

**THE EFFECT OF AGENCY BANKING ON FINANCIAL PERFORMANCE OF
COMMERCIAL BANKS: A case of Equity Bank**

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**UGANDA CHRISTIAN
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APPROVAL

This is to certify that this report entitled “*The Effects of Agency Banking on the Financial Performance of Commercial Banks*” has been done under my supervision and is submitted with my approval as the Academic Supervisor.

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DECLARATION

I, **CHEMUTAI PEACE** hereby declares that this research report entitled“ **The Effects of Agency Banking on Financial Performance of Commercial Banks**” is entirely my own original work and has never been submitted to any other University or any other institution of higher education for any academic award.

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DEDICATION

This research report is dedicated to my lovely family mainly Rev. Moses Bushendich and Mrs. Caroline Bushendich and my siblings for always supporting me with enormous love and care and it's entirely due for me to unveil a portion of what am yet to achieve which is a Bachelor's Degree. Thank you so much and may the Almighty God bless all your endeavors towards success and happiness.

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ABSTRACT

The study analyzed the effects of agency banking on the financial performance of commercial banks in the study context. The study determined the effect of agency banking on customer transaction on a banking services, on deposit growth and on cost reduction in the study context.

The study used a cross-section survey design and the study focused on Equity Bank. The population of the study was 55 respondents and the sample size was 48 although actual participants were 40. The study used both qualitative and quantitative research approaches for data collection. The study established that agency banking had a positive influence on customer growth. Both the middle managers and agents agreed that agency banking had an impact on financial inclusion especially because of its convenience and ease of use. Agency banking has greatly increased the level of financial inclusion. It has enhanced efficiency by availing services to customers at lower costs. By so doing, banks have been able to increase customer outreach thereby increasing customer growth. On deposit growth, most banks have a free transaction cost policy for deposits. This has encouraged customers with huge cash flows to deposit their money at agents at no costs. This therefore signifies a positive influence of agency banking on deposit growth. On cost reduction, agency banking has significantly reduced the costs it would take to build the brick and motor institutions. Agents are often pharmacies, general shops and even kiosks that are in operation. They then offer financial services to customers. Operational costs are however slightly higher and in turn increase transaction costs. Since the premises is not owned by the bank, the other costs related to the agency banking are borne by the agents and not the bank. Thus reducing the overall costs of availing financial services in general. The study concluded that majority of the population is no longer ignorant about financial services due to the presence of agents in rural and semi-rural areas. The agents have been equipped with tools and the knowledge of bank products and have significantly led to the increase in customer awareness and ultimately the growth of customers for their respective banks. The study therefore recommends that customer care needs to be improved as services are being relayed to customers. The study recommends increased awareness of the service offerings as well as reduced charges for cash deposits so as to increase the volume of transactions being carried out via agents. This study recommends the streamlining of operational costs involved in providing financial services.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter includes the background to the study, statement of the problem, research objectives, research questions, scope of the study, significance of study, justification, definition of key terms and conceptual framework.

1.1 Background of the Study

Agency banking refers to the delivery of financial services outside conventional bank branches, often using non-bank retail outlets that rely on technologies such as point-of sale devices or mobile phones for real time transaction processing (Modupe, 2017). Agency banking refers to contracting of a retail or postal outlet by a financial institution or a mobile network operator to process bank clients' transactions. It is different from a branch teller, since it is the owner or an employee of the retail outlet who conducts the transactions, ranging from deposits, withdrawals, funds transfers, bill payments, account balance inquiry, receiving government benefits, or direct deposits from employers (CGAP, 2016). Agency banking has dramatically reduced the cost of delivering financial services to bank customers. The cost reduction creates the opportunity to significantly increase the share of the population with access to formal finance and, in particular, in rural areas where many people in developing countries live (Lyman, Pickens, and Porteous, 2019). Development of agency banking is expected to lead to an improved financial performance of banking sector. According to Ivantury, (2008), agency banking can benefit the users of the service by lowering transaction cost, longer opening hours, shorter lines than in branches, more accessible for illiterates and the very poor who might feel intimidated in branches.

Globally, the trend of agency banking is evident. In South America like other continents, agency banking is quickly becoming recognized as a viable strategy in many countries for extending formal financial services into poor and rural areas. Brazil is often recognized as a global pioneer in this area since it was an early adopter of the model and over the years has developed a mature network of agent banks covering more than 99% of the country's municipalities. Other countries in Latin America have followed suit, including Mexico (2019), Peru (2011), Colombia (2006),

Ecuador (2018), Venezuela (2009), Argentina (2010), and Bolivia (2016)(Alliance for Financial Inclusion,2012).In Africa, Agency banking has increasingly gained importance over the last decade. According to CGAP (2011), agency banking as a replica has been instrumental in boosting the commercial banks' performance in most developing states. Further, achievement stories have been witnessed in Nigeria, Ghana, South Africa and North African countries. In addition, Njuki (2020) states that, in Kenya agency banking has enabled banks to increase profits and spread out financial services. Nonetheless, the agency banking penetration is currently estimated to be at 33% (Musau, 2018). In Uganda, the introduction of agency banking in 2016 was meant to facilitate and enhance access to affordable financial services especially to the poor, low-income households and micro and small enterprises, which largely comprise those segments which are un-served and under-served by the financial sector (Wabwoba, 2021). This follows the coming into force of the Financial Institutions Act amendments of 2016 that gave the Bank of Uganda powers in consultation with the Minister of Finance to make regulations in respect of agents and agency banking. Agency banking model works in such a way that a commercial bank appoints a third party (agent) to transact business on its behalf instead of visiting a nearby ATM or branch. The agent could be a petrol station, retail or hardware shop, a supermarket, pharmacy, and consumer goods distributor. Currently, Equity Bank and Centenary Bank have already rolled out agency banking as a pilot with 1,000 and 392, agents respectively. Stanbic Bank, which has so far signed an excess of 400 agents, plans to roll out the new banking model next month while KCB plans to follow suit in the second quarter of the year (FSD, 2013).The Ugandan business environment has changed and it has been characterized by stiff competition among the players and the banking industry is no exception. Competition amongst the commercial banks as well as entry of mobile phone operators in the money transfer business has pushed banks towards becoming more innovative.

Despite this study having been conducted in developing countries, the findings may not be applicable in Uganda owing to certain environmental differences (BOU, 2017). Most studies made have looked at the adoption of agency banking also referred to as branchless banking and its contribution to financial inclusion. There remains a huge gap on studies looking at the financial aspect of banks in terms of loans repayments, deposits, liquidity, withdrawals, and number of customers, operating costs, coverage, and operational risks among others. Previous studies have fallen short of explaining the financial impact of agency banking on commercial

banks financial performance. This has made this research worth by investigating whether agency banking has an effect on financial performance of commercial banks.

1.2 Problem Statement

Access to banking services especially in rural areas in Uganda is often a rigorous endeavor. It required customers to travel long distances and make queues at banking halls to receive services from banks. For this reason, commercial banks sought to move closer to customers by developing agents within local towns (Mwende et al, 2017). Agency banking has created greater access to formal banking services and it represents a cheaper alternative to conventional branch-based banking through the use of delivery channels like retail outlets, mobile phones, internet and automated teller machines. The issue which arises is to whether the agency banking has succeeded in achieving the set objectives of the commercial banks (Mwirigi, 2018). The queues in the banking halls may have reduced considerably, more accounts opened by the targeted populace and general financial services availed to the unbanked but have these agents significantly affected the performance of Equity bank? This study is aiming at bridging the existing knowledge gap and giving more insight on the role of agency banking in the financial performance of banks. Most studies made have looked at the adoption of agency banking also referred to as branchless banking and its contribution to financial inclusion. There remains a huge gap on studies looking at the financial aspect of banks in terms of loans repayments, deposits, liquidity, withdrawals, and number of customers, operating costs, coverage, and operational risks among others. Previous studies have fallen short of explaining the financial impact of agency banking on commercial banks financial performance. Hence the study sought to assess the effect of agency banking on financial performance of Equity Bank.

1.3 Objectives of the study

1.3.1 General Objective

To analyze the effects of agency banking on the financial performance of commercial banks in the study context.

1.3.2 Specific Objectives

- i. To establish the effect of access of banking services through agency banking on the financial performance of commercial banks.
- ii. To establish the relationship between agency banking and financial performance of commercial banks.
- iii. To determine the effect of customer transactions through agency banking on the financial performance of commercial banks.

1.4 Research Questions

- i. What role is played by easy access to banking services through agency banking on the financial performance of commercial banks?
- ii. How do the agency banking low-cost services influence the financial performance of commercial banks?
- iii. What is the effect of increased customer transactions through agency banking on the financial performance of commercial banks?

