assisted transactions are processed accurately, contributing to operational reliability. The moderate standard deviation suggests some variability in this perception, which may point to occasional inconsistencies in transaction processing accuracy. Nonetheless, the overall positive mean score reflects confidence in the agents' ability to handle transactions correctly.

The statement “The accuracy of agent-assisted transactions significantly impacts the operational efficiency of bank processes” exhibits a mean score of 3.4690 and a standard deviation of 1.30200. The moderate mean score indicates that respondents recognize a connection between transaction accuracy and operational efficiency, though the strength of this connection is perceived as somewhat variable. The high standard deviation implies

that respondents have diverse views on the extent to which transaction accuracy impacts efficiency, possibly due to differences in operational contexts or the varying roles that agents play in different parts of the bank's operations.

Regarding the statement "agent services are consistently available during the bank's operating hours," the mean score is 4.3310, with the lowest standard deviation of 0.56587 among all statements. This high mean score reflects strong agreement among respondents that agent services are reliably available throughout the bank's operating hours, which is a crucial aspect of service quality. The low standard deviation indicates a high level of consensus, suggesting that the consistent availability of agent services is a widely recognized and valued aspect of the bank's operations.

The fifth statement, "investing in enhancing the quality of agent services can positively impact the overall financial performance of our bank," has a mean score of 4.1862 and a standard deviation of 0.40801. The high mean score reflects strong agreement among respondents that improving agent service quality is perceived as a strategic investment that can yield financial benefits. The low standard deviation further supports the consensus on this view, indicating that respondents broadly agree on the positive financial implications of high-quality agent services.

Finally, the statement on "high-quality agent services led to improved customer retention and loyalty, thus enhancing the financial performance of our bank" shows a mean score of 4.1379, with a standard deviation of 0.41867. This score suggests strong agreement that superior agent services contribute to customer retention and loyalty, which in turn positively affects the bank's financial performance. The low standard deviation indicates

that this perception is widely shared among respondents, reinforcing the importance of service quality as a driver of customer loyalty and financial success.

In summary, the analysis of Table 4.7 reveals that respondents generally perceive agent service quality as a critical factor influencing various aspects of the bank's operations and financial performance. While there is strong consensus on the reliability and availability of agent services, and the financial benefits of investing in service quality, there is more variability in perceptions regarding the direct impact of service quality on customer satisfaction and operational efficiency. These findings suggest that while agent services are broadly seen as high-quality and beneficial, there may be areas where improvements in consistency and accuracy could further enhance customer satisfaction and operational outcomes. The overall high mean scores indicate that service quality is recognized as a key element in driving both customer loyalty and the financial health of the bank.

The findings compare with assertions by Hamid and Jassim (2024) who delved into the intricate relationship between service quality and financial performance in the banking sector. Utilizing the SERVQUAL model, which assesses service quality through dimensions like tangibility, reliability, responsiveness, assurance, and empathy, the study provides a comprehensive analysis of how these factors influence financial outcomes. The researchers distributed 133 questionnaires among customers of selected Iraqi banks to gather data on their perceptions of service quality and its impact on their satisfaction and loyalty. The findings reveal a robust connection between high-quality service and improved financial performance. Specifically, the study highlights that banks that invest in enhancing the physical and operational aspects of their service delivery, such as

modernizing banking technology and ensuring timely and accurate customer service, see a marked improvement in customer satisfaction.

This satisfaction translates into increased customer retention and loyalty, which are critical for sustaining and boosting the financial performance of the banks. The study emphasizes that consistent, high-quality service is not merely a value-added aspect but a fundamental driver of financial success in the banking industry. By ensuring that agent services are reliable and responsive, banks can significantly enhance their operational efficiency and customer trust, leading to better financial outcomes.

Vy and Tam (2021) focused on the reliability of banking services and its impact on customer satisfaction and financial performance in Vietnamese commercial banks. This study is particularly noteworthy for its methodological rigor, employing Cronbach's Alpha and confirmatory factor analysis (CFA) to assess the reliability and validity of service quality dimensions. The researchers surveyed 765 customers of various commercial banks in Vietnam, focusing on how the reliability and responsiveness of banking services influence their overall satisfaction and loyalty. The results strongly suggest that the reliability of agent-assisted services, especially in processing transactions accurately and consistently, plays a crucial role in maintaining customer trust.

Customers who experience reliable service are more likely to remain loyal to their banks, which in turn positively impacts the banks' financial performance. The study further indicates that in a highly competitive banking environment, the quality-of-service delivery, particularly in terms of reliability and responsiveness, is a key differentiator that can lead to sustained financial success. By ensuring that agents provide services that meet customer expectations consistently, banks can foster customer loyalty and, consequently,

enhance their profitability. This study underscores the critical importance of service quality as a strategic tool for improving financial performance in the banking sector, particularly in emerging markets like Vietnam.

Table 4.7

Quality of Agent Services

Statements	N	Mean	Std. Dev
The quality of service provided by our agents contributes to positive customer satisfaction scores	145	3.3172	1.45155
Agent-assisted transactions are processed accurately and without errors	145	3.8345	.84995
The accuracy of agent-assisted transactions significantly impacts the operational efficiency of bank processes	145	3.4690	1.30200
Agent services are consistently available during the bank's operating hours	145	4.3310	.56587
Investing in enhancing the quality of agent services can positively impact the overall financial performance of our bank.	145	4.1862	.40801
High-quality agent services led to improved customer retention and loyalty, thus enhancing the financial performance of our bank.	145	4.1379	.41867
Valid N (listwise)	145		

4.5.4 Agency Compliance

Table 4.8 provides a detailed analysis of respondents' perceptions regarding the impact of agency compliance on various aspects of their bank's financial performance and

operational stability, specifically in the context of agency banking. The table includes five key statements that address different dimensions of regulatory adherence, from compliance with Central Bank guidelines to anti-money laundering regulations, and their perceived effects on profitability and trust. The mean values and standard deviations for each statement offer insights into the level of agreement among respondents and the consistency of their perceptions.

The first statement, “adherence to Central Bank guidelines regarding agency banking positively influences the financial performance of our bank,” has a mean score of 3.7862 and a standard deviation of 1.14980. This moderate mean indicates that respondents generally agree that following Central Bank guidelines has a positive impact on the bank's financial performance, though the agreement is not overwhelming. The relatively high standard deviation suggests significant variability in responses, indicating that while many respondents see a clear financial benefit to compliance, others may perceive the impact as less direct or more variable depending on specific circumstances or interpretations of the guidelines.

For the second statement, “Strict compliance with Central Bank guidelines enhances the stability and profitability of our bank's agency banking operations,” the mean score is 3.9241, with a standard deviation of 0.92858. The slightly higher mean compared to the first statement suggests a stronger belief among respondents that strict adherence to regulatory guidelines contributes to both the stability and profitability of agency banking operations. The lower standard deviation compared to the first statement indicates a more consistent agreement among respondents, reflecting a broad consensus on the importance of regulatory compliance for operational stability and profitability.

