INTERNATIONAL JOURNAL OF SOCIAL Sciences and Information Technology
ISSN 2412-0294 www.ijssit.com
http:// www.ijssit.com

INFLUENCE OF AGENCY BANKING ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KISII COUNTY, KENYA

[1*] **Ian Kebira Ogoti**
ogotiian3@gmail.com

[2**] **Jane Queen Omwenga**
jomwenga@jkuat.ac.ke

[1, 2] *Jomo Kenyatta University of Agriculture and Technology, Kenya*

Abstract: *The purpose of the study was to determine the influence of digital banking channels on financial performance of commercial banks in Kisii County, Kenya.* ***.*** *The study was guided by the specific objective to determine the influence of agency banking on the financial performance of commercial banks in Kisii County, Kenya. The study also adopted the following theories which was agency theory, innovation diffusion theory, financial intermediation theory, and transactional cost theory to support the variable in the study. The study adopted a descriptive research design. The target population consisted of 100 respondents from Kisii county working in commercial banks. The study adopted a descriptive research design. The target population of the study comprised management and a supervisory cadre of 100. The study used the census technique since the target population is small. The data collection instrument was a structured questionnaire. Pilot testing was done to test the validity and reliability of the research instrument. Data were analyzed using descriptive and inferential statistics and presented in tabular form. Data were subjected to correlation and Multiple Regression Statistical Methods. The study findings will help counties evaluate the on the influence of digital banking on financial performance of commercial banks in Kisii county Kenya. Based on the findings, agency banking, was positively related to financial performance of commercial banks in Kisii county Kenya. Therefore, the study recommends that the commercial banks management should improve their banking services to gain customers' trust and satisfaction. The bank's should make use of retail agents to reduce movement time spent by account holders and potential holders to physically walk to a bank branch to transact thus encouraging more transactions and provide accessibility of the online banking services. The banks management should strictly observe flexibility, confidentiality and address security issues whenever in provision of online banking channels and provision of timely information delivery to the customers which enhances performance. The banks management should encourage and support adoption of mobile banking channel to increase profitability hence performance. They should lower transactional cost of the online banking channels to encourage more transactions. Banks' management should make ABCs reliable to encourage more transactions.*

Keywords: *agency banking, commercial banks, digital banking, financial performance*

1. Background of Study

Commercial Banking has become increasingly important in the Kenyan economy as a driver of economic growth and development. The introduction of digital banking channels has revolutionized the banking sector in Kenya, creating new opportunities and improving access to financial services. This shift towards digital banking has also significantly impacted the performance of commercial banks in Kenya. Besides improved access to financial services, digital banking channels have enabled banks to reduce costs, increase efficiency, develop innovative products and services, and improve customer service. For instance, digital banking channels have allowed banks to offer services such as online account management and direct debiting, which have helped improve customer convenience. Furthermore, they have made it easier for customers to access banking services from any location, including remote areas. This has enabled banks to expand their customer base and improve financial inclusion.

However, despite these advantages, digital banking channels have risks and challenges. Security and privacy concerns have been a significant issue, as digital banking channels can be vulnerable to cyber-attacks. In addition, the lack of technical capacity and infrastructure in some rural areas has hampered the adoption of digital banking channels, leaving many people without access to essential financial services. In Kenya, commercial banks have responded to these challenges by investing in tools and technologies to improve security, providing training materials for staff, and creating customer awareness campaigns. In this way, they have been able to enhance the performance of their services and meet customer expectations. Overall, digital banking channels can be a powerful tool for improving financial performance, but they must be implemented with caution and consideration.

According to the CBK (2017) study, eight banks in the tier one category/classification were considered top of digital banking and ultimately reflected in the commercial bank profitability spectrum. Kenya Commercial Bank (k) Ltd; Cooperative Bank of Kenya ltd; Equity Bank of Kenya ltd; Standard Chartered Bank (K) ltd; Diamond Trust Bank; Barclays Bank of Kenya ltd (now Absa Bank of Kenya ltd); Commercial Bank of Africa Ltd (now NCBA); and Stanbic Bank (K) ltd were the trading banks.