1.5 Scope of the study

1.5.1 Geographical scope

The study focuses on a number of Equity bank branches located in Kampala Central Division. The choice for this area was due to the fact that it is in the Centre of the busy business area of Kampala and Equity bank has many clients who carry out banking activities from Agency banking posts.

1.5.2 Content scope

The study focused on agency banking elements like the low cost of services, increased customer transaction reduction in relation to financial performance in terms of increased saving, increased customers and reduced cost.

1.5.3 Time scope

The study considered information and the most recent and up to date statistics and trends within the period of 2017-2022 on the effect of agency banking on the financial performance of commercial banks. The study was carried out between the period of March and August 2023.

1.6 Significance of the study

Financial Institutions:

The study is of great importance to financial institutions as they will evaluate their performance/profitability in relation to agency banking. It will also provide banks who are yet to venture into agency banking valuable insight on the significant impact that agency banking has on the financial performance; in a bid to guide them into adopting and managing their agency banking channels.

Government Policy Makers:

The findings of this study will be important to policy makers in government especially the central bank to reduce the regulations and policies that do affect the performance of agents such as float restrictions hence affecting the overall performance of banks.

Academicians and Researchers:

The study will contribute to the existing body of knowledge on agency banking and be of use to academicians. The findings would further be of use as a reference point in further research in this area.

1.7 Justification of the study

Several studies have been done for instance, Kamau, (2017), undertook a study on the relationship between agency banking and financial performance of banks in Kenya and established negative and weak correlation between the two. Mwangi, (2016) sought to establish role of agency banking in the performance of commercial banks and established that cost effectiveness (infrastructure, human resource and security cost) associated with agency banks positively influence banks financial performance. Kithuka (2017), studied factors influencing growth of agency banking and established that convenience of its technology, accessibility and cost has influenced its use. The issue which arises is to whether the agency banking has succeeded in achieving the set objectives of the commercial banks. The queues in the banking

halls may have reduced considerably, more accounts opened by the targeted populace and general financial services availed to the unbanked but have these agents significantly affected the performance of commercial banks? This study aimed at bridging the existing knowledge gap and giving more insight on the role of agency banking in the financial performance of banks in Kampala District.

1.8 Definition of Key Terms

Agency Banking: providing banking services to the bank customers through the engaged agents under a valid agency agreement, rather than a teller/ cashier. It is the owner of an outlet, who conducts banking transactions on behalf of the concerned bank (Ferdous, Mosharrafa&Farzana 2019).

Financial Performance: it is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time (Eshna, 2017).

Financial Inclusion: The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost. It can also be referred to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products (Malik, 2014).

Customer Growth: It is defined as successfully guiding customers through adoption, retention, expansion and advocacy (Wojno, 2016).

Deposits: Deposits consist of money placed into banking institutions for safekeeping. These deposits are made to deposit accounts such as savings accounts, checking accounts and money market accounts. The account holder has the right to withdraw deposited funds, as set forth in the terms and conditions governing the account agreement (Investopedia, 2017).

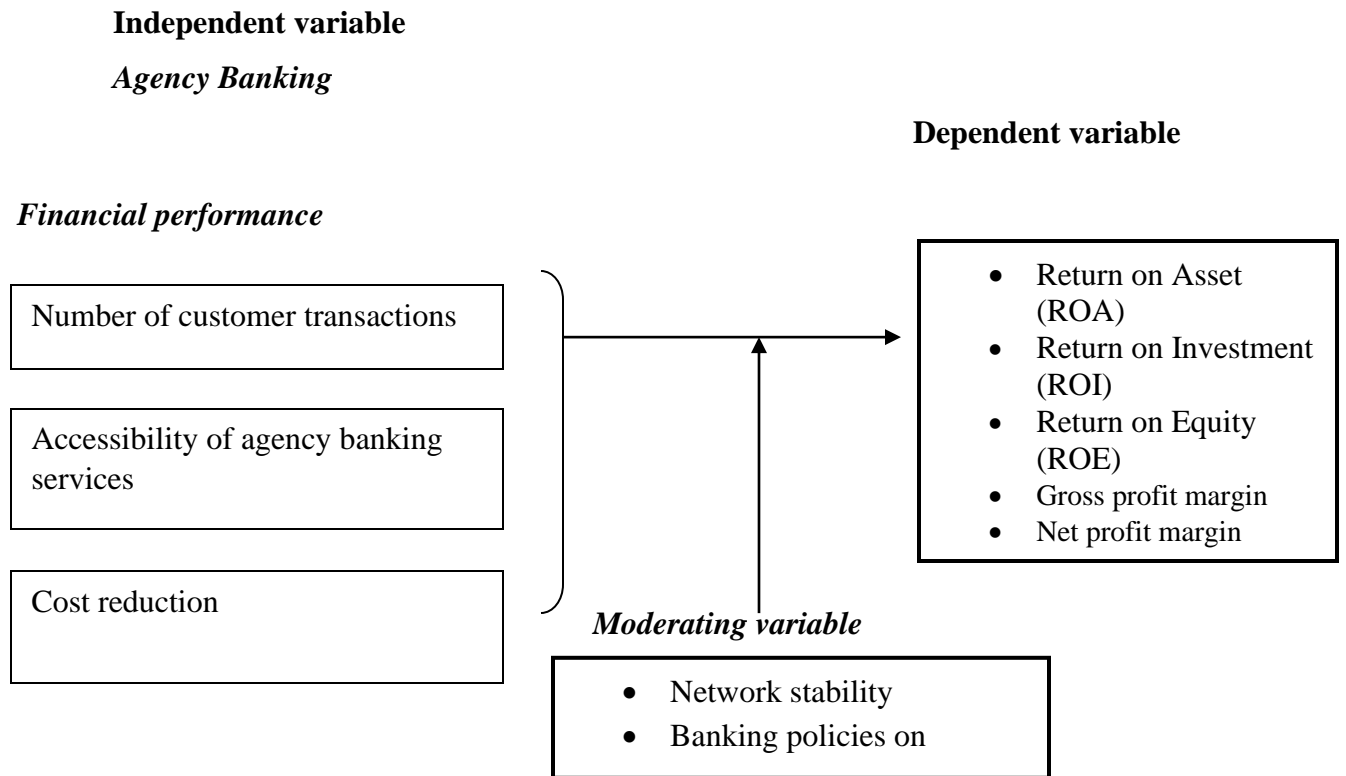
Cost Reduction: the process of used to save the unit cost of the product without compromising its quality by using new and improved methods (Surbhi, 2015).

1.9 Conceptual framework

The agency banking retail approach is designed to help banks increase their outreach without incurring additional costs of setting up. The commercial banks and non-banking financial institutions offer agency banking services like increasing number of customers, taking deposits and reducing operation costs (Orita, 2015). Banks are continuously seeking to automate and optimize their operations into productive and customer friendly processes. Therefore, the transition from traditional branch banking to agency banking has caused banks to develop strategies that will attract new customers and retain existing ones. The desire to reduce both operational and administrative costs has resulted in adoption of agency banking. For this reason, the banking industry has become increasingly competitive and it is therefore paramount for banks to make the transition to agency banking to remain relevant. A decline in the financial performance of the commercial banks will therefore have a significant implication on the economic growth of the country. Commercial banks are profit making institutions and thus profit can be termed as the measure of financial performance. Financial performance is the degree in which financial objectives are being accomplished in an organization. Several financial ratios have been developed to measure profitability. They include Return on Asset (ROA), Return on Capital (ROC), Return on Investment (ROI) and Return on Equity (ROE). Bank regulators and analysts have used ROA and ROE to assess industry performance and forecast trends in market structure as inputs in statistical models to predict bank failures and need for mergers and for a variety of other purposes where a measure of profitability is desired.

The conceptual framework below shows the effect of agency banking on financial performance.

Fig 1: Conceptual framework



Source: adopted from (Orita, 2015) and modified by researcher (2019)

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature on the contribution of agency banking on the financial performance of banks. The following areas are captured customer turnover, deposits, costs and income growth.

2.2 Theoretical Review

2.2.1 Agency Theory

Banking agents must fit within the distribution strategies of banks, alongside other channels, such as branches or automatic teller machines (ATMs). Commercial banks are big beneficiaries of the rapid growth of agency outlets, which has helped cut costs on expansion and staffing but it is important that the bank has a clear strategic rationale for each agent it sets up, to drive decision making, ensure appropriate agent setup and channel support, and permit subsequent performance evaluation against the original strategic intent Siedek, (2018). Banking agents help financial institutions to divert existing customers from crowded branches providing a complementary, often more convenient channel. Other financial institutions, especially in developing markets, use agents to reach an “additional” client segment or geography. Reaching poor clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of setting up a fully-fledged branch the staffing costs related to that bank and other ancillary costs such as cleaning, security and maintaining an internet connection.