The statement "strict adherence to anti-money laundering regulations positively impacts the overall profitability of our bank" has a mean score of 3.9172 and a standard deviation of 1.04419. The mean score suggests that respondents generally agree on the positive impact of anti-money laundering compliance on profitability, although the slightly higher standard deviation indicates that there is still some variability in perceptions. This variability may stem from differing views on the cost of compliance versus its financial benefits or the specific challenges associated with implementing anti-money laundering measures.

Regarding "effective audit and internal control compliance contribute significantly to the overall profitability of our bank's agency banking division," the mean score is 4.1655, with the lowest standard deviation of 0.37293 among all statements. This high mean score reflects strong agreement among respondents that effective audit and internal control measures are crucial to the profitability of the agency banking division. The very low standard deviation indicates a high level of consensus, suggesting that respondents universally recognize the importance of internal controls and audit compliance in safeguarding profitability and ensuring operational integrity.

The fifth statement, "ensuring financial reporting and transparency compliance enhances the trust of stakeholders and consequently improves our bank's financial performance," has a mean score of 4.0483 and a standard deviation of 1.00920. The mean score indicates a strong belief that compliance with financial reporting and transparency standards positively affects stakeholder trust, which in turn enhances financial performance. The standard deviation, while slightly higher, points to some variability in perceptions, likely

reflecting differences in experiences with stakeholder relations or the specific financial reporting practices within different branches or departments.

In summary, the analysis of Table 4.8 reveals that respondents generally perceive regulatory compliance as having a positive impact on both the operational and financial performance of their bank's agency banking services. The high mean scores across most statements suggest strong agreement that adhering to regulatory guidelines, particularly in areas such as audit, internal controls, and financial transparency, is crucial for maintaining profitability and stability. However, the variability in responses to certain statements, particularly those related to Central Bank guidelines and anti-money laundering regulations, suggests that while the overall sentiment is positive, the perceived impact of these regulations may vary depending on specific operational contexts or individual experiences within the bank. These findings underscore the critical role of agency compliance in ensuring the financial health and operational integrity of agency banking services, while also highlighting areas where perceptions of compliance-related benefits might be more diverse.

The findings are similar to Boubacar and Bans-Akutey (2024) who explored the relationship between banking regulation, supervision, and the financial performance of commercial banks. Conducted in Accra, Ghana, this study utilized a descriptive survey approach, collecting data from employees of a commercial bank. The findings reveal a positive correlation between strict adherence to regulatory frameworks and improved financial performance, particularly in areas such as stability and profitability. The study highlights that while agency compliance imposes certain operational challenges, such as resistance to change and inefficiencies in processes, the overall impact on bank

performance is beneficial. Regulatory compliance, especially in terms of Central Bank guidelines and supervisory oversight, is shown to contribute significantly to the financial health of banks by fostering a stable operational environment and enhancing stakeholder trust.

The deductions also concur with Nicknora (2024) who focused on the specific regulatory domain of anti-money laundering (AML) compliance and its impact on the financial performance of commercial banks. This study, employing a mixed-methods approach, surveyed 105 participants across four commercial banks in South Sudan. The research findings indicate a significant positive relationship between customer due diligence an essential component of AML compliance and the financial performance of banks. The study reveals that although compliance with AML regulations requires substantial resources and rigorous processes, it ultimately enhances the financial integrity and profitability of banks. By reducing the risks associated with money laundering and fostering a more transparent banking environment, AML compliance strengthens the trust of stakeholders, which is critical for long-term financial stability.

Both studies underscore the importance of regulatory compliance as a cornerstone of financial performance in the banking sector. They demonstrate that adherence to regulatory guidelines, whether related to general banking regulations or specific areas like AML, not only ensures operational stability but also contributes to enhanced profitability. The consistency in these findings across different regulatory contexts highlights the crucial role of compliance in maintaining the financial health and trustworthiness of commercial banks.

Table 4.8

Agency Compliance

Statement	N	Mean	Std. Dev
Adherence to Central Bank guidelines regarding agency banking positively influences the financial performance of our bank	145	3.7862	1.14980
Strict compliance with Central Bank guidelines enhances the stability and profitability of our bank's agency banking operations	145	3.9241	.92858
Strict adherence to anti-money laundering regulations positively impacts the overall profitability of our bank?	145	3.9172	1.04419
Effective audit and internal control compliance contribute significantly to the overall profitability of our bank's agency banking division	145	4.1655	.37293
Ensuring financial reporting and transparency compliance enhances the trust of stakeholders and consequently improves our bank's financial performance	145	4.0483	1.00920
Valid N (listwise)	145		

4.5.5 Financial Performance

Table 4.9 provides a detailed statistical analysis of respondents' perceptions regarding the financial performance of their bank, specifically in relation to the expansion and adoption of agency banking services. The table includes five statements that evaluate the impact of

agency banking on various financial metrics, including the overall value and volume of transactions, customer acquisition, and the bank's financial growth. The analysis of mean values and standard deviations helps to understand the central tendencies and the level of agreement among respondents on these critical aspects of financial performance.

The first statement, "our bank's expansion of licensed agents through agency banking has positively impacted our financial performance," has a mean score of 4.0552 and a standard deviation of 0.91878. This relatively high mean suggests that respondents generally agree that the expansion of licensed agents has had a positive impact on the bank's financial performance. The moderate standard deviation indicates some variability in responses, suggesting that while most respondents perceive a financial benefit from expanding agency banking, there may be differences in the magnitude of this impact across different contexts or regions.

For the second statement, "agency banking has led to a noticeable increase in the overall value of transactions processed by our bank," the mean score is 4.0000, with a standard deviation of 1.00000. The mean score reflects a strong belief among respondents that agency banking has contributed to an increase in the value of transactions. However, the standard deviation of 1.00000 indicates that there is a broader range of perceptions, with some respondents perhaps seeing a more substantial impact than others. This variability could be influenced by the differing levels of adoption or success of agency banking across different branches or operational areas.

The statement "the adoption of agency banking has contributed to a significant growth in the value of transactions handled by our bank" has the highest mean score of 4.2069, with a standard deviation of 0.67594. This high mean score indicates strong agreement among

respondents that agency banking has significantly contributed to the growth in transaction value. The relatively low standard deviation suggests that this is a widely shared perception, indicating that the benefits of agency banking in terms of transaction value growth are consistently recognized across the bank.

Regarding “the volume of transactions facilitated by our bank has substantially risen due to the introduction of agency banking services,” the mean score is 3.5241, with a standard deviation of 1.25876. The lower mean score compared to the other statements suggests that while respondents generally agree that agency banking has increased the transaction volume, the level of agreement is less pronounced. The higher standard deviation indicates significant variability in responses, which might reflect differences in transaction volumes across different branches or customer segments, or the varying success of agency banking initiatives in different areas.