Agency Banking and Financial Performance

The effect of agency banking on commercial banks' bottom lines in Rwanda was studied by Kihonge et al. (2016). The financial performance of commercial banks in Rwanda was improved by agency banking due to its effect on making financial services more widely available and reducing the cost of transactions. Mulyungi and Karangwa (2018) came to similar conclusions about the impact of agency banking on Equity Bank Rwanda Limited's financial performance. They advocated for banks to bolster innovations like agency banking to attract deposits at the lowest possible cost.

Agency banking was found to be one of several financial innovations that had a positive effect on the financial performance of commercial banks in Kenya by Njoki and Aloko (2015), who studied the relationship between financial innovations and the financial performance of commercial banks in the country. Mwangi (2013) found in a previous study that the financial performance of banks in Kenya benefited from the cost-effectiveness associated with agency banking. Both analyses were conducted in separate macroenvironments when agency banking was in its infancy and data was scarce.

In addition, Gichuki's (2013) research looked at the various factors that influence agency banking in Kenya, with a particular emphasis on Nyeri County. The research found that the implementation of the agency model by banks in Nyeri Central District was influenced by factors such as proximity (convenience), reduction in the cost of transactions (time and Money), public awareness of Agency banking, and personal factors such as customers' sex, age, and level of education. The study's significance lies in the fact that it draws attention to the fact that commercial banks who use agency banking need to consider additional criteria for the model to flourish and increase financial performance. Having an opening agent does not ensure better financial results for Kenya's commercial banks.

To reach the "unbanked," banks are continually developing new strategies. Acceptance of agency banking is one approach. However, only ten commercial banks switched to agency banking in December 2012. This list included institutions like Citibank, Co-op Bank, Consolidated Bank, SBM Bank (previously Chase), Equity Bank, Diamond Trust Bank, Family Bank, KCB, Post Bank, and NIC Bank. However, as of December 2017, this had increased to 18 banks, and the number of approved agents had grown from 56,090 to 61,290. (CBK, 2015). The significant decrease in the length of time spent waiting in banking hall queues is one indicator of the positive impact agency banking has had on increasing access to banking services and enhancing the customer service experience. This, combined with the pressing necessity to seize the resulting savings opportunity, has fueled the rapid expansion of agency banking.

Several developing countries have claimed unprecedented success due to implementing the agency-banking model, as evidenced by the thriving financial sectors and "insane" profits posted by banks in countries like Brazil. Peru and other South American countries

Popular acts have also come from Colombia and India (Kinyanjui, 2011). Agents' services have broadened in countries like Australia; for instance, forty percent of the mortgage supply is generated by agent brokers (Kumar et al., 2006). Agency banking was found to have a positive effect on the financial profitability of Rwandan commercial banks by Kihonge et al. (2016). Several regional studies have found similar results. Researchers Njoki and Aloko (2015) looked at the impact of fintech innovations on Kenya's commercial banks' bottom lines and found that many of them, including agency banking, were beneficial. Mwando (2013) researched the impact of agency banking on commercial banks' bottom lines, and he found that the combination of lower transaction fees and greater customer penetration boosted profitability. However, the agency banking model's adoption has also met some resistance. Before adopting a new technology, banks should weigh the pros and downs and examine how it fits in with other emerging trends. Other factors to consider are anti-Money Laundering (AML) hazards, power availability, and the agent's ability to manage vast sums of cash. That's why so few community banks have switched over.

2. Statement of the Problem

Commercial banks have increased their digitization, putting digital credit at the forefront, to strengthen their network, reduce personnel costs, compete favorably with their peers, and improve their financial performance. Despite this increased digitization, some banks' performance has declined, others have been placed under statutory management, and others have been placed under voluntary management. Aside from competition for customers among Kenyan commercial banks, they also compete for the same customers with increased digital lenders in the Kenyan market (Kinyanzui, 2018).Online banking has helped to improve the banking industry, where banks have made huge profits (Njuguna,Ritho,Olweny, & Wanderi, 2012). On the other hand, rising business and banking costs have resulted in high prices, waste, and inefficient resource use. The issue has been exacerbated by increased competition in the banking industry as banks compete for customers. As a result, Kenyan banks sought ways to reduce costs due to lower revenue. As a result, changes in information technology have been unavoidable in all sectors of the Kenyan economy, including the financial industry. Following the introduction of distribution channels such as Mobile banking, Internet banking, Agent banking, and ATM banking, which are the main pillars of commercial banks, digital banking has rapidly evolved, and competition among commercial banks has increased. In addition, Internet penetration via infrastructure (fiber optic cable) has provided banks with new markets and distribution channels.