In such environments banking agents that piggy back on existing retail infrastructure and lower set up and running cost play a vital role in offering low-income people their first-time access to a range of financial services. Also, low-income clients often feel more comfortable banking at their local store than walking into a marble branch (Siedek, 2018). Benefits of Agency Banking are among others bringing banking services closer to the customers for instance customers can apply for lines of credit, credit cards, loans and Mortgages through these agents hence, fewer

visits are required to banks for doing banking transactions (Purcell et al, 2013). Rikta, (2017) mentioned that in Bangladesh, Customers had to visit on an average of 15 times to their lender for a single loan. Wendel and Williams (2001) mentioned that Agent businesses are more profitable and produce higher revenues, than commercial banks that use only branch networks. Banks can benefit from lower transaction costs as agency banking requires less paper work, less staffs and physical branches (Cheng et al, 2016).

Never the less there are challenges that banks need to address to avoid losing customers and maintaining the Banker- Customer relationship. The customer is still the responsibility of the Banks and the same has not been delegated to the Agency. Some of the challenges that need to be addressed are: Confidentiality; Every year Banks ensure that their staff members sign secrecy forms and maintain confidentiality for all customer information. This should be looked at as these agency employees are not bank employees. Security; Most of these agents are in areas that are what would be considered 'high risk'. The Bank needs to audit the security measures being taken by the agencies to ensure the customer can transact confidently without having to look behind their backs. Service is a huge challenge for the banks as they need to train and retrain the Agents so as to maintain high levels of customer service. Fraudsters target agency banking staff as they are aware that they will not be able to easily identify fraudulent transactions for example identification of documents for originality (Banker, 2011).

The bank must address the challenges that are posed by having agency banking while at the same time taking advantage of all the benefits of having this channel of banking. Agency Banking may eventually lead to financial inclusion in the countries where it has been adopted (Banker, 2011). Success in branchless banking ultimately depends on offering customers a service proposition that is superior to existing options. To date, branchless channels meet this standard only for some clients (Bankable Frontier Associates 2019). Success factors in Agency Banking include product attributes, competitive capabilities, resources, competencies, market achievements etc. It is very important for the strategists to understand the landscape of industry in order to identify the most important competitive success factors. Due to changes in driving forces and competitive conditions, the key success factors of one industry differ from other.

Banking industry is broadly divided into two types of banks i.e. virtual banks and brick and mortar banks. CBK (2009) states that there are many technological and operational challenges in employing a successful agency banking strategy. Technology should be in place to enable banks and their customers to interact remotely in a trusted way through existing local retail outlets. Agency banking requires a generally good infrastructure in terms of road network, communication and information technology. Considerations should be made for areas that are hard to reach due to a poor fixed infrastructure and poor transport system. Key issues to note are technology; competitive rates product innovation, brand image, Size of the company, location and convenience.

2.3 The effect of agency banking on customer transactions of Equity Bank

The ultimate goal for banks is to maintain a certain level of customers that will enable them generate profits. Therefore, the aim is to retain existing and gain new customers. By so doing, customer growth becomes a paramount objective for the banks. Banks are realizing that revenue growth cannot be taken for granted anymore, and that survival will not simply be a question of turning revenues into reasonable profits, but to actively secure that flow of revenues in the first place Ruttoh, (2020). The consumer marketplace is continuing to fragment into smaller subsets of needs and behaviors, which is affecting the way banks and other financial institutions market products and services. Approaching new customer segments as a potential source of additional revenue mainly lower, but secured income segments - retired people and public institutions employees (e.g. teachers) as potential target groups for simple and low volume loan products (cash loan, credit card) can expand the revenues of the bank Ruttoh, (2020).

The products and services of most commercial banks can be targeted to meet the financial needs of the households as well as their income generating activities; many commercial banks are beginning to examine retail banking as an opportunity to explore and are even changing their operations from corporate banking to retail banking. This is because there is stiff competition in the banking industry that has forced them to diversify into new markets. Customer growth begins with customer acquisition and retention. Acquisition refers to the initial commencement of a business relationship when a venture brings a customer on board. Customer growth can be attributed to accessibility, convenience and financial inclusion. Financial inclusion has been on

the low and this can be attributed to the long-distance customers, in rural areas especially, have to walk to access financial services. Sometimes, the amount of money someone wants to withdraw from the bank is equivalent, or even less than the transportation cost, while others find the new ultra-modern banking halls intimidating. Thus, they avoid formal financial services and opt for informal financial services which are readily accessible in rural areas Wainaina, (2011). Access to finance is critical for sustainable economic growth and social development. Financial inclusion empowers low income people and marginalized sectors of society to actively participate in the economy, which leads to increasing employment and decreasing poverty levels (Bold, 2017).

Banking agencies help financial institutions to divert existing customers from crowded branches providing a complementary often more convenient channel (Ruttoh, 2020). Other financial institutions especially in developing markets use agents to reach an additional client segment or geography. Reaching poor clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of a branch. In such environments, banking agents that piggy back on existing retail infrastructure and lower set up and running cost- can play a vital role in offering many low-income people their first-time access to range of financial services. Also, low income clients often feel more comfortable banking at their local store than walking into a brick and mortar structure. Taking the bank to the community has not only widened and deepened the financial market but it has also enhanced customer loyalty to respective banks. This has continued to create committed entrepreneur-clients. Agency banking has enabled bank customer to access the banking services within the comfort of their neighborhood (Jaldesa, Muturi& Sumba 2018)

Agency banking was introduced to aid increasing convenience in banking for customers especially for those based in rural areas as the agents operating hours are more since some agents open as early as 06:00 hours and close as late as 01:00 hours. Through agency banking, customers can deposit at free or low costs and withdraw at a cost that would have previously included transport. In addition, agency banking is deemed more convenient as they open for longer hours compared to formal banks, there are shorter queues to access services, more accessible for illiterates and the very poor who might feel intimidated in branches. Therefore,

customers save on time they have to travel to a bank branch, and the time they have to wait in line to be served Mwangi&Wanyoike, (2012). Banks are now providing special services, value-added services, by way of increasing convenience, tapping a broader market, increasing service channels and lowering cost in accessing their services. When there is a great demand for these services like school opening times, month end and other prime times the long queues lead to disservice to customers, who in today's Kenyan market have a choice of going to competitors reducing revenues therefore taking away the business Jaldesa, Muturi& Sumba, 92019).

The fact that if poor are not connected to formal financial system, their growth will not take place and as a country grows, they will still be poor without access to basic banking services but agency banking can reduce the gap (Finacle, 2018). Secondly due to lack of financial system awareness they can be lured to enter in fraud money saving schemes and can be looted. They lack awareness of investing and will risk the future of their children. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy. Importance of financial inclusion can be summarized as below: If customer is financially educated, he will make better financial choices. It will help in improving overall growth of the country. Access to financial services at an affordable cost will improve life of the poor (Damodaran, 2017).

Consumers' adoption of multiple channels is fueling their expectation of true multi-channel banking, which allows them to transition seamlessly between touch points as they fulfil several, or even a single transaction. Agency banking, an important channel innovation that has improved banking penetration in underserved areas in the past, can help banks top into other segments, by becoming an integrated component of multi-channel banking (Finacle, 2018). Financial inclusion empowers low income people and marginalized sectors of society to actively participate in the economy, which leads to increasing employment and decreasing poverty levels (Bold, 2014) Companies are always looking to expand their share of the market, in addition to trying to grow the size of the total market by appealing to larger demographics, lowering prices, or through

advertising In addition, when financial agent banks do not have branches that are close to the customer, the customer is less likely to use and transact with their service. However, the emergence of new delivery models as a way to drastically change the economics of banking the poor. By using retail points as agent banking other providers can offer saving services in a commercially viable way by reducing fixed costs and encouraging entrepreneurs to use the service more often, thereby providing access to additional revenue sources Aduda, Kiragu&Ndwiga, (2016).

2.4 The effect of agent banking on the access of banking services of Equity Bank

Commercial banks are institutions that engage in two distinct types of activities, one on each side of the balance sheet deposit-taking and lending. Commercial Banks deposits are dependent on depositor's money as a source of funds (Werner, 2018). Bank deposits represent the most significant components of the money supply used by the public, and changes in money growth are highly correlated with changes in the prices of goods and services in the economy (Mashamba, Magweva, & Gumbo, 2019). Bank deposits are made to deposit accounts at a banking institution, such as savings accounts, checking accounts, time deposit accounts and money market accounts. The account holder has the right to withdraw any deposited funds, as set forth in the terms and conditions of the account. The "deposit" itself is a liability owed by the bank to the depositor (the person or entity that made the deposit), and refers to this liability rather than to the actual funds that are deposited (Adem, 2015). Consumers deposit their money in banks as a safety measure, for ease of access and the possibility of returns. The motive is to keep the money in safety for future use.

