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EFFECT OF ALTERNATIVE BANKING CHANNELS ON PERFORMANCE OF BANKS IN KWALE COUNTY

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Abstract: **The purpose of the study was to establish the Effect of Alternative Banking Channels on Performance of Banks in Kwale County. The study sought to assess the effect of agency banking on performance of banks, in Kwale County. This study was guided by the transaction cost theory.This research adopted descriptive research design. The study targeted all 387 resident banks' employees in Kwale County. The sample size was totaling to 87 respondents; all 12 branch managers from the branch managers' stratum and 20% of the remaining 375 other employees' stratum which was 75 respondents. Open and closed ended questionnaire were used to collect primary data. Data collected for this study was analysed by use of descriptive analysis techniques for which Statistical Package for Social Sciences (SPSS 17) was used to analyse data to generate reports in form of frequencies and percentages. The researcher utilized multiple linear regression models to establish the relationship between the dependent variable and the independent variables. Pearson's Product Moment Correlation Coefficient was used to establish the strengths between the variables. Findings were presented in the form figures with the aid of tables and percentages arising from the analysis. The research findings are of significance to many parties such as: the government and other regulators and policy makers, the banking sector and researchers and academicians. To the government and other policy makers, the inference drawn from this study will be useful in regard to assisting in guiding and formulating policies and guidelines that would help commercial banks and other banks in the sector adopt channels that would enhance their performance which in turn will contribute to the sector's performance.**

LIST OF ABBREVIATIONS AND ACRONYMS:

ABC: Alternative Banking Channels

ATM: Automated Teller Machine

CBK: Central Bank of Kenya

POS: Point of Sale

ROA: Return on Assets

ROE: Return on Equity

ROI: Return on Investment

ICT: Information and Communication Technology

OPERATIONAL DEFINITION OF TERMS:

Agency banking: The provision of banking services by a third party to customers on behalf of a licensed, prudentially regulated financial institution, such as a bank. (Ivatury, G. and Timothy Lyman, 2006)

Alternative Banking Channels: A broad range of options through which a customer can access financial services without visiting a branch. These include ATMs, Internet banking, Agency banking and Mobile banking. (IFC 2015)

ATMs: An automated teller machine (ATM) is an electronic telecommunications device that enables customers of financial institutions to perform financial transactions such as cash withdrawals, deposits, transfer funds, or obtaining account information, at any time and without the need for direct interaction with bank staff (Essinger, James 1987).

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Bank agent: A retail or postal outlet contracted by financial institution to offer services on its behalf to its customers (Kumar, Anjali et al, 2006).

Cost: Is the expenditure upon resources incurred by a firm in producing and selling output (David L. Scott 2003).

Cost reduction: Is the process used by companies to reduce their costs and increase their profits (David L. Scott 2003).

Financial Accessibility: It is the ability of individuals or enterprises to obtain financial services including credit, deposit, payment, insurance and other risk management services. (Porteous, D. 2005)

Internet banking: Is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website (Cronin, Mary J. 1997).

Mobile banking: Is a service provided by a bank or other financial Institution that allows its customers to conduct financial transactions remotely using a mobile device such as a Smartphone or tablet (Federal Reserve Board 2012).

Risk reduction: Taking precautionary measures to reduce the likelihood of a loss or to reduce the severity of a possible loss (Kellett, J. and Peters K.2013).

Time management: Is the process of planning and exercising conscious control over the amount of time spent on specific activities, especially to increase effective, efficiency or productivity (Richard Walsh 2008).

1. INTRODUCTION

Alternative banking distribution channels are conduits and systems for provision of banking services to customers directly. Current economic crisis along with increasing market intricacy has placed extraordinary pressure on financial institutions. The demand for a digital lifestyle in addition to the technological insurrection it brings to residences and places of work, as well as the momentous demographic shift and a regulatory structure, are subjecting the finance sector to significant challenges in a time of rigorous market uncertainty. Conversely, times like this present opportunities for commercial banks to embrace change resulting in innovation over the delivery of financial services (Kohali&Sheleg, 2011).The usage of alternative form of banking and making payments and obtaining cash which has gained prominence in the banking sector dates back to early times.

Agent banking has become particularly widespread over the past decade. Latin America is the region with the strongest development towards alternative banking. Brazil is probably the most developed market where agency banking has significantly increased financial system structure ((FANERA LTD, 2012)).