Haddad (2018) defines electronic banking as providing financial services via electronic computing and communication. Banking markets are shifting to multi-channel service distribution via hybrid platforms, where traditional forms of banking are available through branches and the Internet. Previous research has shown that electronic banking has several cost-saving advantages for commercial banks. Maiyo (2013) investigated how e-banking affected Kenyan banks' financial performance and discovered that embracing e-banking improved bank performance through increased effectiveness, efficiency, and productivity. Kiragu (2017) investigated how e-banking affected the financial performance of Kenyan commercial banks and discovered that profits increased exponentially. However, there are still questions about whether banks that use all four financial products of digital banking improve their financial profitability over those that only use one.Kigen (2010) researched the effects of mobile banking on bank transaction costs and discovered that mobile banking could significantly reduce transaction costs but was not felt by banks where customers were not well informed. Online banking has rapidly grown, but there is still insufficient evidence of its impact on the financial performance of Kenyan banks. There is still a question about whether digital banking has improved commercial banks' financial performance. Therefore, the study seeks to determine digital banking channels and the financial performance of commercial banks in Kenya.

3. Research Hypotheses

HO_1: Agency banking does not have a significant influence on the financial performance of commercial banks in Kisii County, Kenya

4. Scope of the Study

The scope of the study was limited to commercial banks in Kisii County, Kenya operating under Bank Supervision. The primary reason for this limitation is that the study focused on how digital banking channels influence performance of commercial banks in Kisii County, Kenya. The study further focused on agency banking, mobile banking, ATM use and online banking channels as the independent variables, while the financial performance of commercial banks was the dependent variable. The study also focused on determining how banks' digital banking products and services affect their financial performance.

5. Descriptive Statistics

The study's objective is to determine the influence of agency banking on the financial performance of commercial banks in in Kisii County, Kenya. Various statements on Agency banking were identified and the respondents were asked to indicate the extent they agree with each of the identified statements using a scale of 1 to 5 where; 1= SD - Strongly Disagree 2=D - Disagree, 3=N - Neutral, 4=A - Agree and 5= SA - Strongly Agree. Mean and standard deviation were calculated for ease of comparison and generalization of findings.

From table 1 respondents indicated that The Set-up costs incurred by the bank while adopting Agency banking channel are low hence better financial performances which was supported by mean score of 4.26 and standard deviation of 1.15 providing that 61.43% of the respondents strongly agreed and 18.57% of the respondents agreeing. the study provided that Factors such as proximity (convenience), reduction in the cost of transactions (time and Money), public awareness of Agency banking, and personal factors such as customers' sex, age, and level of education influence agency bankingwith mean score of 4.29 and standard deviation of 0.96 indicating that 57.62% of the respondents agreed strongly and 20.00% of the respondents agreeing.

The study revealed that Bank agents enable customers to carry out transactions in a simple and easy way as compared to conventional banking which was supported by a mean of 3.76 and standard deviation of 1.05 indicating that 24.29% of the respondents strongly agreed and 42.86% agreeing with the statement.

The findings in the study provided that Number of agents, fees charged to customers and amounts of transactions affects agency banking which had a mean of score of 4.47 and standard deviation of 0.91 where 66.19% of the respondents were agreeing with the statement. Further the study provided that Agency banking enhances financial performance of commercial banks where 34.76% of the respondents agreed and 50.48% of the respondents strongly agreed, with a mean score of 4.30 and standard deviation of 0.86. From the finding this implies that Agency banking enhances financial performance of commercial banks.