Bank deposits represent the most significant components of the money supply used by the public, and changes in money growth are highly correlated with changes in the prices of goods and services in the economy. Deposits provide most of the raw materials for bank loans and thus represent the ultimate source of the bank's profits and growth. Banks make profit by using their deposits; therefore, it is said that depositors can discipline banks Gemedu, (2018). Commercial banks are critical to the development process. By granting loans in areas such as agriculture, manufacturing, services, construction and energy sectors, banks contribute to the development of the country. Bank loan portfolio including volume, tenor and structure may be generally

influenced by their expectations of the performance of economy both in terms of stability and level of performance. As cited by banks make out more loans during periods of boom and reduced level of macroeconomic uncertainty and curtail lending when the economy is in recession (Churchill, 2010).

There is a positive correlation between bank deposits and financial service expansion. Since it's costly to build banking halls in every town, banks opted to increase their service provision through agents. These agents not only influence deposits but agency banking is also influenced by the level of deposits in a certain area. It is expected that banks expand their facilities and service provision by considering factors such as competition, deposit potential, regional income and existence to infrastructure. Thus, deposits can also be a factor to consider when in need of an agency banking expansion strategy. By creating greater access to financial services, agency banking has in turn increased the level of deposits for banks. Providing the "un-banked" access to safer and cheaper financial services has led to banks recording more deposits than ever before. Equity bank attributes two thirds of the income from agency banking as a result of deposits and the remainder on withdrawals Bankelele, (2019).

Han and Melecky (2018), found that a broader access to and use of bank deposits can significantly mitigate bank deposit withdrawals or growth slowdowns in times of financial stress. Where a large share of population still lacks access to bank deposits, trust in banks is yet to be firmly established, and the integration in global financial flows is growing. In addition to the access and use of deposits, bank stability and the dummy for the occurrence of banking crises are the most significant explanatory variables in our regressions. The results hold even when accounting for the possible leverage effects of outliers. The main message is that countries should recognize that policies to promote a broader use of bank deposits could improve resilience of bank funding. Such policies can thus enhance overall financial stability and complement the mainstream macro-prudential policies to foster stability of the financial system (Han, et al., 2013).

Financial institutions provide a system through which savers deposit their money and borrowers can access those funds. The process by which deposits are transformed by the banking sector into real productive capital is at the core of financial intermediation Abel, (2018). The motivation for

mobilizing savings is in the lower cost compared to other sources of funds. Deposits are mobilized to meet the required liquidity for loans. Deposit mobilization is the collection of cash or funds by a financial institution from the public through its current, savings, fixed, recurring accounts and other specialized schemes Banson, Sey, & Sakoe, (2020). To enhance profitability, banks seek to minimize their expenditure and are forced to mobilize low cost deposits. Thus, the amount of deposits is important. The deposit size largely decides the banks capability to lend money to borrowers; the higher the deposits, the higher will be the funds at the disposal of a bank to lend and earn profits. However, deposit growth is profitable only if the commercial bank does not incur additional expenses to obtain and retain cash, Adem, (2019).

Banks simply cannot function without deposits from savers in the economy. Many developing countries suffer from low domestic savings rates. Domestic deposits traditionally provide a cheap and reliable source of funds for development, which is of great value to developing countries, especially when the economy has difficulty raising capital in international markets. Banks generally fund more of their loan books with customer deposits in order to stand more robustly against liquidity squeezes and contribute to the stability of the banking system. Any decline in the amount of deposits at the banks raises important questions about whether the banks will be able to remain successful and meet the credit needs of the economy (Abel, 2018).

Mobilization of deposits is one of the important functions of banking business (Adem, 2015). It is an important source of working fund for the bank because deposit mobilization is an indispensable factor to increase the sources of the banks to serve effectively. Mobilization of deposit plays an important role in providing satisfactory service to different sectors of the economy. The commercial banks must tap deposits from urban and rural areas. This helps the banks to provide large amount of funds to priority sectors for development. The success of the banking greatly lies on the deposit mobilization.

2.5 The effect of agency banking on cost reduction of Equity Bank

The high costs inherent in traditional banking are considered as one of the impediments to providing financial services to the society and most especially to the “un-banked” population. The minimum deposit amounts for opening bank accounts had previously led to customers

shying away from banking. The amount of money expended to serve a poor customer with a small balance and conducting small transaction is too great to make the accounts viable Veniard, (2013). However, through agency banking, the delivery of services has moved from the traditional way towards a more efficient and customer friendly service (Bankelele, 2015). Agency banking radically reduces the cost of setting up points of contact with customers, allowing agents, to reach out into areas where building branches would be too expensive (Abel, 2018). Banks expansion is usually limited due to the high initial cost of opening a branch and in many areas due to the low economic status of the people living in these areas. The setup costs incurred by banks when opening branches takes several years to translate into profits and this leads to limited expansion.

Banks are now partnering with already established businesses across the country in order to take services closer to the people Kipng'etich, (2016). The bank does not incur cost of recruiting new employees because the agent that is approved by bank is the one who hires or carries out the transactions himself. Agents purchase the POS machines and mobile phones. Systems are installed in the mobile phones to allow the agents to transact and send the data to the central processing center where the information is captured and data reconciled. Therefore, the only cost the bank incurs is branding the outlets. The bank saves costs in terms of advertising and hiring sales personnel. This is the work of the agent as he is paid according to the number of transactions and accounts opened therefore the agent makes sure there is traffic in his outlet in order to earn more Watiri, (2018). This in turn will lead to increased customer base and thus the market share, increased coverage with low cost solution, increased revenue from improved indirect productivity by reducing congestion in existing branches. Customers will in turn benefit from agency services since the cost of travelling distances has been reduced considerably with the service being at close proximity.

According to Veniard (2019), agency banking systems were found to be up to three times cheaper to operate than branches for two reasons. First, agency banking minimizes fixed costs by leveraging existing retail outlets and reducing the need for financial service providers to invest in their own infrastructure. Although agent banking incurs higher variable costs from commissions to agents and communications, fixed costs per transaction for branches are significantly higher.

Since agency banking is targeted towards financial inclusion, transaction costs related to the financial services have to also reduce considerably. This is because the segments targeted are often customers with low balances but with frequent transactions. Banking agents should be the lowest cost channel for cash transactions, and the charges for using them should reflect that. Transaction charges should be lower on deposit than on withdrawal, reflecting the additional revenue deposits. This may seem at odds with the higher commission the bank might pay the agent for a deposit, but this reflects that the bank stands to gain far more from a deposit than from a withdrawal. So, the bank should aim to recover more of its costs when the money is on its way in, not out.

As is expected, most commercial banks that have rolled out agency banking have put in place a transaction cost model on withdrawals and no fees for cash deposits. This is expected to increase the volume of deposits into the bank, making money available for loans and other investment opportunities. Agency banking systems are most cost effective for transactional accounts with low balances and frequent transactions (Veniard, 2010). Gardeva&Rhynea (2021), in a survey report on opportunities and obstacles to financial inclusion observes that, product cost-structures and branching costs were ranked 7th and 12th respectively viewed as significant obstacles to financial inclusion, especially by providers, high branching costs in rural areas are associated with poor physical infrastructure roads, electricity et cetera. That branchless banking is able to leapfrog. Such infrastructure barriers ranked surprisingly high, at 9th on the obstacles list. Agency banking drastically reduces the cost of setting up points of contact with customers, allowing MFIs, banks and other providers to reach out into areas where building branches would be too expensive. Through partnerships with businesses across the country, banks will take their services closer to the people in areas with potentially less number and volume of transactions (Ahmed, 2017).

Customer's visiting the general store will benefit from lower transaction costs as it is closer home and hence no need to travel 150 km to a bank, longer banking hours as the agents will operate for longer hours and shorter queues than in branches. Barriers for poor people to access appropriate financial services include socio-economic factors (education, gender and age, low and irregular income and geography), regulatory factors (provision of identity documentation)

and product design factors (minimum account balances). Some major barriers financial service providers experience when expanding appropriate services to poor people are the cost of providing those services and finding the regulatory space to innovate (Afande&Mbugua, 2021). Agency banking systems are up to three times cheaper to operate than branches for two reasons. First, agency banking minimizes fixed costs by leveraging existing retail outlets and reducing the need for financial service providers to invest in their own infrastructure. Although agent banking incurs higher variable costs from commissions to agents and communications, fixed costs per transaction for branches are significantly higher (Veniard, 2020).