The banking sector has undergone tremendous changes in the last two decades. Advances in technology and changing economic conditions have created impetus for this change. Commercial banks have been adopting alternative banking channels as well as innovating new delivery channels at a high rate. The banks uses internet, automated teller machines (ATMs), POS devices, EFTPOS devices and mobile phones as technologies to deliver its banking services through a combination of distribution channels including stationary bank branches, mobile bank branches, ATMs, bank agents, Online banking, and mobile banking (Mwangi, 2007). Each of these distribution channel serve to deliver a set of banking services and are part of distribution channels that may be used either separately or in conjunction to form the overall distribution channel strategy. It is noted that mobile phone branchless banking has successfully functioned mainly in Kenya with seven million customers, followed by South Africa and Philippines.

In Kenya, Combined total transactions through mobile network operators (MNO) amounted to Kshs 2.45 billion (US $ 24 million) per day (CBK, 2011). Again in Kenya so far Equity Bank, Post Bank, Co-Operative Bank, Family Bank and Kenya Commercial Bank have launched forays into the alternative banking segment, with some already claiming that identifying agencies that are able to provide cash to customers is becoming an industry challenge. Recent data from CBK reveals that over 10, 000 agencies have been licensed, with Equity claiming 50% market share (CBK 2011).

Alternative banking has enabled bank customers to access the basic banking service such as; deposits, withdrawals, disbursement and repayment of loans, payment of bills, transfer of funds, balance enquiry, generation and issuance of mini bank statements, collection of documents in relation to account opening, loan application, credit and debit card applications, agency mobile phone banking services among others (CBK,2010).Early experiences have shown that

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alternative banking can significantly reduce set-up and delivery costs, offering cash-in/cash-out operations only or a broader range of financial services to customers who usually feel more comfortable banking at their local merchants than at traditional bank branches (Lozano and Mandrile, 2009).

The empirical assessment is founded on previously done local and international studies by other researchers. For instance Kambua (2015) studied on the impact that agency banking had profitability of banks in Kenya using descriptive research design and a study population of 16 banks that had adopted agency banking. The study data was collected from general business publications, reports from and by financial institutions and CBK supervision reports. The researcher found out there was a positive relationship between number of agents and financial performance of commercial banks. The researchers also found a positive relationship between factors such as cash deposits, volume of deposits, volume of withdraws and the bank's financial performance.

Ndungu (2015) studied the impact of alternative banking channels on how financial institutions performed financially in Kenya. A descriptive research design was used, data was collected from banks yearly reports and reports issued by CBK. The study found that alternative banking channels such as mobile banking, agency banking, customer deposits and operating expenses causes a variation of 73.4% of the financial performance among commercial banks in Kenya. The research found out that the rate of usage of mobile banking had declined since 2012. The study then recommended that the banks management should adopt more alternative banking channels as well as exploiting more innovation that enhance alternative banking.

Ocharo and Muturi (2016) evaluated the relationship between alternative banking methods and profitability of the banks within Kisii County using the alternative channels such as agency banking, mobile banking, internet banking and automatic teller machine. The study adopted a descriptive research design. The study population comprised of 187 respondents of which 17 were managers and 170 employees of banks within Kisii County. The researchers found a significant correlation between alternative banking and the financial performance of the banking industry.

Despite the challenging environment of terrorism and the global financial crisis, the banking sector remained stable (CBK, 2016).Kwale County has the following banks; Bank of Africa, Barclays Bank of Kenya, Bank of Africa, Co-operative Bank, Diamond Trust Bank (DTB) ,Equity Bank, Family Bank, Fidelity Bank ,Imperial bank, Kenya Commercial Bank (KCB), Kenya Women Microfinance Bank and National Bank. These banks use various alternative banking channels as part of their performance strategy. Banks found their way to Kwale County because of its fast growing economy arising from population growth, tourism, commerce and agriculture.