The fifth statement, “our bank's customer acquisition strategy has been enhanced by the integration of agency banking services,” has a mean score of 4.0414 and a standard deviation of 1.14792. The high mean score indicates strong agreement that agency banking has positively influenced the bank's customer acquisition strategy. However, the relatively high standard deviation suggests that while this view is prevalent, there is considerable variability in the degree to which respondents believe agency banking has enhanced customer acquisition. This variability could be due to differences in the effectiveness of agency banking in attracting new customers across different markets or regions.

In summary, the analysis of Table 4.9 reveals that respondents generally perceive agency banking as having a positive impact on the bank's financial performance, particularly in

terms of transaction value growth and customer acquisition. The high mean scores across most statements suggest strong agreement on the financial benefits of agency banking, with the expansion of licensed agents and the increase in transaction value being particularly well-recognized. However, the variability in responses, particularly regarding the volume of transactions and customer acquisition, suggests that while the overall sentiment is positive, the perceived impact of agency banking may vary depending on specific operational contexts or individual experiences within the bank. These findings highlight the importance of agency banking as a strategic tool for enhancing financial performance, while also pointing to potential areas where the bank could focus on standardizing and optimizing the impact of agency banking across all its operations. Two recent empirical studies provide insights that align with the findings on the effect of agency banking on the financial performance of commercial banks, as presented in Table 4.9.

The findings compare with assertions by Nyambane and Albert (2023) who explores how agency banking has impacted the accessibility and financial performance of commercial banks in Rwanda. The study, which utilized a descriptive research design, focused on 555 agents and applied stratified sampling to assess the effectiveness of agency banking in enhancing financial services accessibility. The findings demonstrate a strong positive correlation between the operational structure of agency banking and access to financial services, which in turn contributes to improved financial performance. The study highlights that expanding the proximity of agency banking services and increasing awareness among the rural population significantly boosts financial inclusivity, which is closely linked to the financial growth of banks. This aligns with the high mean scores in

Table 4.9, particularly regarding the positive impact of licensed agent expansion on financial performance and transaction value growth.

Similarly, Muttai et al. (2023), examines the broader impact of financial technology, including agency banking, on the financial performance of Kenyan commercial banks. This study, which applied a panel longitudinal research methodology, analyzed data from 38 commercial banks over a decade. The results reveal that agency banking, alongside other financial technologies like mobile and internet banking, plays a significant role in enhancing the financial performance of banks. Specifically, the study found that agency banking positively influences both the volume and value of transactions processed by banks, contributing to overall financial growth. This is consistent with the findings in Table 4.9, where respondents strongly agreed that agency banking led to noticeable increases in transaction values and enhanced customer acquisition strategies.

These studies underscore the strategic importance of agency banking in driving financial performance within commercial banks. By improving accessibility and expanding service reach, particularly in underserved regions, agency banking not only increases transaction volumes and values but also plays a critical role in customer acquisition and retention. The empirical evidence from Rwanda and Kenya demonstrates that banks leveraging agency banking can significantly enhance their financial outcomes, aligning closely with the perceptions captured in Table 4.9.

Table 4.9

Financial Performance

Statement	N	Mean	Std. Dev
Our bank's expansion of licensed agents through agency banking has positively impacted our financial performance	145	4.0552	.91878
Agency banking has led to a noticeable increase in the overall value of transactions processed by our bank	145	4.0000	1.00000
The adoption of agency banking has contributed to a significant growth in the value of transactions handled by our bank	145	4.2069	.67594
The volume of transactions facilitated by our bank has substantially risen due to the introduction of agency banking services	145	3.5241	1.25876
Our bank's customer acquisition strategy has been enhanced by the integration of agency banking services	145	4.0414	1.14792
Valid N (listwise)	145		

4.5.5 Secondary Data on Performance of Agency Banking

The data from Table 4.10 highlights the robust growth of agency banking in terms of both the number of agents and the financial value handled through these channels. Despite some fluctuations in transaction volume, the overall upward trend in the number of agents and the value of transactions indicates that agency banking has become an integral part of the banking sector's strategy to reach a wider customer base and facilitate financial inclusion. The dominance of a few major banks in this sector points to competitive

advantages in scale and network efficiency, which could continue to shape the market dynamics in the coming years.

This analysis suggests that while agency banking has largely been successful, banks need to be mindful of external factors that could impact transaction volumes and values. Continuous innovation and adaptation will be essential for maintaining growth and overcoming challenges that could arise from economic shifts or competitive pressures. The stability in the number of banks adopting agency banking also indicates a mature market, where future growth might come more from deepening existing networks rather than from new entrants.

Table 4.10

Secondary Data on Performance of Agency Banking

Measurement Aspects	2019	2020	2021	2022	2023
Number of banks with Agency banking	18	19	20	21	21
Number of Agents	53, 833	59,578	67,314	72,617	78,371
Volume of Transactions	139.8M	157.3M	162.9M	118.7M	156.3M
Value of Transactions (Ksh. 'M')	1.074T	1.188T	1.22T	1.073T	1.59T
Market Distribution (Equity, KCB, COOP)	85%	85%	90%	91%	91%

CBK (2019, 2020,2021,2022,2023)

4.6 Correlation Analysis

Table 4.11 presents the results of a correlation analysis conducted to examine the relationships between financial performance and several key variables: agency convenience, agency cost, quality of agent services, and agency compliance. Pearson

correlation coefficients were used to measure the strength and direction of these relationships, with significance levels indicating whether the correlations were statistically significant.

The results in Table 4.11 indicated that agency convenience was strongly correlated with financial performance ($r = 0.751$, $p < 0.01$). This meant that the ease of using agency banking services significantly contributed to the bank's financial success. The high correlation suggested that when customers found the agency services convenient and accessible, they were more likely to engage in transactions, thereby enhancing the bank's overall financial performance.

Agency cost was another variable that showed a strong positive correlation with financial performance ($r = 0.702$, $p < 0.01$). This relationship implied that cost efficiency in agency banking—through reduced operational expenses and improved transaction processes—played a crucial role in boosting the bank's financial outcomes. Effective management of agency costs appeared to be a significant factor in achieving financial performance targets.

The correlation between quality of agent services and financial performance was also positive and significant ($r = 0.655$, $p < 0.01$), though slightly weaker than the other correlations. This suggested that while the quality of service provided by agents did impact financial performance, it was less directly influential compared to factors like agency compliance and agency convenience. Nonetheless, high-quality agent services still contributed to customer satisfaction and retention, which were important for sustaining financial growth.

The analysis showed a strong positive correlation between financial performance and agency compliance (r = 0.774, $p < 0.01$). This suggested that adherence to regulatory guidelines, such as those from the Central Bank and anti-money laundering regulations, was closely associated with better financial outcomes for the bank. The strength of this relationship highlighted the importance of regulatory compliance in maintaining financial health and profitability within the banking sector.