Some of the benefits that commercial banks gain from agency banking are: huge savings on cost of construction of bank premises and leasing costs when banks are using the agency premises; human resource expenses have reduced as banks do not have to employ new staff to manage the agency and the cost of training if any is to the bare minimum; savings on equipment like furniture and computers (Chepkulei, 2015). In several countries, such as in Uganda, physical inspection from a central bank representative is required as part of the approval process, which may substantially delay a branch opening in remote areas. In several countries, such as in India, regulating authorities limit the number of branches in geographical areas. Whether a branch opens and when a branch opens therefore depends on administrative processes. These regulations impose restrictions to efficient branch installation, thus may substantially affect investment costs and the profitability of branches (Mas, 2018). The construction and facilities of bank branches are subject to regulation and therefore cause substantial investment costs. Agency banks also improves banks performance as it reduces huge savings on cost of construction of bank premises and leasing costs than when banks are using the agency premises (Aduda et al, 2019).

2.5 Chapter Summary

Agency banking is not new in the world and it has been applied successfully in Brazil and other parts of Asia. Since its inception in 2010, banks in Kenya have been keen to take advantage of the cost-saving and accessibility brought about by the agency banking. As a result, many studies have been conducted to evaluate the effect of agency banking on to the performance of these banks in Kenya with all of them finding a positive relationship between banks financial performance and agency banking. But this study focuses on agency banking in Uganda since

most did not focus on Ugandan context which creates a gap for a study to be done on Equity bank in Uganda. This chapter has given a review on the literature on the effects of agency banking on deposit growth, customer growth and cost reduction. From the past studies conducted, it has also come out clearly that performance of banks was greatly affected by security and infrastructure costs. Agency banking models have come in and greatly reduced the costs of operations for commercial banks. Agency banking improves the bank's geographical coverage and competitiveness so that existing and potential customers can benefit from a greater level of convenience in accessing banking services. Small retail informal outlets (kiosks) are the most reliable credit issuers to many people and form the bulk of agency outlets that partner with the banks.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the methodology that was used to collect, manage and analyze data. The chapter discussed the methodology of the study including like; the design, study area, the population to be sampled, the source of data, sample size and technique, data tools as well as data management and analysis.

3.1 Research design

Research design provided the conceptual framework within which research is conducted, it constitutes of the blueprint or roadmap for the collection, measurement and analysis of data (Kothari, 2017). According to Bryman and Bell (2018), the selection of the research design ought to be linked to the research question. A cross-section survey design was adopted for this study. The researcher used qualitative and quantitative approaches for data collection. A cross-section survey which included questionnaire survey and in-depth interview methods were used for analysis. The quantitative approach yielded numbers and tables which were easily analyzed.

3.2 Study population

Cooper and Schilndler (2016) define population as the total group of people or entities from which information is required. The target population includes managers, supervisors, employees in agency banking department and bank tellers. The study population comprised of 40 respondents from which information was obtained from the above.

3.3 Sampling procedures.

Sampling procedure is a method of selecting a part of population on which research can be conducted, which ensures that conclusions from the study can be generalized to the entire population. The research used Krejcie and Morgan table (1970) to determine the sample size since it gave a sample which is appropriate for the study.

3.3.1 Sample size

The sample size is a smaller set of the larger population (Cooper and Schindler, 2016). The population is 55 and the sample size was 40 based on the statistical model of Krejcie and Morgan (1970) which was be attached as an appendix.

3.3.2 Sampling technique

Beri (2017) describes sampling technique as a statistical method involving the selection of elements from an ordered sampling frame. The process of defining a representative subpopulation to study is called sampling. For the purpose of this study, a purposive sampling method was used where the elements are chosen purposely for the study.

3.4 Data source

3.4.1 Primary Data

Greener (2018), explains that primary sources are those which come into existence in the period under research for example questionnaires completed for the study. Primary data is collected through a self-administered questionnaire; interview guide and observation presented to respondents and their responses was analyzed to obtain findings that were used to make relevant conclusions to the study.

3.4.2 Secondary Data

Greener (2018), further explains that secondary data sources are interpretations of events of that period based on primary sources. This information is obtained from published materials, which included text books, journals, magazines, internal reports, minutes and newspapers, unpublished reports and articles.

3.5 Data collection methods and instruments

The researcher used questionnaire and interview guide for this study.

3.5.1 Questionnaire

The primary data was collected through use of questionnaires as the major instrument for collecting data which was constructed and administered inform of self-administered questionnaires with both open and close ended questions. The respondents answered on how they

agree or disagree with the statements in the questionnaire. The choice for this instrument was that respondents are limited in their opinion while answering certain questions and at the same time the questionnaire was easy and cheap to administer.

3.5.2 Interview guide

These are in forms of face to face meeting, where the researcher interacted with the respondents by asking them questions and recording their feedback (Bryman and Bell 2011). They are normally of two types i.e. telephone interviews and face to face interviews. The researcher used face to face interviews because they were cheap to conduct and the researcher was able to easily observe the conduct of respondents to note their reactions. The researcher used this instrument because it gave an opportunity to do a one on one interaction and by this interaction, the researcher got the necessary required information which were not be captured by the questionnaire.

3.6 Quality control

Validity

According to Amin, (2010) validity refers to the appropriateness of the instrument, thus the degree to which an instrument measures and what it was supposed to measure. In order to emphasize validity, the questionnaires are constructed according to research objectives which were validated by the academic supervisor and two other experts in order to get expertise judgment on the content validity to ensure that the questions are capable of capturing the intended data. This was also done to help improve the sentence construction and language clarity of the data instruments based on the comments that was obtained from those who reviewed the instruments.

Reliability

Qualitatively, the reliability of the instrument was established through a pilot test of the questionnaire to ensure consistency and dependability and its ability to tap data that would answer the objectives of the study. After the pre-test survey, the questionnaires were revised and appropriate corrections were effected to avoid biases and maintain confidentiality of respondents.

3.7 Measurement of variables

The independent variable is agency banking and the dependent variable is financial performance. Structured standard questionnaires were used. The tool helped to solicit responses on a five point like the scale with the following verbal anchors: would be: 1) Strongly disagree, 2) Disagree, 3) Not sure, 4) Agree, 5) strongly agree which will be used to measure the variables.

3.8 Data management and Analysis

The field data was managed, analyzed and presented using both qualitative and quantitative method. The collected data was coded and entered into the Statistical Package for Social Sciences (SPSS) program according to each variable of the study for analysis. This study used descriptive statistics. According to Mugenda&Mugenda (2009), descriptive analysis involves a process of transforming a mass of raw data into tables, charts, with frequency distribution and percentages, which were a vital part of making sense of the data. In this study, the descriptive statistics such as percentages and frequency distribution were used to analyze the demographic profile of the participants. Pearson Correlation was used to determine the relationship between independent and dependent variable. The data was presented using tables and figures to give a clear picture of the research findings at a glance. The researcher used the interview guide and observation to gain an understanding of underlying reasons, opinions, and motivations. It provided insights into the current phenomenon. The data was analyzed using content analysis and theme analysis whereby responses were grouped into themes, interpreted and presented together with descriptive statistics of quantitative data.

3.9 Ethical issues.

The researcher requested permission from the University to carry out this research and present to the management where the research was to be conducted prior to the date when the data collection was carried out.

The researcher also ensured that responses from recipients especially personal or sensitive matters were kept confidential and well protected by making sure that information on respondent's attitude, feelings or personal life was not disclosed.

The researcher cited all the sources used in the study either in the literature or appendices and also data accessed through official channels.

3.10 Limitations of the study.

The researcher faced a challenge with the cross-sectional time dimension used for collecting data since it was a short period to get information and this was minimized by the use of case study design.

Again, the outcomes were based on the information solicited from the respondents and therefore subject to human errors, omissions and possible misstatements. However, in spite of the above, the researcher ensured that the research met all the relevant requirements for a scientific research and thereby reducing errors to the barest minimum if not to eradicate it completely.

The study was limited by scope due to the fact that it was carried out in a bank which does not permit a comparison of information with two or more banks that use agency banking.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND ANALYSIS OF THE FINDINGS

4.0 Introduction

The chapter presented the findings captured from the field. The researcher presented, analyzed and discussed the findings of the study. The participants were 40 out of 48 respondents which presented 83.3% of the response rate. The presentation of findings results were presented inform of tables.

4.1.1 Gender of respondents

The study determined gender of respondents to indicate whether male or female and the findings obtained below related to respondents gender.

Table 1: Gender Of Respondents.

	Frequency	Percentage
Valid Male	17	42.5
Female	23	57.5
Total	40	100.0

Source: Primary Data. (2023)

The results presented above shows that 57.5% of respondents are females and 42.5% were males. This therefore implies that during the research most of the respondents were females since they were approachable and could give their views without hesitation and above that women are needed more in banks because of their customer care services.

4.1.2 Education level of respondents

The researcher noted the academic qualification of respondents.