In the wake of global financial crisis and economic recession, Commercial Banks in Kenya have been operating in a challenging business environment. The global financial crisis is evidenced by weakening of the Kenyan Shilling as foreign exchange reserves dwindle together with subdued demand for loans for both import and export businesses. The sector is also faced with competition from mobile banking offered by the telecommunication sector especially in the rural areas. To survive in the competitive environment, commercial banks in Kenya try to embrace alternative banking channels. Kenya like any other country is faced with financial inclusion challenges such as the cost of financial services and the distance to bank branches in remote areas. Part of Central Bank of Kenya (CBK) approach in addressing these challenges is by promoting innovation through mobile banking services and to address the delivery channel costs through increased use of agent banking, mobile banking and internet banking which has grown to 70% (CBK, 2010). Also, Bank customers have become increasingly demanding, as they require high quality, low priced and immediate service delivery. They want additional improvement of value from their chosen banks. Also, Customers are looking for multiple delivery channels which are flexible so that time factor or geographical space should not pose as a constraint. But according to (Olaniyi, 2010) Commercial banks in Kenya have been performing below bar because of the limited alternative banking but of recent they have embraced alternative banking channels which represent a shift in delivery of banking and financial services it is unclear how these new methods of delivering financial services affect the profitability of commercial banks as noted by (Wisdom, 2012). Commercial banks benefit customers and the society in general through various ways. They offer safety of the customers' money, provide interest accruing from savings and credit facilities to their customers. Through corporate social responsibility programs, banks benefit the society by engaging in sports sponsorship, provision of education programs to needy students, construction of boreholes for community members among other activities. However, there have been complaints regarding high establishment costs, high delivery costs, high operational costs, high transactional costs, long queues, long transaction time, limited banking hours, inaccessible bank branches, frauds,

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forgeries and insecurity issues related with conventional banking. Therefore it is on this basis that the study sought to establish the effect of Alternative Banking Channels on performance of banks in Kwale County.

General Objective

The general objective of the study was to establish the effect of alternative banking channels on performance of banks in Kwale County.

Specific objective

The specific objective of the study was:

1. To determine the effect of Agency banking on performance of banks in Kwale County.

Research Question

1. What is the effect of Agency banking on banks' performance in Kwale County?

Hypothesis

Ho_1: Agency banking does not have a significant effect on banks' performance in Kwale County

2. LITERATURE REVIEW

Theoretical Framework:

Transaction Cost Theory

This view was developed by Coase (1937) who suggested that transaction cost drives the governance structure. Transaction cost is what a customer incurs as a result of buying goods or services through the market rather than having them being provided by the firm. The transaction cost theory suggests that in a transaction, the cost of transfer of goods or service is the subject of concern. The view suggests that transactions cost normally increases when the transactions being undertaken are uncertain and frequent. This concept was further elaborated and operationalized by Williamson (1985). According Williamson (1985), the Transaction Cost Theory's core focuses is on the costs of completing transactions by one institutional mode rather than another. Coase (1937) further suggests that without taking into consideration transaction costs, it is difficult for the firm managers to clearly understand operations and be able to set operational policy. Many scholars support the Transaction Cost Theory through their research for instance Aubert Rivard and Patry (2004); Robertson and Gatignon (1998) and Hair, Anderson, Tatham and Black (1998). Bienstock and Mentzer (1999) who examined the different governance mechanisms under the different impacts of transaction costs to explain the influences of transaction cost on firm performance. This theory was relevant to this study for its view that firms are developing alternative banking channels just to reduce transactional cost for themselves and their clients thus encourage more transactions and reduce costs to increase profitability hence performance.

Review of variables

Scholars have identified a number of alternative banking channels. Many banks are now expanding to alternative channels on banking. The banks are strengthening the channels to ensure any time secure banking services to their customers through the use of platforms such as agency banking, internet banking mobile banking and ATMs.

Agency Banking

Agency banking refers to a partnership with non banks, typically retail commercial outlets ranging from lottery kiosks, pharmacies, post office, construction good stores and so forth, to provide distribution outlets for banks' financial services (Kumar et al; 2006).

Rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds, pay their bills, inquire about an account balance, or receive government benefits or a direct deposit from their employer (CBK, 2014).

Agency banking model requires commercial banks to rely on the existing infrastructure in terms of supermarkets, credit unions, hotels and petrol stations to reach out to customers. Agents can be limited liability companies, cooperative

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societies, parastatals, trusts, partnerships or individuals. Any entity which is faith-based or not-for-profit, a non-governmental organization, an educational institution, forex bureau or any other entity which, under any applicable law is not allowed to carry on profit-making business shall not engage in agent banking business. Agents are selected on their network, services to be provided, anti-money laundering procedure, strategy and financial projections envisioned from agency business (Mwangi, 2011).

Agency banking was first developed in Brazil. Brazil was an early adopter of the model and agency banking has greatly matured over the years covering more than 99% of the countries municipalities. Other countries like Peru, Colombia, Mexico, Pakistan, and the Philippines also started experiencing with banking agent networks. Other countries around the world have also utilized the agent banking model to expand financial services, including Kenya and South Africa. It has enhanced performance greatly in the continent.