Table 4.11

Correlations Analysis

		Financial Performance	Agency Convenience	Agency Cost	Quality of Agent Services	Agency compliance
Financial Performance	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	145				
Agency Convenience	Pearson Correlation	.751**	1			
	Sig. (2-tailed)	.000				
	N	145	145			
Agency Cost	Pearson Correlation	.702**	.584**	1		
	Sig. (2-tailed)	.000	.000			
	N	145	145	145		
Quality of Agent Services	Pearson Correlation	.655**	.526**	.560**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	145	145	145	145	
Agency compliance	Pearson Correlation	.774**	.585**	.542**	.503**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	145	145	145	145	145

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

4.7 Model Diagnostics

This section includes tests for both dependent and independent variables to determine the feasibility of conducting a regression analysis test. This encompasses the examination of normality, autocorrelation, multicollinearity and linearity.

4.7.1 Normality Test using Kolmogorov-Smirnov

Table 4.12 presents the results of the tests of normality for the variables under consideration. The Kolmogorov-Smirnov test results show that all variables have a significant statistic at $p < 0.05$. Specifically, Agency convenience had a p-value of 0.023; agency cost had a p-value of 0.016; quality agent services had a p-value of 0.10; agency compliance had a p-value of 0.008; and financial performance had a p-value of 0.002. Therefore, according to the Kolmogorov-Smirnov test, none of the variables are normally distributed.

Table 4.12

Tests of Normality

		Agency Convenience	Agency Cost	Quality of Agent Services	Agency compliance	Financial Performance
N		145	145	145	145	145
Normal Parameters[a,b]	Mean	14.5342	14.5160	14.6210	14.9772	14.2968
	Std. Deviation	2.88184	2.96052	3.09449	3.02200	3.17654
Most Extreme Differences	Absolute	.101	.103	.110	.086	.090
	Positive	.095	.103	.098	.086	.071
	Negative	-.101	-.073	-.110	-.085	-.090
Kolmogorov-Smirnov Z		1.493	1.531	1.634	1.273	1.330
Asymp. Sig. (2-tailed)		.023	.016	.010	.008	.002

a. Test distribution is Normal.

b. Calculated from data.

4.7.2 Test for Autocorrelation

The Durbin-Watson statistic is a test used to detect the presence of autocorrelation (specifically, serial correlation) in the residuals of a regression analysis. Autocorrelation occurs when the residuals (errors) are not independent of each other, which can violate the assumptions of regression analysis and potentially lead to biased estimates.

The Durbin-Watson statistic ranges from 0 to 4: A value of 2 indicates no autocorrelation in the residuals. A value close to 0 suggests positive autocorrelation, where consecutive residuals are positively correlated. A value close to 4 indicates negative autocorrelation, where consecutive residuals are negatively correlated (i.e., they tend to be dissimilar). Table 4.13 indicates the Durbin-Watson statistic for the regression model under consideration.

Table 4.13

Auto-Correlation Test

Model	Durbin Watson
1	1.783

The Durbin-Watson value of 1.783 suggests that the model had a positive correlation. As a result, the model's coefficients and the statistical significance of the predictors can be interpreted with greater confidence. This is important for ensuring that the regression model provides an accurate representation of the relationships between the independent variables and the dependent variable, and that any predictive or explanatory power attributed to the model is not undermined by violations of regression assumptions. Overall, the Durbin-Watson statistic in this case supports the robustness of the regression analysis

by indicating that autocorrelation is not a concern. This adds credibility to the regression results and suggests that the model's conclusions about the factors influencing financial performance (or whichever outcome is being analysed) are likely to be valid and reliable.

4.7.3 Test for Multicollinearity

Table 4.14 presents the results of a multicollinearity test conducted using Tolerance and the Variance Inflation Factor (VIF) for the independent variables in a regression model, with Financial Performance as the dependent variable. Multicollinearity occurs when independent variables in a regression model are highly correlated with each other, which can inflate the variance of the coefficient estimates and make the model less reliable.

For Agency Convenience, the tolerance is 0.533 and the VIF is 1.876. This indicates that about 53.3% of the variability in Agency Convenience is not explained by the other variables in the model, and the inflation of the variance of its coefficient is relatively low. The VIF of 1.876 is well below the commonly used threshold of 5, suggesting that multicollinearity is not a serious issue for this variable. Agency Cost has a tolerance of 0.541 and a VIF of 1.847. These values indicate similar conclusions as for Agency Convenience, with about 54.1% of its variance being independent of the other predictors, and a VIF value that does not indicate problematic multicollinearity.

Quality of Agent Services shows a tolerance of 0.602 and a VIF of 1.660, indicating even lower multicollinearity. A tolerance value above 0.6 suggests that a significant portion of the variability in this variable is not explained by the others, and the VIF further supports that multicollinearity is not a concern here. For Agency compliance, the tolerance is 0.575 and the VIF is 1.740. Again, these values suggest that multicollinearity is not a significant

issue. The tolerance indicates that 57.5% of the variance in agency compliance is not explained by the other variables, and the VIF is well within acceptable limits.

The results from Table 4.14 indicate that none of the independent variables—Agency Convenience, Agency Cost, Quality of Agent Services, and Agency compliance—exhibit problematic multicollinearity. The tolerance values are all well above the critical threshold of 0.1, and the VIF values are all below 2, far from the threshold of 5 or 10 that would raise concerns. This suggests that the independent variables do not have strong linear relationships with each other that would distort the regression coefficients. As a result, the estimates of the effects of these variables on financial performance can be interpreted with confidence, and the reliability of the regression model is supported by these multicollinearity diagnostics.

Overall, the absence of significant multicollinearity ensures that the model is well-specified, with each independent variable contributing unique and meaningful information to the prediction of financial performance. This strengthens the validity of the model's results and the conclusions drawn from the analysis.

Table 4.14

Multicollinearity test using Tolerance and VIF

Model		Collinearity Statistics	
		Tolerance	VIF
1	Agency Convenience	.533	1.876
	Agency Cost	.541	1.847
	Quality of Agent Services	.602	1.660
	Agency compliance	.575	1.740