Table 2: Level of academic qualification

	Frequency	Percentage
Valid Certificate	10	25.0
Diploma	13	32.5
Degree	17	42.5
Total	40	100.0

Source: Primary Data (2023)

The field findings revealed that those that had attained degree accounted for 17(42.5%), diploma had 13(32.5%), and 10(25%) had certificates. This probably implies that the majorities of the employees had some education and knowledge and therefore could read and understand the questions that were asked. Their responses were based on the knowledge they have about agency banking and financial performance.

4.1.3 Duration in the bank

The study established the duration respondents have spent working for organization

Table 3: Duration in the organization

	Frequency	Percentage
Valid 0-5 years	22	55.0
6-10 years	11	27.5
11 years and above	7	17.5
Total	40	100.0

Source: Primary Data (2023)

Findings revealed that 22(55%) have worked with the organization for 0-5 years and 11(27.5%) for a period of 6-10 years and lastly 11 years and above accounting for 7(17.5%). This implies that almost all the respondents had worked for some time in the organization and therefore they had knowledge about agency banking and financial performance.

4.2 Descriptive Statistics basing on study objectives

Questionnaire used to generate data was designed in liker scale with different levels of agreement for each statement that is, 1-Strongly disagree, 2-Disagree, 3-Not sure, 4-Agree and 5-Strongly agree. Therefore, the mean average level of agreement was computed as $(5+4+3+2+1)/5 = 15/5 = 3.0$. This therefore implies that all responses averaging 3.0 and above amounted for Agree whereas all responses averaging below 3.0 accounted for Disagree.

4.2.1 Effects of Agency Banking on Customer transactions

Table 4: Descriptive statistics on Effects of Agency Banking on Customer Transactions

Statement	Mean	Std. Deviation
The number of customers who have opened accounts with our bank has increased due to agency banking	4.49	.804
Agency banking has contributed to growth of customers in our bank in the last 5 years	3.84	.834
Bank's transactions outside working hours have increased due to agency banking	3.89	.737
Our customers access their accounts via the agency banking spots	3.81	.908
We have new customers in different places due to agency banking	3.81	.908
Agency banking has improved business operations and reduced complaints of poor customer services	4.35	.676
Our customers incur less costs while making transactions via agency banking	3.49	.804
Agency banking has made financial services more accessible to customers by minimizing time and distance to the nearest bank branches	3.84	.834

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Agency banking has improved business operations and reduced complaints of poor customer services	4.35	.676
Our customers incur less costs while making transactions via agency banking	3.49	.804
Agency banking has made financial services more accessible to customers by minimizing time and distance to the nearest bank branches	3.84	.834
Valid N (list wise)		

Source primary data (2023)

The study revealed that respondents with a mean of 4.49 agreed that the number of customers who have opened accounts with the bank has increased due to agency banking. However, there were respondents with a standard deviation of 0.804 who varied in opinion though it was minimal. This possibly means that the number of customers who have opened with the bank has increased.

The findings of the study indicated that respondents with a mean of 3.84 agreed that agency banking has contributed to growth of customers of the bank in the last 5 years. However, there were respondents with a standard deviation of 0.834 varied though it was minimal. This probably implies that agency banking has contributed to growth of customers of the bank.

The findings of study established that respondents with a mean of 3.89 were in agreement that bank's transactions outside working hours have increased due to agency banking. However, there were respondents with a standard deviation of 0.737 who varied with the statement though it was minimal. This probably implies that bank's transactions outside working hours have increased.

The findings of the study revealed that respondent with a mean of 3.81 were in agreement that bank customers access their accounts via the agency banking spots. However, there were respondents with a standard deviation of 0.908 who varied in opinions though it was minimal. This possibly implies that bank customers access their accounts via the agency banking spots.

The findings of the study realized that respondents with a mean of 3.18 were in agreement that bank has new customers in different places due to agency banking. However, there were respondents with a standard deviation of 0.908 who varied though it was minimal. This probably implies that bank has new customers in different places due to agency banking.

The study found out that the respondents with a mean of 4.35 were in agreement that agency banking has improved business operations and reduced complaints of poor customer services. However, there were respondents with standard deviation of 0.676 who varied though it was minimal. This probably implies that agency banking has improved bank operations and reduced complaints of poor customer services.

The study revealed that respondents with a mean of 3.49 agreed that bank customers incur less costs while making transactions via agency banking. However, there were respondents with a standard deviation of 0.804 who varied in opinion though it was minimal. This can possibly mean that bank customers incur fewer costs while making transactions via agency banking.

The findings of the study indicated that respondents with a mean of 3.84 agreed that agency banking has made financial services more accessible to customers by minimizing time and distance to the nearest bank branches. However, there were respondents with a standard deviation of 0.834 varied though it was minimal. This can possibly mean that agency banking has made financial services more accessible to customers.

4.2.2 Effects of Agency Banking on access of banking services

Table 5: Descriptive statistics on Effects of Agency Banking on Customer Transactions

Statement	Mean	Std. Deviation
Deposits made to our bank have increased due to agency banking	4.11	.875
The bank deposits are increasing due to easiness and convenience in making deposits via agency banking	4.08	.862
Our customers in far areas make deposits by use of agent centers	3.73	.932
Our customers make funds transfer between accounts via agency banking	3.59	1.322
Agency banking provides a wide range of services, such as bill payments, withdrawals and balance inquiries	3.78	1.031
Our customers save time instead of queuing in bank halls while making deposits by use of agency banking posts	3.84	.986
The agency banking database shows an increase in deposits since the introduction of agency banking	3.49	.804
Valid N (list wise)		

Source primary data (2023)

The study established that respondents with a mean of 4.11 agreed that deposits made to the bank have increased due to agency banking. However, there were respondents with a standard deviation of 0.895 who varied though it was minimal.

The study revealed that respondents with a mean of 4.08 agreed that the bank deposits are increasing due to easiness and convenience in making deposits via agency banking. However, there were respondents with a standard deviation of 0.862 who varied though it was minimal. This can possibly mean that bank deposits are increasing due to easiness and convenience in making deposits.

The study indicated that respondents with a mean of 3.73 agreed that the customers in far areas make deposits by use of agent centers. However, there were respondents with a standard

deviation of 0.932 who varied with the statement though it was minimal. This can possibly mean that customers in far areas make deposits by use of agent centers.

The study indicated that respondents with a mean of 3.59 agreed that the customers make funds transfer between accounts via agency banking. However, there were respondents with a standard deviation of 1.332 who varied with the statement though it was minimal. This can possibly mean that customers make funds transfer between accounts.

The findings of the study indicated that respondents with a mean 3.78 agreed that agency banking provides a wide range of services, such as bill payments, withdrawals and balance inquiries. However, there were respondents with a standard deviation of 1.031 who varied with the statement though it was minimal. This can possibly mean that banking provides a wide range of services to customers.

The study indicated that respondents with a mean of 3.84 agreed that the customers save time instead of queuing in bank halls while making deposits by use of agency banking posts. However, respondents with a standard deviation of 0.968 who varied with the statement though it was minimal. This can possibly mean that customers save time instead of queuing in bank halls while making deposits.

The study revealed that respondents with a mean of 3.49 agreed that the agency banking database shows an increase in deposits since the introduction of agency banking. However, there were respondents with a standard deviation of 0.804 who varied in opinion though it was minimal. This can possibly mean that the agency banking database shows an increase in deposits.

4.2.3 Effects of Agency Banking on Cost Reduction

Table 6: Descriptive statistics on Effects of Agency Banking on Cost Reduction

Statement	Mean	Std. Deviation
Our operational costs have reduced due to bank using established banking agents	3.89	1.015
We do not incur costs in putting up premises in villages where bank has customers	3.81	.908
Our bank has expanded due to low initial cost of opening a branch in low economic status areas	3.97	1.142
The bank saves costs in terms of advertising and hiring sales personnel	3.54	.989
The bank doesn't incur cost of recruiting new employees yet increasing service delivery through agency banking	3.86	.855
Agency banking has minimized our fixed costs by enabling closure of existing bank branches	3.97	.687
Valid N (listwise)		

Source primary data (2023)

The study indicated that respondents with a mean of 3.89 agreed that bank operational costs have reduced due to bank using established banking agents. However, there were respondents with a standard deviation of 1.015 who varied with the statement which was minimal. This can possibly mean that bank operational costs have reduced.

The study found out that respondent with a mean of 3.81 agreed that the bank does not incur costs in putting up premises in villages where bank has customers. However, some respondents with a standard deviation of 0.908 who varied though it was minimal. This can possibly mean that bank does not incur costs in putting up premises in villages.

The study established that respondents with a mean 3.97 agreed that the bank has expanded due to low initial cost of opening a branch in low economic status areas. However, there were respondents with a standard deviation of 1.142 who varied with the statement though it was minimal. This can possibly mean that bank has expanded due to low initial costs.