Agent banks also help increase savings. Agents can be savings advocates, with key functions designed to be played by agents. Everybody needs a safe place to save, and costs can be reduced for agent banks by leveraging on the existing infrastructure, and minimizing credit risks to makes it safe (CGAP, 2010).

According to Mwangi (2011), these agents are selected based on various aspects such as the network connectivity they have, specific service they will provide, their ability to carry out anti money laundering procedures, particular business strategy and financial projections of the business.

The bank's use of retail agents may be more convenient and efficient than letting account holders and potential holders to physically walk to a bank branch (Lyman, Ivatury&Staschen, 2006) thus enhancing financial inclusion (market access). This will widen the banks market which may result to increased profits.With real-time authorization of transactions structures, the banks check whether there are enough funds in the agent's account or the client's account before authorizing a cash transaction. Banking agents, thus, enforce liquidity management structures to ensure they have enough money for daily transactions. At best, banks generate automatic receipts from a printer integrated into the POS terminal, or as a storable text message sent to the customer's mobile phone, in the bank's name - since it represents a claim against a bank transaction. A complaint and claims structure is also necessary for customers who believe the process has not worked fairly for them and that requires records (Lozano &Mandrile, 2010).

Kandie (2013) sought to establish the effect of agency banking on financial inclusion in Kenya. Kandie found out that a strong positive relationship existed between agency banking and financial inclusion. Agency banking enables banks customers to receive services such as cash deposit and withdrawal from the agents.

Kithuka (2012) examined the factors that influence agency banking growth in Kenya and found that factors such as; accessibility, amount of charges, technology and support affect how agency banking is used.

Waithanji (2012) studied the effect of agency banking on financial inclusivity in Kenya and established that there is no relationship between financial deepening.

Kirimi (2011) studied to what extent agency banking has been implemented among commercial banks in Kenya and established that although agency banking has been adopted, there lacks enough training on agency banking.

A study by Kambua (2015) that assessed the effect of agency banking on return on assets of commercial banks in Kenya found a positive relation between number of agents and the banks financial performance.

King'ang'ai, Kigabo, Kihonge and Kibachia (2016) assessed the effect of banking through the agent on the profitability of commercial banks in Rwanda, he found that baking agencies enhanced financial services accessibility thus increasing the banks market share.

Lozano and Mandrile (2010) studied agent model for branchless banking in Colombia. It examined traditional banking sector's interest in branchless banking and identifies available platforms for implementation of banking agent networks and empirically highlighted benefits of branchless banking for Colombian microfinance institutions (MFIs), and gives an overview of the current network of NBCs in the country. The findings presented a new model where MFIs act as agents of branchless banking services. Implementation of the model would create a new microfinance value chain through a process of scale and inclusion, and enable the poor to access a wider array of banking services. Recommendations included: clear

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rules of representation to mitigate confusion of clients on roles of banks; synergy among all players for achievement of integrated branchless banking solution; and, expansion of infrastructure and technology to support the model.

From all those studies reviewed, it's evident that agency banking has brought more advantages like cost saving and accessibility to financial services, with Kenyan financial institutions regaining more aggressive entry into this segment.In a growing number of countries, banks are finding new ways to make money delivering financial services to "unbanked" people. Rather than using bank branches and their own field officers, they offer banking and payment services through retail outlets, including grocery stores, pharmacies, seed and fertilizer retailers and gas stations among others. For poor people, "branchless banking" through retail agents may be far more convenient and efficient than going to a bank branch (Lyman, Ivatury and Staschen, 2006).

To enhance financial inclusion (market access), Banking Act of Kenya was amended in 2010 to pave way for agency banking. This has led to increased profitability of banks. Increased number of transactions facilitated by bank agents largely attribute to increases in transactions relating to payment of bills, mini statement requests, cash withdrawals and cash deposits which in turn improves profitability of commercial banks (CBK, 2014).