a. Dependent Variable: Financial Performance

4.7.4 Test for Linearity

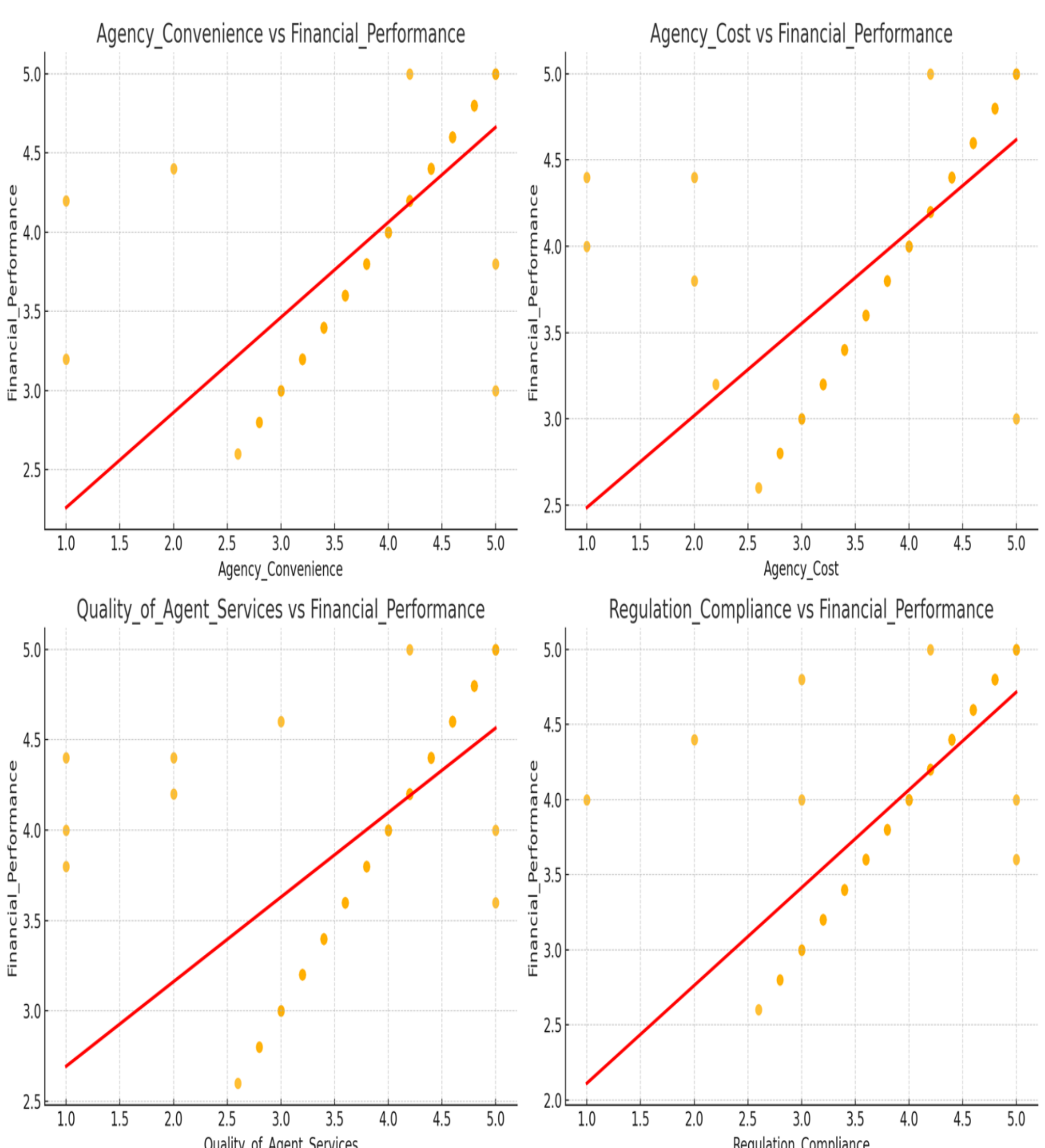
The scatter plots collectively illustrate that all four independent variables—Agency Convenience, Agency Cost, Quality of Agent Services, and Agency Compliance—have positive relationships with Financial Performance, as evidenced by the upward-sloping regression lines in each plot. These visualizations complement the statistical analysis previously discussed, reinforcing the notion that improvements in any of these areas are likely to lead to enhanced financial outcomes for the bank.

The varying degrees of scatter around the regression lines in each plot suggest that while all relationships are positive, the strength and consistency of these relationships differ slightly across the variables. Agency compliance and Agency Convenience exhibit stronger and more consistent positive impacts on financial performance, as indicated by the tighter clustering of data points, while Agency Cost and Quality of Agent Services also contribute positively, though with slightly more variability.

These findings underscore the multifaceted nature of financial performance in the context of agency banking. It is not only the cost efficiency and convenience of services that matter but also the quality of services provided and strict adherence to regulatory standards. Together, these factors create a comprehensive framework for understanding how different aspects of agency banking contribute to a bank's financial success. The positive relationships across all variables suggest that holistic improvements across these domains can yield significant benefits in financial performance, driving growth, stability, and profitability in the banking sector.

Figure 4.1

Scatterplot Matrix



4.8 Regression Analysis

An overall regression analysis was conducted between all the independent variables and financial performance.

4.8.1 Model Summary

The model summary presented in Table 4.15 offers valuable insights into the effectiveness of the regression model in predicting financial performance. The correlation coefficient, denoted as R, is 0.893, which indicates a very strong positive correlation between the observed and predicted values of the dependent variable, "Financial Performance." This high value of R suggests that the model is successful in capturing a substantial portion of the variability in the data, pointing to its strong predictive capabilities.

Further reinforcing this point is the R^2 value of 0.797, which implies that approximately 79.7% of the variance in financial performance is explained by the independent variables included in the model: Agency compliance, Quality of Agent Services, Agency Cost, and Agency Convenience. A high R^2 value like this one signifies that the model has strong explanatory power, effectively accounting for the majority of the variation in the dependent variable through the selected predictors.

The Adjusted R^2 value of 0.791 provides a more refined measure of the model's explanatory power by adjusting for the number of predictors included. This adjustment is crucial, as R^2 can artificially increase simply by adding more variables to the model, even if they are not meaningful. The fact that the Adjusted R^2 is only slightly lower than the R^2 value indicates that the predictors in the model are relevant and contribute significantly to explaining the variance in financial performance. This alignment between R^2 and Adjusted

R^2 suggests that the model is well-specified, with the included variables being both necessary and effective.

Lastly, the standard error of the estimate is reported as 0.23739, which measures the average distance that the observed values fall from the regression line. This relatively small value indicates that the model's predictions are generally close to the actual observed values, reflecting a high level of precision in the model's estimates. A lower standard error is indicative of better model accuracy, as it suggests that the predictions are more tightly clustered around the actual outcomes.

Table 4.15

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.893[a]	.797	.791	.23739

a. Predictors: (Constant), Agency compliance, Quality of Agent Services, Agency Cost, Agency Convenience

4.8.2 Analysis of Variance (ANOVA)

Table 4.16 presents the results of the ANOVA for the regression model that predicts financial performance based on the independent variables: Agency compliance, Quality of Agent Services, Agency Cost, and Agency Convenience. The ANOVA table is a critical component in regression analysis, as it helps to determine the overall significance of the model by comparing the variance explained by the model to the unexplained variance.

The F-statistic for the model is 137.521, which is a measure of the ratio of the mean square for regression to the mean square for residuals. A high F-statistic, as observed here,

indicates that the variance explained by the model is significantly greater than the variance that remains unexplained. This suggests that the independent variables collectively provide a robust explanation of the variability in financial performance. The corresponding p-value (Sig.) is reported as .000, which is well below the conventional threshold of 0.05, indicating that the regression model is statistically significant. This p-value confirms that there is a very low probability that the observed relationship between the predictors and the dependent variable is due to chance.