The findings of the study revealed that respondents with a mean of 3.54 agreed that the bank saves costs in terms of advertising and hiring sales personnel. However, there were respondents with a standard deviation of 0.989 who varied with the statement though it was minimal. This can possibly mean that bank saves costs in terms of advertising and hiring sales personnel.

The study indicated that respondents with a mean of 3.86 agreed that the bank does not incur cost of recruiting new employees yet increasing service delivery through agency banking. However, there were respondents with a standard deviation of 0.855 who varied with the statement though it was minimal. This can possibly mean that bank does not incur cost of recruiting new employees.

The study indicated that respondents with a mean of 3.97 agreed that agency banking has minimized bank fixed costs by enabling closure of existing bank branches. This can possibly mean that agency banking has minimized bank fixed costs.

4.3 Regression Analysis.

It was necessary to determine which dimensions of agency banking predict financial performance of commercial banks more than the other. This was achieved through conducting multiple regression analysis. The following were the results;

Table 7: The multiple regressions between agency banking predict financial performance

Model	R	R Square	Adjusted R Square	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
				B	Std. Error	Beta		
1 (Constant)				1.580	2.037		.705	.005
Customer transactions	.512 ^a	.315	.333	.436	1.137	.474	.980	.001
Access of banking services	.452	.369	.248	.864	1.061	.415	.814	.004
Cost reduction	.385 ^a	.389	.184	.375	.592	.154	.634	.005

a. Dependent Variable: financial performance

Source: primary data (2023)

The statistics helped the researcher to determine the relative importance of each variable in the model. The findings revealed that there was positive relationship between customer growth and financial performance of banks with a coefficient value of R 0.512^a. The customer growth adjusted R Square value was 0.315 which indicates a 31.5% effect on financial performance of banks. The study further indicated that there was positive relationship between deposit growth and financial performance of banks with a coefficient value of R 0.452^a. The deposit growth adjusted R Square value was 0.248 which indicates a 24.8% effect on financial performance of banks. The final result revealed that there was positive relationship between cost reduction and performance of banks with a coefficient value of R 0.385^a. The cost reduction adjusted R Square value was 0.184 which indicates 18.4% effect on financial performance of banks. From the above findings, the study therefore noted that customer growth is the most influential factor as far as financial performance of banks is concerned. The study also found that there was a positive relationship between agent banking and financial performance of banks.

4.4 Conclusion

Analysis of primary data indicated that the independent variable of agency banking all had a strongly positive effect on financial performance of banks as revealed in the analyzed, interpreted and presented findings of the study in this chapter. In spite of the fact that there was a positive strong relationship between agency banking and financial performance of banks, some deviations still existed though were minor. Further explanations and summary of findings are presented in the final chapter.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATION

5.0 Introduction

The chapter presents the summary of the main findings from the study, the conclusions and the recommendations made by the study. The major objective of the study was to find out the effect of agency banking and financial performance of banks.

5.1 Summary of major findings

5.1.1 Effects of Agency Banking on Customer Transactions

The findings revealed that there was positive relationship between customer growth and financial performance of banks. The customer growth adjusted R Square value indicates a positive effect on financial performance of banks.

The study revealed a mean that agreed with the number of customers who have opened with the bank has increased due to agency banking. This was in correspondence with Rutttoh (2013) who noted that banks are realizing that revenue growth cannot be taken for granted anymore, and that survival will not simply be a question of turning revenues into reasonable profits, but the number of customers who open accounts with the bank has increased though it is possible with agency banking.

The findings of the study indicated that the mean agreed that agency banking has contributed to growth of customers of the bank in the last 5 years. This concurs with Rutttoh (2013) who noted that approaching new customer segments as a potential source of additional revenue mainly lower, but secured income segments retired people and public institutions employees (e.g. teachers) as potential target groups for simple and low volume loan products (cash loan, credit card) can expand the revenues of the bank through agency banking hence contributing to growth of customers in bank in subsequent years.

The findings of the study based on the mean were in agreement that bank's transactions outside working hours have increased due to agency banking. This is in agreement with Wainaina (2011) who noted that the products and services of most commercial banks can be targeted to meet the financial needs of the households as well as their income generating activities; many commercial

banks are beginning to ensure bank's transactions outside working hours increase due to agency banking.

The findings of study based on the mean were in agreement that bank customers access their accounts via the agency banking spots. This is in agreement with Wainaina (2011) who stressed that customers avoid formal financial services and opt for informal financial services which are readily accessible in rural areas because bank customers can access their accounts via the agency banking spots.

The findings of the study based on mean were in agreement that bank has new customers in different places due to agency banking. This concurs with Bold (2011) who affirmed financial inclusion empowers low income people and marginalized sectors of society to actively participate in the economy, which leads to increasing employment and decreasing poverty levels because bank can get new customers in different places due to agency banking.

The findings of the study based on the mean were in agreement that agency banking has improved business operations and reduced complaints of poor customer services. This concurs with Ruttoh (2013) who noted that banking agencies help financial institutions to divert existing customers from crowded branches providing a complementary often more convenient channel so agency banking improves business operations and reduced complaints of poor customer services.

The study revealed a mean that agreed that bank customers incur less costs while making transactions via agency banking. This is supported by Jaldesa et al (2015) who noted that other financial institutions especially in developing markets use agents to reach an additional client segment or geography because bank customers incur fewer costs while making transactions via agency banking.

The findings of the study based on the mean agreed that agency banking has made financial services more accessible to customers by minimizing time and distance to the nearest bank branches. This is supported by Mwangi&Wanyoike (2012) who noted that customers save on time they have to travel to a bank branch, and the time they have to wait in line to be served because agency banking makes financial services more accessible to customers by minimizing time and distance to the nearest bank branches.

5.1.2 Effects of Agency Banking on Access to Banking Services

The study further indicated that there was positive relationship between deposit growth and financial performance of banks. The deposit growth adjusted R Square value indicates a positive effect on financial performance of banks.

The study mean agreed that deposits made to the bank have increased due to agency banking. This is supported by Adem (2015) who noted that the deposit itself is a liability owed by the bank to the depositor (the person or entity that made the deposit), and through agency banking they have increased.

The study mean agreed that the bank deposits are increasing due to easiness and convenience in making deposits via agency banking. This was in agreement with Gemedu (2012) who stressed that banks make profit by using their deposits, therefore the bank deposits do increase due to easiness and convenience in making deposits via agency banking.

The study mean agreed that the customers in far areas make deposits by use of agent centers. This is in line with Bankelele (2015) who noted that equity bank attributes two thirds of the income from agency banking as a result of deposits and the remainder on withdrawals because customers in far areas make deposits by use of agent centers.

On average the study confirmed that the customers make funds transfer between accounts via agency banking. This was in line with Churchill (2014) who noted that by creating greater access to financial services, agency banking has in turn increased the level of deposits for banks because customers make funds transfer between accounts hence providing the un-banked access to safer and cheaper financial services has led to banks recording more deposits than ever before.

The findings of the study mean agreed that agency banking provides a wide range of services, such as bill payments, withdrawals and balance inquiries. This is supported by Banson et al (2013) who noted that financial institutions provide a system through which savers deposit their money and borrowers can access those funds through agency banking to provide a wide range of services, such as bill payments, withdrawals and balance inquiries.

The study mean agreed that the customers save time instead of queuing in bank halls while making deposits by use of agency banking posts. This was in agreement with Adem (2015) who noted that deposit growth is profitable only if the commercial bank does not incur additional

expenses to obtain and retain cash because customers can save time instead of queuing in bank halls while making deposits by use of agency banking posts.

The study revealed a mean that agreed that the agency banking database shows an increase in deposits since the introduction of agency banking. This was in correspondence with Abel (2013) who noted that any decline in the amount of deposits at the banks raises important questions about whether the banks will be able to remain successful and meet the credit needs of the economy but the agency banking database has to show an increase in deposits.

5.1.3 Effects of Agency Banking on Cost Reduction

The final result revealed that there was positive relationship between cost reduction and performance of banks. The cost reduction adjusted R Square value indicates a positive effect on financial performance of banks.

The study indicated a mean that agreed that bank operational costs have reduced due to bank using established banking agents. This was in agreement with Abel (2013) who noted that agency banking radically reduces the operational cost of setting up points of contact with customers, allowing agents, to reach out into areas where building branches would be too expensive by using established banking agents.

The study found out a mean which agreed that the bank does not incur costs in putting up premises in villages where bank has customers. This concurs with Kipng'etich (2014) who stressed that banks are now partnering with already established businesses across the country in order to take services closer to the people since banks do not incur costs in putting up premises in villages where banks have customers.

