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Influence of Adoption of Agency Banking Strategy on the Financial Performance of Micro-Finance Institution in Nanyuki Town, Kenya

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Abstract

The study aims at evaluating the influence of adoption of agency banking on the financial performance of Micro Finance Institutions in Nanyuki town, Kenya. The theory guiding the study is the Bank Focused theory. The research design adopted was descriptive research design. The target population was 142 management level employees from the three-deposit taking Micro-Finance institutions. The sample size comprised of 41 respondents. Data was collected using questionnaires while data analysis was conducted using Statistical Package of Social Sciences (SPSS) Version 22.0. Descriptive and inferential statistical techniques were used in data analysis. The findings established that market effectiveness was the top attribute of adoption of agency banking strategy for the managers. Regression analysis indicated that agency banking had a positive linearly significant influence on financial performance of MFIs. The study concluded that since investment in agents by MFIs has led to increased market share, Return on Equity and profitability, efforts should continue to increase and support these agents for enhanced financial performance of MFIs. The study recommended that continuous investment in agency banking through increased recruitment, training and empowering of agents is an important avenue for MFIs to enhance financial performance.

Keywords: *Agency banking, financial performance, Micro Finance Institutions*

1.1 Introduction

Due to advent of globalization and advances in technology, financial institutions have rapidly adopted innovative business models and advanced technology particularly digital products in the provision of financial services. This fact has been echoed by Trovimov, Aris and Ying (2018) indicating that the adoption of technology to innovatively deliver financial services otherwise referred to as Fintech has altered the global competitive environment in which the financial institutions operate. The Fintech strategy has been credited for enhanced competition in financial markets leading to efficiency in provision of services, reduced costs of search and verification and ability to operate on and process big data (Wang, 2018).

The adoption of financial technology by banks and other financial institutions in Germany has been robust making Germany among the top ranking most financial technology adoptive countries in Europe and the world. Available statistics indicate that 70% of the traditional banks have fully adopted Fintech in their operations (Haddad & Hornuf, 2019). The banks and other financial institutions utilize financial technology is such areas as online banking, mobile money payments and transfers, insurance and investment (Weber, 2017). Germany has been able to progressively adjust its policies and the regulatory framework to allow for growth in the Fintech sector (Monica, 2016).

Across Africa and in the Sub-Saharan Region, Africa's largest economy Nigeria has witnesses a surge in the use of financial technology. The country has a robust human resource in the continent giving it the potential of becoming the largest Fintech market in the region (Uche, 2019). The financial technology services offered by financial institutions in Nigeria include mobile payment, personal finance, mobile lending and block chain services (Uche, 2019).

Agency banking has rapidly increased due to the low infrastructural cost incurred on it rather than setting up a bank branch. The low costs are contribution to the income ratio of the banks. Agent banks are used by commercial banks as a means to improve on the financial performance and maintain effectiveness in the market (Misati, Kamau, Kipyegon & Wandaka, 2017). This has stimulated interest in studying how agency banking relates to the way financial institutions perform. Despite the opportunities brought by Agency banking to both the customers and the commercial banks, some agent outlets maintain low floatation management costs and this may contribute to them being neglected by the customers due to inconveniences (Omreng & Gjendem, 2017)

Agent banking involves distribution channels of financial services, using technologies. Bank agents are required to provide receipts to the customers for all the cash deposit and withdrawal transactions (Uche, 2019). Additionally, the principal institution is expected to place effective ways of identifying agents and receiving feedback from clients, for example sending notification to customers through mobile phones. The pioneering countries in the adoption of agency banking include; Brazil, Kenya, India, Philippines and South Africa (Ivatury & Lyman, 2016). Over the past two decades, Micro-Finance Institutions (MFIs) have developed effective and efficient means for providing credit. In a report by Kenya Agribusiness and Agro industry Alliance (2013), there are currently three Deposit-taking MFIs in Nanyuki Town that include Kenya Women Finance Trust DTM Limited, Faulu Microfinance Bank Ltd and SMEP Microfinance Bank Ltd.

1.2 Statement of the Problem

The role played by Micro-Finance Institutions (MFIs) in the economies of the developing countries like Kenya cannot be overemphasized. Through training and extension of financing, MFIs have been instrumental in the growth and expansion of small and micro-enterprises run by low income communities (Hezron & Muturi, 2015). Nevertheless, there has been intense competition in the financial sector between commercial banks and MFIs leading to dwindling financial performance of the respective institutions. This has prompted micro-finance institutions to implement a number of strategies like adoption of agency banking to ensure success in the competitive and ever-changing business environment (Amutabi, 2016). These technologies have formed the launching pad for competitive advantage among the MFIs in Kenya.