In summary, the ANOVA results in Table 4.16 provide strong evidence that the regression model is both statistically significant and effective in explaining the variance in financial performance. The significant F-statistic, coupled with the substantial regression sum of squares and minimal residual variance, underscores the model's validity and suggests that the selected predictors Agency compliance, Quality of Agent Services, Agency Cost, and Agency Convenience are indeed relevant and impactful in predicting financial performance. This analysis reinforces the conclusion that the model is a powerful tool for understanding and forecasting financial outcomes based on these key factors.

Table 4.16

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	31.000	4	7.750	137.521	.000[b]
	Residual	7.890	140	.056		
	Total	38.889	144			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Agency compliance, Quality of Agent Services, Agency Cost, Agency Convenience

4.8.3 Regression Coefficients

Table 4.17 presents the regression coefficients for the model predicting the financial performance of commercial banks based on four key predictors: Agency Convenience, Agency Cost, Quality of Agent Services, and Agency compliance. This table is crucial for understanding the specific contributions of each independent variable to the dependent variable, as well as the statistical significance of these contributions.

The unstandardized coefficients reflect the actual impact of each predictor on financial performance, holding all other variables constant. The constant (intercept) is 0.618, which represents the predicted financial performance when all independent variables are zero. While the intercept itself may not be of primary interest, it serves as a baseline from which the effects of the other variables are measured.

Agency convenience has an unstandardized coefficient of 0.243, meaning that for each unit increase in agency convenience, the financial performance is expected to increase by

0.243 units, assuming other factors remain constant. The standardized coefficient (Beta) of 0.304 indicates that Agency Convenience is a moderately strong predictor of financial performance relative to the other variables. The t-statistic of 5.829 and the corresponding p-value of 0.000 confirm that this relationship is highly significant, implying that agency convenience plays a crucial role in influencing financial outcomes.

Similarly, agency cost has an unstandardized coefficient of 0.161, which suggests that a one-unit increase in agency cost is associated with a 0.161-unit increase in financial performance, again assuming other factors are held constant. The standardized coefficient of 0.211 shows that while agency cost is a significant predictor, its relative influence is less than that of agency convenience and agency compliance. The t-statistic of 4.088 and the p-value of 0.000 reinforce the significance of agency cost as a determinant of financial performance.

The quality of agent services has an unstandardized coefficient of 0.129, indicating a positive association with financial performance, albeit with a smaller effect size compared to the other predictors. The standardized coefficient of 0.180 suggests that quality of agent services has a moderate impact on financial performance. The t-statistic of 3.672 and the p-value of 0.000 confirm that this relationship is statistically significant, highlighting the importance of maintaining high service quality in achieving better financial outcomes.

Agency compliance emerges as the most influential predictor in this model, with an unstandardized coefficient of 0.329. This means that for each unit increase in agency compliance, financial performance increases by 0.329 units, assuming all other factors remain constant. The standardized coefficient of 0.391 is the highest among the predictors,

indicating that agency compliance has the strongest relative impact on financial performance. The t-statistic of 7.785 and the p-value of 0.000 further underscore the critical role of agency compliance in driving financial success.

In summary, the regression coefficients presented in Table 4.17 provide a detailed understanding of the relative contributions of each predictor to the financial performance of commercial banks. All four predictors Agency Convenience, Agency Cost, Quality of Agent Services, and Agency compliance are statistically significant, with p-values well below the 0.05 threshold, indicating that each variable makes a meaningful contribution to the model. Among them, agency compliance stands out as the most potent predictor, followed by agency convenience, agency cost, and quality of agent services. This analysis suggests that efforts to improve agency compliance and enhance agency convenience could be particularly effective strategies for boosting financial performance.

Table 4.17

Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	.618	.150		4.131	.000
	Agency Convenience	.243	.042	.304	5.829	.000
	Agency Cost	.161	.039	.211	4.088	.000
	Quality of Agent Services	.129	.035	.180	3.672	.000
	Agency compliance	.329	.042	.391	7.785	.000

a. Dependent Variable: Financial Performance of Commercial Banks

$Y = 0.618 + 0.243X_1 + 0.161X_2 + 0.129X_3 + 0.329X_4 + \varepsilon$

Y = Dependent Variable (financial performance)

'B_0 = Constant

X_1 = Agency Convenience

X_2 = Agency Cost

X_3 = Quality of Agent Services

X_4 = Agency compliance

ε = error term

4.9 Hypotheses Test Results

The results of the hypothesis testing provide clear evidence that each of the independent variables Agency Convenience, Agency Cost, Quality of Agent Services, and Agency compliance significantly impacts the financial performance of commercial banks in Isiolo County. Starting with Agency Convenience, the regression analysis yielded a coefficient of 0.243, with a t-statistic of 5.829 and a p-value of 0.000. Given that the p-value is well below the conventional significance level of 0.05, we reject the null hypothesis H_{01}, which posited that Agency Convenience has no significant effect on financial performance. This outcome confirms that enhancing the convenience of agency services is likely to lead to improved financial performance, making it a critical area for banks to focus on.

Similarly, the analysis of Agency Cost reveals a significant impact on financial performance. With a regression coefficient of 0.161, a t-statistic of 4.088, and a p-value of 0.000, the null hypothesis H_{02} is also rejected. This indicates that higher agency costs, possibly reflecting investments in better services or more extensive operations, are positively associated with better financial outcomes. This finding suggests that strategic

cost management, where expenditures are carefully aligned with performance goals, can be an effective approach for banks in Isiolo County.

The Quality of Agent Services is another important predictor, as evidenced by its regression coefficient of 0.129, a t-statistic of 3.672, and a p-value of 0.000. The rejection of the null hypothesis H_{03} supports the conclusion that higher quality services provided by agents contribute significantly to financial performance. Although the impact of service quality is somewhat smaller compared to the other predictors, it remains a vital factor in driving financial success, underscoring the importance of maintaining high service standards.

Finally, Agency compliance emerges as the most influential factor, with a regression coefficient of 0.329, a t-statistic of 7.785, and a p-value of 0.000. The rejection of the null hypothesis H_{04} highlights the critical role that adherence to regulations plays in shaping financial performance. This strong positive relationship suggests that compliance with regulatory standards is not just a legal necessity but also a strategic asset that can enhance trust, reduce risks, and ultimately drive better financial outcomes.

In conclusion, the hypothesis testing reveals that all four predictors Agency Convenience, Agency Cost, Quality of Agent Services, and Agency compliance have significant and positive effects on the financial performance of commercial banks in Isiolo County. These findings validate the importance of these factors in the banking sector, providing valuable insights for bank management and policymakers seeking to enhance financial outcomes through targeted interventions in these areas.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a concise overview and final analysis of the study, aligning with the established objectives and hypotheses. Additionally, it includes recommendations based on the study's findings and concludes by identifying potential topics for additional exploration.

5.2 Summary of Research Findings

5.2.1 Effect of Agency Convenience on Financial Performance

The analysis revealed a significant positive correlation between agency convenience and the financial performance of commercial banks, with a Pearson correlation coefficient of 0.751, indicating a strong relationship. The regression analysis further confirmed that agency convenience is a crucial determinant of financial success, as evidenced by its standardized coefficient ($\beta = 0.304$) and a highly significant p-value of 0.000. These findings suggest that when agency banking services are convenient and accessible to customers, there is a notable improvement in financial performance. The ease of use, coupled with the accessibility of these services, encourages higher transaction volumes and customer engagement, leading to increased revenue generation and profitability for the banks.