Alternative Banking Channels on Banks' Performance

Alternative channels have been found to significantly affect firm financial performance, however different scholars have analyzed different alternative banking channels. In banks, performance is assessed by: return enjoyed by equity owners, return on total asset, Gross Profit Margin and earnings before tax. ROE establishes the gains the capital put in by investors has attracted while ROA establishes the gains the assets have acquired (Khrawish, 2011). He further suggested that ROA is used to measure the management's ability to generate income from the resources that the institution has. Liquidity is also another measure; liquidity is used to establish the how capable a banks is to meet its debts which matured within one year or a given reporting period. Liquidity also checks the ability of the financial institution to meet unexpected demand for cash. Bank's solvency measures the financial performance among banks. Solvency measures the banks capacity to service its long-term debt when due and also accesses the long term financial strength of the banks. Moreover provision of wide range of services, improved financial knowledge, less crowded branches, greater customer convenience, delivery of better, safer and more reliable services than those usually available to the unreached, lower transaction costs and increase in customer base are the qualitative aspects of banks' performance.

Omondi, Maokomba and Musiega (2014) assessed the impact of ABC on profitability of Co-operative bank and found that adoption of alternative banking channels enhances the flexibility, ease and speed of access of bank services which enables the bank to attract the unbanked customers. This in turn enhances the bank's profitability.

Ocharo and Muturi (2016) assessed the effect of other means of accessing banks on profitability of commercial banks in Kenya using agency banking, mobile banking, internet banking and automatic teller machines alternative banking channels and found that there was significant correlation of 0.81between alternative banking and the profitability of financial institutions in Kenya. Mwangi (2013) examined how innovations affected financial performance of financial institutions in Kenya and established that innovations such as mobile banking have significant influence on the banks income, ROA, profitability and customer deposits.

A study by Kambua (2015) that assessed the effect of agency banking on return on assets of commercial banks in Kenya found a positive relation between number of agents and the banks financial performance.

King'ang'ai, Kigabo, Kihonge and Kibachia (2016) assessed the effect of banking through the agent on the profitability of commercial banks in Rwanda, he found that baking agencies enhanced financial services accessibility thus increasing the banks market share.

Research gaps

The present day customers demand has shifted from just safety of money to how banks deliver their services at minimum costs to the customer at the same time the banks are looking on how to maximize alternative banking to enhance their financial performance. Initially access to banks was not an easy thing for common man in Kenya as banking sector was majorly targeting working class and the middle class with more disposable income. To move closer and access many customers, commercial banks nowadays allows other commercial outlets like shops and supermarkets to act in their capacity as formal banks. However the impact of the strategies is not well documented. Looking at the studies above it is

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evident that though studies have been done linking alternative banking channels, customer satisfaction and financial performance of banking institutions, no known study had been done linking alternative banking on performance of banks in Kwale County. It is on the basis of this background that the study seeks to fill this gap on the Effect of Alternative Banking Channels on performance of banks in Kwale County.

3. METHODOLOGY

This research adopted descriptive research design. The study targeted all 387 resident banks' employees in Kwale County. The sample size was totaling to 87 respondents; all 12 branch managers from the branch managers' stratum and 20% of the remaining 375 other employees' stratum which was 75 respondents. Open and closed ended questionnaire were used to collect primary data. Data collected for this study was analysed by use of descriptive analysis techniques for which Statistical Package for Social Sciences (SPSS 17) was used to analyse data to generate reports in form of frequencies and percentages. The researcher utilized multiple linear regression models to establish the relationship between the dependent variable and the independent variables. Pearson's Product Moment Correlation Coefficient was used to establish the strengths between the variables. Findings were presented in the form figures with the aid of tables and percentages arising from the analysis

4. RESEARCH FINDINGS, DATA ANALYSIS AND DISCUSSION

Effect of Agency banking on performance of banks in Kwale County

The findings showed that majority of the respondents were neutral that the Set-up costs incurred by the bank while adopting Agency banking channel are low hence better financial performances as shown by the mean of 3.11 suggests that a majority of the participants neutral with the statement. A standard deviation of .8073 indicates that the responses were coherent with the mean score. This means that in majority of the respondents did not have the knowledge whether the Set-up costs incurred by the bank while adopting Agency banking channel are low hence better financial performances.

The findings obtained data on whether the bank's use of retail agents reduces movement time spent by account holders and potential holders to physically walk to a bank branch to transact thus encouraging more transactions. A mean of 1.872 suggests that a majority of the participants strongly agreed with the statement. A standard deviation of .729 indicates that the responses did not vary from the mean score. This implies that majority of the respondents revealed that the bank's use of retail agents reduces movement time spent by account holders and potential holders to physically walk to a bank branch to transact thus encouraging more transactions.