A number of studies have been conducted to confirm the reality of the adoption of agency banking strategies particularly those related to innovation and their impact on financial performance of MFIs. For example, Nyaboga, Omari and Muigai (2015) analyzed the impact of agent banking on the financial performance of entrepreneurs in Kisii County, Kenya. The findings established that the ability of the agency-banking service to increasing attracts interest from criminals make customers to become security conscious. Kamau (2012) studied the relationship between agency banking and financial performance of the banks in Kenya. The findings revealed negative and weak correlation between number of agents, deposit and withdrawals transactions undertaken through agents and financial performance of banks as measured by return on equity. Kithuka (2017) in establishing the factors influencing growth of agency banking in Kenya, sampled 100 Equity Bank agencies doing bank focused, bank led and non-bank led transactions in Kwale County. The findings revealed that absence of the association between agency banking and financial deepening existed. Despite the abundance of these studies, few have focused on the analysis of adoption of agency banking and financial performance of MFIs in Nanyuki town. This study aimed at filling this empirical gap.

1.3 Objectives of the study

The general objective of the study was to evaluate the influence of adoption of agency banking strategy on the financial performance of Micro-finance institution in Nanyuki Town, Kenya.

1.4 Research Question

How does adoption of agency banking strategy affect the financial performance of micro finance institutions in Nanyuki Town, Kenya?

2.0. Literature Review

2.1. Theoretical Review

2.1.1. Bank-Focused Theory

This study is anchored on the bank focused theory. This theory was brought forth by Kapoor (2010). The theory posits that banking institutions are using modern channels that are considered low cost to deliver quality services to customers. The theory underlines such channels as mobile banking, online banking, agency banking, automatic teller machines and point of sale. The use of these channels enables the banks to offer a variety of services to customers without having a branch in their location. This theory is credited for increased market share of the financial institutions (Muturi, 2019). This model is additive in nature and enhanced control. The model is however without criticism.

The theory is criticized for not addressing challenges that arise out of use of such channels. These challenges include security of customer finances, and access and reliability of service. Nevertheless, Vutsengwa & Ngugi (2017) proposed that the challenges associated with technology adoption can be handled through the establishment of good information security system for convenience, confidentiality and integrity. This model is relevant to the current study as it focuses of financial technology channels like agency banking that seek to enhance service delivery and profitability of financial institutions.

2.2. Empirical Review

A study conducted by Mwangi (2016) evaluating the role of agency banking on the performance of commercial banks in Kenya targeted banks that offer agency banking services in Kenya. The target population was four commercial banks dealing with agency banking. A census of 40 branch managers was adopted. The study established that agency banking through regulatory frameworks of management, accountability and quality control increased financial performance of commercial banks. The study concluded that improvement in cost of infrastructure and security has the effect of enhancing agency banking leading to improved financial performance.

A research was conducted by Nyaboga *et al.* (2015) to analyze the impact of agent banking on the financial performance of entrepreneurs in Kisii County, Kenya. The authors pointed out in their analysis that the ability of the agency-banking service to increasing attracts interest from criminals make customers to become security conscious. This forces customers to be very selective in engaging with agents hence affecting the performance as well as the growth of agency banking.

Kamau (2012) studied the relationship between agency banking and financial performance of the banks in Kenya. Through review of secondary data, the study found that agency banking outlets were 9,748 active agents in 2011 from 8,809 in 2010 facilitating a total volume of 8.7 million transactions valued at KSh 43.6 billion. Using regression analysis, the study negative and weak correlation between number of agents, deposit and withdrawals transactions undertaken through agents and financial performance of banks as measured by return on equity.

Kithuka (2017) in establishing the factors influencing growth of agency banking in Kenya, sampled 100 Equity Bank agencies doing bank focused, bank led and non-bank led transactions in Kwale County. The samples were taken for the study using stratified and simple random sampling. Data was collected by a simple process of answering the basic questions through the use of a questionnaire and analyzed through descriptive and inferential statistics. The findings revealed that absence of the association between agency banking and financial deepening existed.

Waithanji (2015) sought to identify the impact of agent banking as a financial deepening initiative in Kenya. This was a descriptive research design targeting a population of 1234 employees from the 4 registered commercial banks dealing with agent banking. Secondary data was done from retrieval of publications from Central Bank of Kenya. Analysis of data was through Statistical Package for Social Sciences (SPSS) version 22. Data was analyzed through descriptive and inferential statistical techniques. The study established that equity bank had the highest number of customers at 5.3 million and 2,851 agents followed by Cooperative bank with 1.9 million customers and 561 agents.