5.2.2 Effect of Agency Cost on Financial Performance

Agency cost also demonstrated a strong positive impact on the financial performance of commercial banks, as indicated by a Pearson correlation coefficient of 0.702 and a

significant standardized coefficient (β = 0.211) in the regression analysis. The results underscore the importance of cost management in agency banking. Efficient control of operational costs, alongside the optimization of expenses related to agency banking, contributes significantly to the bank's financial outcomes. The findings imply that banks that effectively manage and reduce their agency costs while maintaining service quality can achieve better financial performance. This relationship highlights the strategic importance of aligning agency cost management with the overall financial objectives of the bank.

5.2.3 Effect of Quality of Agent Services on Financial Performance

The quality of agent services was found to positively influence the financial performance of commercial banks, with a Pearson correlation coefficient of 0.655. Although this variable showed a slightly weaker correlation compared to agency convenience and cost, it remains a significant factor, as indicated by its standardized coefficient (β = 0.180) and a p-value of 0.000 in the regression analysis. High-quality agent services contribute to customer satisfaction and loyalty, which are critical components of long-term financial success. The results suggest that while the direct impact of service quality on financial performance may be less pronounced than other factors, maintaining high service standards is essential for sustaining customer engagement and promoting financial growth.

5.2.4 Effect of Agency compliance on Financial Performance

Agency compliance emerged as the most influential factor affecting financial performance, with the strongest Pearson correlation coefficient of 0.774 and the highest standardized coefficient (β = 0.391) among the variables studied. The regression analysis

confirmed that strict adherence to regulatory guidelines, including those related to anti-money laundering and other central bank regulations, significantly enhances financial performance. Compliance not only mitigates risks associated with regulatory breaches but also builds trust and confidence among stakeholders, which is essential for the sustainable financial growth of commercial banks. The findings underscore the critical role of agency compliance as a strategic driver of financial performance in the banking sector.

5.3 Conclusions of the Study

5.3.1 Conclusions on Agency Convenience

The study concluded that agency convenience was a vital contributor to the financial performance of commercial banks. Therefore, the banks were noted to prioritize and enhance the accessibility and ease of use of their agency banking services to expect substantial improvements in their financial outcomes. However, some of the agency banking services were noted not to be user friendly which hampered a lot of the clients from subscribing to them. This had a lot to do with their convenience towards attending to all category of clients (educated and uneducated) in the market.

5.3.2 Conclusions on Agency Cost

On agency costs, the study concluded that it was crucial for achieving optimal financial performance. That notwithstanding, the study noted that the operational costs related agency banking were high as compared to the revenue generated from the venture. This was closely associated to installation and maintenance of IT, compliance with banking regulations and staffing the agencies to suit the needs of the bank.

5.3.3 Conclusions on Agent Services

On the quality of agent services, the study concluded that though it was slightly less impactful compared to other factors, it still remained an important determinant of financial performance. It was thus noted that most of agency banking had average standards to low standards as compared to what the branch banking was offering. Therefore, most customers were unable to remain loyal for a long time due to low satisfaction on services. Additionally, there was high turn-around time taken for the service to be provided which hampered greatly the drive for more transactions within the banking regulations.

5.3.4 Conclusions on Agency Compliance

On agency compliance, conclude that it stood out as the most critical factor influencing financial performance. It was noted that adherence to regulatory requirements was not only a legal obligation but also a strategic advantage that could significantly enhance financial outcomes. Banks that strictly complied with regulations were better positioned to avoid legal and financial penalties, reduce risks, and build stronger relationships with stakeholders. As such, regulatory compliance was regarded as a fundamental pillar of the bank's strategy for achieving long-term financial success.

5.4 Recommendations of the Study

5.4.1 Recommendations on Agency Convenience

The study recommendation on agency convenience is that bank managers should prioritize the convenience of agency services. This can be achieved by expanding the network of agents to ensure that services are accessible in both urban and rural areas, as well as by leveraging digital platforms to streamline transactions and reduce wait times.

5.4.2 Recommendations on Agency Cost

The recommendations on agency cost are that operations supervisors should consider focusing on implementing more efficient operational processes. This could involve adopting cost-saving technologies, improving resource allocation, and conducting regular audits to identify and eliminate wasteful expenditures. However, it is essential that these cost-cutting measures do not compromise the quality of services. Therefore, a balanced approach should be maintained where cost efficiency is achieved without diminishing the customer experience, which is vital for sustaining long-term profitability.

5.4.3 Recommendations on Agent Services

The recommendations on quality of agent services are that the senior management should develop a policy structure that ensures ongoing training programs for agents to equip them with exceptional service skills. Additionally, the staff should ensure that they practice and implement a robust feedback mechanism where customers could share their experiences will help first line managers in identifying areas for improvement and maintain high service standards.

5.4.4 Recommendations on Agency Compliance

The recommendations on agency compliance are that the branch managers should foster a culture of compliance within the organization, emphasizing the importance of ethical practices and regular training on regulatory updates. This will not only protect the bank from legal risks and penalties but also enhance its reputation, thereby contributing to better financial performance.

5.5 Implication of the Study to Policy

In terms of policy recommendations, regulatory bodies should consider creating frameworks that support and encourage the expansion of agency banking, particularly in underserved areas. Policies that incentivize the establishment of agency networks in rural and remote locations would not only increase financial inclusion but also enhance the overall financial performance of banks. Additionally, policymakers should work closely with financial institutions to develop guidelines that ensure agency services are both affordable and accessible to all segments of the population.

Another key area for policy intervention is in cost management within the banking sector. Regulators could establish benchmarks or guidelines for operational efficiency that banks can follow to optimize their costs without sacrificing service quality. Furthermore, providing tax incentives or subsidies for banks that invest in cost-saving technologies and processes could encourage more widespread adoption of efficient practices, ultimately leading to better financial outcomes for the industry as a whole.

In terms of service quality, policymakers should consider implementing standards or certifications for agent services to ensure that customers receive consistent and high-quality experiences across all banking channels. This could include mandatory training programs for agents or the establishment of a national accreditation system for agency banking services. By raising the bar for service quality, these policies would help build trust in agency banking and drive greater customer engagement, which is critical for financial performance.

Finally, regulatory compliance should be strengthened through more rigorous enforcement of existing laws and the introduction of new regulations that address

emerging risks in the banking sector. Policymakers should work to ensure that all banks are fully compliant with anti-money laundering (AML) standards and other critical regulations. Additionally, providing clear and consistent guidance on regulatory expectations can help banks navigate the complex legal landscape, reducing the risk of non-compliance and its associated financial penalties. By fostering a strong regulatory environment, policymakers can help ensure that banks operate in a manner that is both legally sound and conducive to financial success.