Table 1: Agency Banking

Statement	**%**	**1**	**2**	**3**	**4**	**5**	**Mean**	**StD**
The Set-up costs incurred by the bank while adopting Agency banking channel are low hence better financial performances	%	6.19	2.86	10.95	18.57	61.43	4.26	1.15
The bank's use of retail agents reduces movement time spent by account holders and potential holders to physically walk to a bank branch to transact thus encouraging more transactions.	%	3.33	0.95	8.57	15.24	71.90	4.51	0.94
Factors such as proximity (convenience), reduction in the cost of transactions (time and Money), public awareness of Agency banking, and personal factors such as customers' sex, age, and level of education influence agency banking	%	0.95	4.29	17.14	20.00	57.62	4.29	0.96
Number of agents, fees charged to customers and amounts of transactions affects agency banking.	%	1.90	3.81	5.71	22.38	66.19	4.47	0.91
Bank agents enable customers to carry out transactions in a simple	%	5.71	4.29	22.86	42.86	24.29	3.76	1.05

and easy way as compared to conventional banking								
Agency banking enhances financial performance of commercial banks	%	1.43	2.86	10.48	34.76	50.48	4.30	0.87

6. Financial Performance of Commercial Banks

The study's main objective is to examine the influence of the financial performance of commercial banks in Kisii County, Kenya. The respondents were required to indicate to which extent digital banking influence financial performance of commercial banks in Kisii County, Kenya scale of 1 to 5 where; 1= SD - Strongly Disagree 2=D - Disagree, 3=N - Neutral, 4=A - Agree and 5= SA - Strongly Agree. Mean and standard deviation were calculated for ease of comparison and generalization of findings.

The finding is shown in Table 4.9 indicated that the adoption of Internet banking services leads to improved financial performance, such as increased return on assets and equity which had a mean of 4.09 and standard deviation of 1.01 with 41.90% of the respondents agreeing and 39.52% of the respondents strongly agreeing to the statement that the adoption of internet banking leads to improved financial performance such as increased asset and equity.

The findings indicated that there is presence of return on investment with digital banking with a mean score of 3.74 and standard deviation of 0.91 where 75.71% of the respondents agreed and 8.10% of the respondents strongly agreed to the statement that presence of return on investment with digital banking.

The respondents moderately indicated that customers are satisfied with the services given to them in commercial bankswhich had a mean of 4.36 and standard deviation of 0.93 with 26.19% of the respondents agreeing and 58.57% of the respondents strongly agreeing to the statement.

The study indicated that in digital banking can lead to improved financial performance in the short term with a mean score of 3.97 and standard deviation of 1.00 where 43.81% of the respondents agreed and 32.38% of the respondents strongly agreed to the statement.

The findings further indicated that Banks must be aware of the potential long-term effects that Internet banking can have on their profitability with a mean of 3.7 and a standard deviation of 0.82. From the findings, the results revealed that majority of the respondent agreed that Banks must be aware of the potential long-term effects that Internet banking can have on their profitability.

Table 2: Financial Performance of Commercial Banks

Statement	**%**	**1**	**2**	**3**	**4**	**5**	**Mean**	**StD**
The adoption of Internet banking services leads to improved financial performance, such as increased return on assets and equity.	%	3.33	5.71	9.52	41.90	39.52	4.09	1.01

there is presence of return on investment with digital banking	%	5.71	6.67	3.81	75.71	8.10	3.74	0.91
Customers are satisfied with the services given to them in commercial banks.	%	0.95	5.71	8.57	26.19	58.57	4.36	0.93
Digital banking can lead to improved financial performance in the short term.	%	5.24	0.95	17.62	43.81	32.38	3.97	1.00
Banks must be aware of the potential long-term effects that Internet banking can have on their profitability.	%	2.86	4.76	21.90	60.95	9.52	3.70	0.82

7. Inferential Statistics

The study sought to establish the strength of the relationship between independent and dependent variables of the study. Pearson correlation coefficient was computed at 95 % confidence interval (error margin of 0.05). Table 3 illustrates the findings of the study.