A study by Wairimu (2019) evaluated the factors hindering adoption of agency banking by deposit taking micro-finance institutions in Kenya. The study used a descriptive design. The target population was 220 employees of Faulu Micro finance bank limited. A stratified sample on 89 respondents was selected. This was a descriptive research design targeting a population of 1234 employees from the 43 registered commercial banks in the country. Using simple random sampling, 350 employees were selected as the study sample. The study utilized both primary and secondary data. Data was analyzed through descriptive and inferential statistical techniques. The study revealed that stringent regulation and inadequate financial and human resources is an impediment to the adoption of agency banking by deposit taming micro-finance institutions.

An evaluation of the influence of agency banking on the market share of deposit taking micro-finance institutions was done by Owino (2018). The researcher adopted a research design that was descriptive in nature and a target population of 219 employees of SMEP Microfinance Bank limited. The researcher used questionnaires to obtain data from a stratified sample of 67 respondents. The collected data was analyzed using inferential and descriptive statistics. It was established from the study that there is a positive significant relationship between market share and adoption of agency banking by deposit taking micro-finance institutions.

A research by Rotich (2017) examined the impact of agency banking on the volume of deposits in in the deposit taking micro-finance institutions. The researcher adopted a research design that was descriptive in nature and a target population of 202 employees of Kenya Women Finance Trust Bank limited. The researcher used questionnaires to obtain data from a stratified sample of 83 respondents. The collected data was analyzed using inferential and descriptive statistics. It was established from the study that there is no significant relationship between volume of deposits and the adoption of agency banking by deposit taking micro-finance institutions.

2.3. Conceptual Framework

The conceptual framework expresses the relationship between of adoption of agency banking strategy and financial performance of Micro-finance institution in Nanyuki Town, Kenya. Agency banking is expressed through two indicators; market effectiveness and market feedback. Financial performance of MFIs is explained through profitability and Return on Assets and Return on Equity. The association is outlined as;

Agency banking	→	Financial performance of MFIs
• Market effectiveness • Market feedback	→	• Profitability • ROA and ROE

Figure 1: Conceptual Framework

3.0. Research Methodology

This study used a descriptive research design to answer questions concerning the influence of agency banking strategies on performance of Micro-finance institutions. The researcher preferred this research design since it enabled reporting of issues as they exist in the micro-finance institutions operating in Nanyuki Town. The target population of the study was 142 management level employees from the three-deposit taking Micro-Finance institutions operating in Nanyuki town; Kenya Women Finance Trust, Faulu Microfinance Bank Ltd and SMEP Microfinance Bank Ltd. The Top, Middle and Lower Level managers constituted the target population. The sample size was 41 respondents. The study collected data using a structured questionnaire which was pre-tested at KRep Bank in Nyahururu town with a sample of six respondents to ascertain the validity and reliability. In checking the reliability of the instruments, Cronbach's alpha reliability coefficient was computed with the minimum threshold of 0.7. The results in Table 1 show that the Cronbach Alpha values for financial performance of MFIs were 0.887. The Cronbach Alpha values for agency banking were at 0.906. The results show that the corrected item-total correlations, which are the reflection of the ultimate correlation of variables, were at the acceptable score of 0.8 or higher. The findings complement the assertion by Sekaran (2015) that reliability coefficient of over 0.8 is sufficient for articulation of the stipulated levels of truthfulness of the data which may then be correlated and regressed.

Table 1: Reliability of study variables

Variables	No of items	Cronbach's Alpha
Financial performance of MFIs	8	0.887
Agency banking	8	0.906

In data analysis, descriptive and inferential statistical techniques were employed with the help of Statistical Package for Social Sciences (SPSS) version 22.0. Quantitative data was analyzed using descriptive statistics that included percentages, means and standard deviation. The study also utilized inferential statistics to ascertain the relationship between variables. This led to the computation of correlation and regression analytical tests. The study applied regression analysis to test the hypothesis with the following model:

$\mathbf{Y=\propto+\beta_1X_1+\varepsilon_0}$……………………. (1)
Y= Financial Performance of MFIs
$\propto$=Constant
B_{ij} = regression coefficients
X_1= Agency banking

4.1. Results and Discussion

4.1.1. Normality test

Normality of the distribution of data was evaluated through the examination of skewness and kurtosis. In this study, the normality test for all the variables had the skewness and kurtosis ranging from -1 and +1 as shown in Table 2. The implication is that the assumption of normality was satisfactory.

Table 2: Normality test

Variable	N statistic	Skewness		Kurtosis	
		Statistic	Std. error	Statistic	Std. error
Agency banking	40	.048	.172	.260	.342

4.1.2 Adoption of agency banking strategy

The findings in Table 3 indicate that market effectiveness as a component of adoption of agency banking strategy had the highest mean of 4.14 out of the possible 5. Market feedback had the lowest means score of 3.92. The implication is that majority of the respondents strongly agreed that market effectiveness was the top attribute of adoption of agency banking strategy for the managers. Market effectiveness had the highest standard deviation of 0.772 with market feedback ranking lower with a standard deviation of 0.685. This implies that the data for market effectiveness was the most concentrated around the mean. The findings agreed with Wairimu (2019) whose study revealed that lack of stringent market regulation is an impediment to the adoption of agency banking by deposit taming micro-finance institutions.