5.6 Suggestion for Future Studies

The current study focuses on commercial banks in Isiolo County, a region that presents unique socio-economic and infrastructural characteristics. Future research could extend the geographic scope to include a comparative analysis across different regions, both within Kenya and in other countries. For instance, examining the same variables; agency convenience, agency cost, quality of agent services, and regulatory compliance, in urban versus rural areas or in different counties with varying levels of economic development could provide valuable insights. Such comparative studies would help to understand how regional differences influence the relationship between these variables and financial performance. Moreover, extending the research to other countries, especially those with different regulatory environments or levels of banking infrastructure, could reveal important cross-national differences and similarities, thereby enriching the understanding of how these factors contribute to financial performance in diverse contexts.

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APPENDICES

Appendix I: Letter of Introduction to Respondents

Dear Respondent

RE: DATA COLLECTION

I am a graduate student at Kenya Methodist University studying for a Master's degree in Business Administration with a focus on Finance (MBA, Finance Option). Presently carrying out a study on the topic **"Effect of agency banking on financial performance of commercial banks in Isiolo County, Kenya."**

My sincere hope is that you will be able to help me out with this research by giving me some data on the study variable. Rest assured that your response will be utilized just for academic reasons and will be handled with the highest secrecy.

Your time and effort in taking part in this study are greatly appreciated.

Kind Regards.

Amina Abdi

Researcher,

KeMU.

Appendix II: Questionnaire

The branch managers or their representatives are requested to complete this survey. Kindly indicate your response by checking the corresponding box or providing a brief explanation. The name of the respondents will not be revealed in this research, and all information that is provided will be treated confidentially.

SECTION A: DEMOGRAPHICS

1. What is your level of education?

   a) College Diploma [ ] b) Undergraduate [ ] c) Masters [ ] d) Doctorate [ ]

   e) Others (please specify) [ ]

2. How long has your bank been operational in Kenyan market?

   Less than 5 years [ ] 6-10 Yrs [ ] 11-15 Yrs [ ] Over 15 Yrs [ ]

Strongly Agree=5, Agree=4, Uncertain=3, Disagree=2, Strongly Disagree=1

	SECTION B: AGENCY CONVENIENCE	1	2	3	4	5
1.1	Using our bank’s agency services is straightforward and uncomplicated					
1.2	Accessing and utilizing our bank’s agency services is easy					
1.3	Customers frequently utilize our bank's agency services for their transactions					
1.4	The operating hours of our bank's agency services are convenient for customers					
1.5	The availability of our banks agency services for extended periods meets customers' needs					
1.6	The agency convenience provided by our bank positively impacts its financial performance.					

	SECTION C: AGENCY COST	1	2	3	4	5

2.1	Integrating agency banking has reduced the operational costs of our bank					
2.2	The utilization of agency banking has resulted in more efficient operational processes, thus lowering costs					
2.3	The implementation of agency banking has led to reductions in transaction-related expenses.					
2.4	Our bank has experienced significant time cost reductions as a result of adopting agency banking services.					
2.5	The investment in technology required for agency banking has been justified by cost savings					
2.6	Agency banking has positively contributed to reducing the operational costs of our bank.					

	SECTION D: QUALITY OF AGENT SERVICES	1	2	3	4	5
3.1	The quality of service provided by our agents contributes to positive customer satisfaction scores.					
3.2	Agent-assisted transactions are processed accurately and without errors.					
3.3	The accuracy of agent-assisted transactions significantly impacts the operational efficiency of bank processes.					
3.4	Agent services are consistently available during the bank's operating hours.					
3.5	investing in enhancing the quality of agent services can positively impact the overall financial performance of our bank.					
3.6	High-quality agent services lead to improved customer retention and loyalty, thus enhancing the financial performance of our bank.					

	SECTION E: AGENCY COMPLIANCE	1	2	3	4	5
4.1	Adherence to Central Bank guidelines regarding agency banking positively influences the financial performance of our bank					
4.2	Strict compliance with Central Bank guidelines enhances the stability and profitability of our bank's agency banking operations					
4.3	Strict adherence to anti-money laundering regulations positively impacts the overall profitability of our bank?					
4.4	Effective audit and internal control compliance contribute significantly to the overall profitability of our bank's agency banking division					
4.5	Ensuring financial reporting and transparency compliance enhances the trust of stakeholders and consequently improves our bank's financial performance					

	SECTION F: FINANCIAL PERFORMANCE	1	2	3	4	5
5.1	Our bank's expansion of licensed agents through agency banking has positively impacted our financial performance					
5.2	Agency banking has led to a noticeable increase in the overall value of transactions processed by our bank					
5.3	The adoption of agency banking has contributed to a significant growth in the value of transactions handled by our bank					
5.4	The volume of transactions facilitated by our bank has substantially risen due to the introduction of agency banking services					
5.5	Our bank's customer acquisition strategy has been enhanced by the integration of agency banking services					

Appendix III: Secondary Data Collection Sheet on Performance

Name of Bank:	**Number of Transactions**				
Measurement Aspects	**2019**	**2020**	**2021**	**2022**	**2023**
Number of banks with Agency banking					
Number of Agents					
Volume of Transactions					
Value of Transactions (Ksh.‘M’)					
Market Distribution (Equity, KCB, COOP)					

Appendix IV: Introduction Letter from Kemu

KENYA METHODIST UNIVERSITY

P. O. Box 267 Meru - 60200, Kenya
Tel: 254-064-30301/31229/30367/31171
Fax: 254-64-30162
Email: deanrd@kemu.ac.ke

DIRECTORATE OF POSTGRADUATE STUDIES

Our Ref: KeMU/NACOSTI/BUS/33/2024

July 15, 2024

Commission Secretary
National Commission for Science, Technology and Innovations
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,

RE: AMINA ABDI DULACHA (REG. NO. BUS-3-0080-1/2023)

This is to confirm that the above named is a bona fide student of Kenya Methodist University, in the Department of Business Administration, undertaking a Master's Degree in Business Administration. She is conducting research on: **"Effect of Agency Banking on Financial Performance of Commercial Banks in Isiolo County, Kenya".**

We confirm that her research proposal has been defended and approved by the University.

In this regard, we are requesting your office to issue a research license to enable her collect data.

Any assistance accorded to her will be highly appreciated.

Yours sincerely,

Dr. John M. Muchiri (PhD)
Dean, Postgraduate Studies

Cc: Dean, KeBS
CoD - Business Administration
Postgraduate Coordinator - BA
Supervisors

Appendix V: NACOSTI Research Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **952319**

Date of Issue: **01/August/2024**

RESEARCH LICENSE

This is to Certify that Ms.. AMINA ABDI DULACHA of Kenya Methodist University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Isiolo on the topic: EFFECT OF AGENCY BANKING ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN ISIOLO COUNTY,KENYA for the period ending : 01/August/2025.

License No: **NACOSTI/P/24/38581**

952319

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

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See overleaf for conditions