On the statement of bank agents enable customers to carry out transactions in a simple and easy way as compared to conventional banking, the results of the study also showed that majority of the respondents as shown by the mean of 2.99 suggests that a majority of the participants were neutral with the statement. A standard deviation of .426 indicates that the responses were coherent with the mean score. This implies that bank agents enable customers to carry out transactions in a simple and easy way as compared to conventional banking.

These findings are in agreement with Kandie (2013) who sought to establish the effect of agency banking on financial performance's in Kenya. Kandie found out that a strong positive relationship existed between agency banking and financial performance. Agency banking enables banks customers to receive services such as cash deposit and withdrawal from the agents. Additionally with a study by Kambua (2015) who assessed the effect of agency banking on return on assets of commercial banks in Kenya found a positive relation between number of agents and the banks financial performance.

Inferential Statistics:

Pearson Correlation

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

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

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Multiple Linear Regression

Multiple linear regressions were computed at 95 % confidence interval (0.05 margin error) to show the multiple linear relationship between the independent and dependent variables of the study.

Coefficient of Determination (R^2)

The findings show that the coefficient of correlation (R) is positive 0.529. This means that there is a positive correlation between alternative banking channels on performance of banks in Kwale County. This finding is in agreement with Ndungu (2015) studied the impact of alternative banking channels on how financial institutions performed financially in Kenya. A descriptive research design was used, data was collected from banks yearly reports and reports issued by CBK. The study found that alternative banking channels such as mobile banking, agency banking, customer deposits and operating expenses causes a variation of 73.4% of the financial performance among commercial banks in Kenya. The research found out that the rate of usage of mobile banking had declined since 2012. The study then recommended that the banks management should adopt more alternative banking channels as well as exploiting more innovation that enhance alternative banking.

More so the results agree with Ocharo and Muturi (2016) evaluated the relationship between alternative banking methods and profitability of the banks within Kisii County using the alternative channels such as agency banking, mobile banking, internet banking and automatic teller machine. The study adopted a descriptive research design. The study population comprised of 187 respondents of which 17 were managers and 170 employees of banks within Kisii County. The researchers found a significant correlation between alternative banking and the financial performance of the banking industry.

The coefficient of determination (R Square) indicates that 27.9% of banks performance at Kwale County is influenced by alternative banking channels. The adjusted R^2 however, indicates that 26.2% of banks performance at Kwale County is influenced by alternative banking channels leaving 72.8% to be influenced by other factors that were not captured in this study.

Analysis of Variance

Table 4.14 shows the Analysis of Variance (ANOVA). The p-value is 0.000 which is < 0.05 indicates that the model is statistically significant in predicting how alternative banking channels on performance of banks in Kwale County. The results also indicate that the independent variables are predictors of the dependent variable.

Hypothesis Testing

Hypothesis One

Ho_1: Agency banking does not have a significant effect on banks' performance in Kwale County.

Agency banking ($\beta = 0.507$) was found to be positively related to banks performance. From t-test analysis, the t -value was found to be 3.985 and the ρ -value 0.000. Statistically, this null hypothesis was rejected because $\rho<0.05$. Thus, the study accepted the alternative hypothesis and it concluded that Agency banking affects banks performance of Kwale County.

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary of Findings:

Effect of Agency banking on performance of banks in Kwale County

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

The findings showed that majority of the respondents agreed that the Set-up costs incurred by the bank while adopting Agency banking channel is low hence better financial performances. Majority of the respondents revealed that the bank's

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use of retail agents reduces movement time spent by account holders and potential holders to physically walk to a bank branch to transact thus encouraging more transactions hence better performance

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

Conclusion

Agency banking (β = 0.507) was found to be positively related banks performance. From t-test analysis, the t -value was found to be 3.985 and the ρ -value 0.000. Statistically, this null hypothesis was rejected because $\rho<0.05$. Thus, the study accepted the alternative hypothesis and it concluded that Agency banking affects banks performance in Kwale County.

Recommendations

Based on the findings, the researcher recommended the following:

Banks should make use of retail agents to reduce movement time spent by account holders and potential holders to physically walk to a bank branch to transact thus encouraging more transactions and provide accessibility of the alternative banking services.

They should lower transactional cost of the alternative banking channels to encourage more transactions. Banks' management should make ABCs reliable to encourage more transactions.

Areas for Further Research

This study has established the effect of alternative banking channels on performance of banks in Kwale County. The following are suggestions for further research: A study on the impact of effective provision of ATMs on customer satisfaction; a study on how to enhance security features of internet banking and a study on the relationship of mobile banking and market penetration.

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