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Table 3: Adoption of agency banking strategy

Item	NAT (%)	SE (%)	ME (%)	LE (%)	VLE (%)	Mean	Std. Dev.
Market effectiveness							
ME1	0.71	3.53	14.84	28.98	51.94	4.28	0.893
ME2	0.71	2.47	19.08	32.51	45.23	4.19	0.893
ME3	1.41	4.95	21.20	31.10	41.34	4.06	0.988
ME4	1.41	4.24	15.90	30.04	48.41	4.20	0.951
					Composite	**4.14**	**0.772**
Market feedback							
MF1	1.41	7.42	28.62	38.87	23.67	3.76	0.957
MF2	3.18	8.83	25.80	31.80	30.39	3.77	1.085
MF3	2.47	8.83	25.44	31.80	31.45	3.80	1.077
MF4	5.30	10.95	27.21	32.86	23.67	3.58	1.141
					Composite	**3.92**	**0.685**

4.1.3 Correlation Analysis

Correlation refers to the quantitative estimation of the variation between the study's variables. From the findings in Table 4, agency banking had a strong and positive relationship (r=0.752, p-value=0.000<0.05) with financial performance of MFIs. The correlation results agreed with Wairimu (2019) findings that established that adoption of agency banking strategies increased financial performance of micro-finance institutions.

Table 4: Correlation analysis

Variables		Financial performance of MFIs	Agency banking
Financial performance of MFIs	Pearson Correlation	1	.752**
	Sig. (2-tailed)		.000
	N	40	40
Agency banking	Pearson Correlation	.752**	1
	Sig. (2-tailed)	.000	
	N	40	40

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4.1.4 Regression Analysis

Regression analysis is a statistical estimation of the existence of relationship between independent and dependent variables. Regression assisted in verifying the level of influence between agency banking and financial performance of MFIs through multiple linear regressions. In addition, multiple linear regressions tested the goodness of fit for the data of the overall regression model by use of F-ratio results. These results generated regression model summary, ANOVA and regression coefficients.

The results in Table 5 show that R^2 value was 0.794 and this indicates that a strong association exists between agency banking and financial performance of MFIs. The implication is that agency banking share a variation of 79.4% of financial performance of MFIs when other factors are held constant. At 79.4% variation level, the model is a good fit and expresses the financial performance of MFIs in Nanyuki town.

Table 5: Model summary

Model	R	R^2	Adjusted R^2	Std. error of estimate
1	.859[a]	.794	.787	.21655

4.1.5 Analysis of Variance (ANOVA)

The analysis of variance examines the association or interaction of the independent and dependent variables. The ANOVA results on Table 6 show that the overall model was a good fit as shown by (F-value=53.392 and p-value=0.000<0.05).

Table 6: Analysis of variance

Model		Sum of squares	Df	Mean of square	F	Sig.
1	Regression	45.676	3	6.419	53.392	.000[b]
	Residual	9.153	37	.208		
	Total	54.829	40			

4.1.6 Coefficient analysis

Regression coefficient expresses the slope or linear interaction existing amongst the study variables. Through coefficient analysis, the strength of the independent variables on the dependent variable is assessed. The results show that the model is valid as shown in Table 7.

Table 7: Coefficient analysis

Model		Unstandardized coefficients		Standardized coefficients	T	Sig.
		B	Std. error	Beta		
1	(Constant)	.097	.032		3.664	.001
	Agency banking	.254	.073	.290	5.269	.002

The model derived was;

Financial performance= $.097+.254_{ab}$

The findings show that agency banking had a positive linearly significant influence on financial performance of MFIs (β=0.254, p=0.000<0.05). The implication is that a change in one unit in mobile banking resulted to 25.4% unit increase on financial performance of MFIs. The results agreed with Waithanji (2015) who stated that financial institutions in Kenya have lobbied agents to boost the financial performance of MFIs.

5.0 Conclusions

Agency banking had a positive and significant influence on the financial performance of MFIs in Nanyuki town. The study concluded that since investment in agents by MFIs has led to increased market share, Return on Equity and profitability, efforts should continue to increase and support these agents for enhanced financial performance of MFIs.

6.0 Recommendations

The study recommended that continuous investment in agency banking through increased recruitment, training and empowering of agents is an important avenue for MFIs to enhance financial performance.

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