The study established a mean which agreed that the bank has expanded due to low initial cost of opening a branch in low economic status areas. This is in line with Watiri (2013) who stressed that the bank saves costs in terms of advertising and hiring sales personnel because it is the work of the agent as he is paid according to the number of transactions and accounts opened therefore the bank expands due to low initial cost of opening a branch in low economic status areas.

The findings of the study established a mean which agreed that the bank saves costs in terms of advertising and hiring sales personnel. This was in agreement with Veniard (2010) who

explained that agency banking systems were found to be up to three times cheaper to operate than branches because the bank saves costs in terms of advertising and hiring sales personnel.

The study mean agreed that the bank does not incur cost of recruiting new employees yet increasing service delivery through agency banking. This was in relation with Veniard (2010) who stressed that agency banking systems are most cost effective for transactional accounts with low balances and frequent transactions because the bank does not incur cost of recruiting new employees yet increasing service delivery through agency banking.

The study mean agreed that agency banking has minimized bank fixed costs by enabling closure of existing bank branches. This was supported by Gardeva and Rhynea (2011) who explained that in a survey report on opportunities and obstacles to financial inclusion observes that agency banking helps to minimize fixed costs by enabling closure of existing bank branches.

Generally, the study established that agency banking had a positive influence on customer growth. Both the middle managers and agents agreed that agency banking had an impact on financial inclusion especially because of its convenience and ease of use. Agency banking has greatly increased the level of financial inclusion. It has enhanced efficiency by availing services to customers at lower costs. By so doing, banks have been able to increase customer outreach thereby increasing customer growth. The study also established that since agents are authorized to open accounts for customers, the overall growth of customers has been positive with an average of between 0-10 accounts being opened in a month. The variety of services offered similar to those you find in banking halls has also encouraged the growth of customers.

On deposit growth, most banks have a free transaction cost policy for deposits. This has encouraged customers with huge cash flows to deposit their money at agents at no costs. This therefore signifies a positive influence of agency banking on deposit growth.

On cost reduction, agency banking has significantly reduced the costs it would take to build the brick and motor institutions. Agents are often pharmacies, general shops and even kiosks that have are in operation. They then offer financial services to customers. Operational costs are however slightly higher and in turn increase transaction costs. Since the premises are not owned by the bank, the other costs related to the agent are borne by the agents and not the bank. Thus reducing the overall costs of availing financial services in general.

5.2 Conclusions

The study sought to analyze the effect that agency banking has on customer growth. The study established that agency banking has a positive impact on customer growth. It has made access to financial services more convenient and in turn improved the financial performance of banking institutions. It has encouraged customers to seek other financial services like loan applications, bill payments, balance enquiry and issue of bank statements. Agency banking has improved financial inclusion. Majority of the population is no longer unbanked due to the presence of agents in rural and semi-rural areas. The agents have been equipped with tools and the knowledge of bank products and have significantly led to the increase in customer awareness and ultimately the growth of customers for their respective banks.

The study set to determine the effect of agency banking on deposit growth. The study determined that the low if no cost charge to deposit money has encouraged many customers with large sums of money to deposit at their convenience. The agents also sought to provide financial risk management services for clients with turnovers of over The advent of financial innovations such as agent banking has also made access to financial services more efficient. The use of these devices has made the relay of information much easier and readily available to clients seeking information on their accounts. This has created a trust between customers and banks and as a result generated great revenues for banks as customers can make transactions at their convenience without worrying about risk. Deposit mobilization positively affects the financial performance of commercial banks. Thus, deposits play a vital role in the financial performance and sustainability of a bank and it is an indispensable factor in which loan disbursements and revenue generations are based.

The study set out to determine the effect of agency banking on cost reduction. The study determined that operational costs of agency banking were fairly low. The overall cost of operating under the umbrella of agency banking is very low because there is no construction of a branch involved. The major costs are borne by the agent. These mostly include rent, security costs, infrastructure costs and airtime for communication especially when the network is off.

5.3 Recommendations

Based on the findings and the conclusion, it is the researcher's wish to make the following recommendations in order to improve on financial performance of banks through agency banking.

The study established that since agency banking is a convenient channel to access financial services, there's a lack of hospitality and customer care that comes with it. Customers often seek great service with a personal touch which is often not the case since the agent might be running several businesses in conjunction with the agency banking. The study therefore recommends that customer care needs to be improved as services are being relayed to customers. There is also the need to develop new products and services so as to reach more customers especially in rural areas. Increased awareness of the products and services being offered by the bank is also a step into increasing the number of customers the bank intends to target.

The study established that some banks charged a fee to make cash deposits with the bank. It also established that customers weren't aware of the deposit limits that were set by the bank. Some of the banks have no limit when it comes to depositing cash and this might be a deterrent to customers seeking to make frequent deposits of large sums of money through agents. The study recommends increased awareness of the service offerings as well as reduced charges for cash deposits so as to increase the volume of transactions being carried out via agents.

The study established that operational costs have a bearing on the transaction costs associated with agency banking. In addition, costs such as security are becoming a hindrance to the provision of financial services by agents. Network delays also resulted in additional costs for both the agents and customers. This study recommends the streamlining of operational costs involved in providing financial services. Some of these costs can be borne by the parent bank so as to ease the burden on the agents and eventually the consumer. Improved network coverage through technologically advanced equipment is another step through which agents can provide timely and efficient services.

5.4 Further suggestions for Research

The study recommends that similar research be conducted in rural areas to determine if agency banking has in fact improved financial inclusion especially for the peasants and low-income earners. This will aid in understanding the extent to which agency banking can improve the overall performance of commercial banks.

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QUESTIONNAIRE

Introduction

I am a student from Uganda Christian University pursuing a Bachelor of Business Administration. I am conducting a research on the topic of “*The effect of agency banking on financial performance of banks*”. Kindly fill this questionnaire, it will be of great importance for the progress of this research, and the information you provide will be used for academic purposes only. The highest level of confidentiality and anonymity will be used to protect the information you give

SECTION A: Demographic Characteristics

Tick / fill in the most appropriate answer.

1. Gender:

a) Female b) Male

3. Marital status

a) Single b) Engaged b) Married c) Divorced
e) Widowed

4. Academic Qualification

a) Certificate b) Diploma c) Degree
d) Masters and above

5. Duration of the respondent working at the bank

a) 0-5 years b) 6-10 years c) 11 years and above

Please indicate the extent to which you agree or disagree to the following statements' by ticking the appropriate space provided. The following abbreviations are used.

Strongly disagree	Disagree	Not Sure	Agree	Strongly agree
1	2	3	4	5

Using a scale of: 1-strongly disagree, 2- disagree, 3-not sure, 4-agree, 5-strongly agree.

SECTION B: Effects of Agency Banking on Customer transactions

Statements	1	2	3	4	5
The number of customers who have opened with our bank has increased due to agency banking					
Agency banking has contributed to growth of customers in our bank in the last 5 years					
Bank's transactions outside working hours have increased due to agency banking					
Our customers access their accounts via the agency banking spots					
We have new customers in different places due to agency banking					
Agency banking has improved business operations and reduced complaints of poor customer services					
Our customers incur less costs while making transactions via agency banking					
Agency banking has made financial services more accessible to customers by minimizing time and distance to the nearest bank branches					

SECTION C: Effects of Agency Banking on access of banking services.

Statements	1	2	3	4	5
Deposits made to our bank have increased due to agency banking					
The bank deposits are increasing due to easiness and convenience in making deposits via agency banking					
Our customers in far areas make deposits by use of agent					

centers					
Our customers make funds transfer between accounts via agency banking					
Agency banking provides a wide range of services, such as bill payments, withdrawals and balance inquiries					
Our customers save time instead of queuing in bank halls while making deposits by use of agency banking posts					
The agency banking database shows an increase in deposits since the introduction of agency banking					

SECTION D: Effects of Agency Banking on Cost Reduction

Statements	1	2	3	4	5
Our operational costs have reduced due to bank using established banking agents					
We do not incur costs in putting up premises in villages where bank has customers					
Our bank has expanded due to low initial cost of opening a branch in low economic status areas					
The bank saves costs in terms of advertising and hiring sales personnel					
The bank doesn't incur cost of recruiting new employees yet increasing service delivery through agency banking					
Agency banking has minimized our fixed costs by enabling closure of existing bank branches					

APPENDIX II: INTERVIEW GUIDE

Date of Interview:/...../.....

Name of interview:

Name of the interviewee:

Officer Position:

No	Interview question	Response	Interviewer comments
1	In you view, what portion of banks' deposits comes via agency banking (percentage)?		
2	In your opinion, what influences customer growth in commercial banks?		
3	In your opinion, what costs does the bank incur?		
4	Which measures would you recommend to be instituted by bank in regard to pricing to enhance customer growth?		
5	On average, how many deposits are made in a day via agency banking platform?		
6	How many accounts are opened via agency banking within a month?		

Thank you for your corporation