Table 3: Correlation Matrix

		Financial Performance
Agency banking	Pearson Correlation	.529**
	Sig. (2-tailed)	.000
	N	80

As shown on Table 3, the p-value for Agency banking was found to be 0.000 which is less than the significant level of 0.05, ($p<0.05$). The result indicated that Pearson Correlation coefficient (r-value) of 0.529, which represented an average, positive relationship between agency banking and financial performance of commercial banks in Kisii County, Kenya.

8. Regression analysis

The From the Coefficients table (Table 4) the regression model can be derived as follows:

$$\mathbf{Y} = 23.722 + \mathbf{0.509X_1}$$

The results in table 4 indicate that the independent variable has a significant positive effect on financial performance of commercial banks in Kisii County. According to this model when the independent variable values are zero, financial performance of commercial banks in Kisii County will have a score of 23.722.

Table 4: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	23.722	2.638		16.453	.000
Agency banking	.509	.123	.693	3.442	.000

9. Hypotheses Testing

Ho1: Agency banking does not have a significant effect on financial performance of commercial banks in Kisii County.

From Table 4 above, Agency banking ($\beta = 0.509$) was found to be positively related to financial performance of commercial banks in Kisii County. From t-test analysis, the t -value was found to be 3.442 and the ρ -value 0.000. Statistically, this null hypothesis was rejected because $\rho<0.05$. Thus, the study accepted the online hypothesis and it concluded that Agency banking affects financial performance of commercial banks in Kisii County.

10. Summary

The objective of the study aimed at determining the effect of Agency banking on financial performance of commercial banks in Kisii County. The objective was assessed by use of statements in the questionnaire in which the respondents were required to state their position on the basis of a Likert scale that was provided. In this part the study shows the effect of Agency banking on financial performance of commercial banks in Kisii County.

The findings showed that majority of the respondents agreed that the Set-up costs incurred by the bank while adopting Agency banking channel is low hence better financial performances. Majority of the respondents revealed that the bank's use of retail agents reduces movement time spent by account holders and potential holders to physically walk to a bank branch to transact thus encouraging more transactions hence better performance

On the statement that bank agents enable customers to carry out transactions in a simple and easy way as compared to conventional banking, the results of the study also showed that majority agreed that bank agents enable customers to carry out transactions in a simple and easy way as compared to conventional banking.

References

Ali, M. (2018). Impact of corporate governance on firm's financial performance (A comparative study of developed and non–developed markets). Economic Research, 2(1), 15-30.

Chali, M. T., Eshete, S. K., & Debela, K. L. (2022). Learning How Research Design Methods Work: A Review of Creswell's Research Design: Qualitative, Quantitative and Mixed Methods Approaches. The Qualitative Report, 27(12), 2956-2960. https://doi.org/10.46743/2160-3715/2022.5901

Deng, M., & Zhang, A. (2020). Effect of Transaction Rules on Enterprise Transaction Costs Based on Williamson Transaction Cost Theory in Nanhai, China. Sustainability, 12(3), 1129. https://doi.org/10.3390/su12031129

Fetu, A. (2019). Opportunity and Challenges of Electronic-Banking System in Commercial Bank of Ethiopia (A Case Study on Gurage Zone). Journal of Accounting, Finance and Auditing Studies, 5(2), 106-122. https://doi.org/10.32602/jafas.2019.23

Gubbins, P., & Totolo, E. (2018). Digital credit in Kenya: Evidence from demand-side surveys. Financial Sector Deepening (FSD) Kenya. Available online: https://fsdkenya. org/publication/digital-credit-in-kenya-evidence-from-demand-side-surveys/(accessed on 16 April 2020).

Haddad, A. (2018). E-finance, entrepreneurship, and economic growth in developing countries.

Kinyanzui, K. F., Achoki, G., & Kiriri, P. (2018). Effect of mobile credit on operational efficiency in commercial banks in Kenya.

Kiragu, M. (2017). Effects of E-banking on the Financial Performance of Kenyan Banks.

Kapur, R. (2018). Research methodology: Methods and strategies. Department of Adult Education and Continuing Extension, University of Delhi: New Delhi, India.

Maiyo, J. (2013). The effect of electronic banking on financial performance of commercial banks in Kenya (Doctoral dissertation, University of Nairobi).

Musau, T. M. (2015). Strategies adopted by commercial banks in kenya to gain competitive advantage (Doctoral dissertation, University of Nairobi).

Muthinja, M. M., & Chipeta, C. (2018). What drives financial innovations in Kenya's commercial banks? An empirical study on firm and macro-level drivers of branchless banking. Journal of African Business, 19(3), 385-408.

Nachmias, R., Mioduser, D., Cohen, A., Tubin, D., & Forkosh-Baruch, A. (2004). Factors involved in the implementation of pedagogical innovations using technology. Education and information technologies, 9(3), 291-308.

Njuguna, P. K., Ritho, C., Olweny, T., & Wanderi, P. M. (2012). Internet banking adoption in Kenya: The case of Nairobi County.

Kimari, A., Lio, S., & Ogada, A. (2022). The effect of ease of access on financial prosperity of micro and small entrepreneurs in Nairobi County, Kenya. International Journal of Research in Business and Social Science, 11(6), 314-323. https://doi.org/10.20525/ijrbs.v11i6.1946

Ocharo, W. & Muturi, W. (2016). Effect of alternative banking channels on profitability of commercial banks a case study of commercial banks in Kisii County, Kenya. International Journal of Economics, Commerce and Management, United Kingdom, 4(4).

Olaniyi, D. M. (2010). The effect of level of deposits on financial performance of Commercial Banks in Kenya. Unpublished MBA thesis, University of Nairobi.

Okun, D. M. (2012). The effect of level of deposits on financial performance of Commercial Banks in Kenya. Unpublished MBA thesis, University of Nairobi.

Omondi O. M., Maokomba, C., Musiega, D. (2014). The effects of alternative banking channels on profitability of commercial banks- case of the Co-operative bank of Kenya. The International Journal of Engineering and Science (IJES), 3 (3), 29-34.

Parasuraman, A., Zeithaml, V., & Malhotra, A. (2001). E-S-QUAL: A Multiple-Item Scale for Assessing Electronic Service quality. Journal of Service Research, 7(3), 213-23.

Porteous, D. (2006). The Enabling Environment for Mobile Banking in Africa. Africa Journal of banking 5, 56-89. Companies in Sri Lanka. International journal of technological exploration and learning (IJTEL), 2(4).

Rogers, E. (2003). Diffusion of innovations (5thed.) .New York: : Free Press U.S.A.

Robinson, W.G. (2002). Business research methods, (6thed.). Fort Worth, Tex.: Dryden Press.

Rubin, P. (1990): Managing Business Transactions: Controlling the Costs of Coordinating, Communicating, and Decision making. Free Press Washington, D.C.: CGAP.

Saluja, M.S. &Wadhe, T. (2015).Impact of e- banking on profitability of commercial banks in India. International Journal in Management and Social Science, 3(2).

Samphanwattanachai, B. (2007). Internet Banking Adoption in Thailand: .A Delphi Study Proceedings of the 24thSouth East Asia Regional Computer Conference, Bangkok, Thailand.

Scornavacca, E. &. (2007). Mobile banking in Germany: A strategic perspective. . International Journal of Electronic Finance, 1(3), , 304-320.

Sidel, R. (2013). Banks make smart phone connection. The wall street journal, , 1 – 12.

Suoranta, M. (2003). Adoption of Mobile Banking In Finland. . Studies In Business and Management 28, Doctoral Thesis, Jyvaskyla.

Thulani, D. K. (2011). Adoption And Use of SMS/Mobile Banking Services in Zimbabwe: An Exploratory Study Journal of Internet Banking and Commerce, August 2011, vol.16, no.2.

Tiwari, R. &. (2007). The mobile commerce prospects: A strategic analysis of opportunities in the banking sector. . Hamburg: Hamburg University Press.

Valluri, P. (2012). Role of Alternate Channels in Banking and Wealth Management

Yang, A. S. (2009). Exploring adoption difficulties in mobile banking services. . Canadian Journal of Administrative Sciences, 26(2), 136-149.