

# Influence of Agency Banking Strategy on Uptake of Products and Services in Family Bank Limited

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**ABSTRACT:** Agency banking strategy is a branchless banking strategy that leverages modern Information Communication Technologies to provide financial services remotely. The study investigated the influence of agency banking strategy on the uptake of bank products and services in Family Bank, Kenya. The study used primary data from 138 respondents using structured questionnaires and secondary data from Family Bank and Central Bank of Kenya annual reports. The study adopted descriptive research designs. Descriptive and inferential statistics were used to analyze quantitative data. A simple univariate regression was applied and a beta coefficient of 0.913 was generated. The research concluded that agency banking is a good strategy to increase uptake. The study recommends that the bank should acquire new market niches to enhance uptake. The study recommends further research to determine the influence of product knowledge and training on the uptake. The study recommends a policy be formulated to ensure 100% visa card issuance and training on available services. A policy may be formulated to ensure that the agents' liquidity is maintained at acceptable levels and advance interest-free loans to agents to increase liquidity and ease service delivery.

**Keywords:** Agency banking, Influence, Strategy, Services, Uptake

## I. INTRODUCTION

### 1.0 Background of study

The Agency banking strategy is a branchless provision of bank products and services to customers. It entails a bank entering into a contract with an agent to perform banking services on its behalf. The agents are licensed to operate by regulating bodies operating in different jurisdictions. The Agency banking strategy dates back to 1999 when it was introduced in Brazil, Latin America. The success in Brazil has motivated many other banks to introduce retail agents across the globe [1]. This was made possible when the parent commercial banks in Brazil allowed appointed agents to perform transactions on their behalf, and it was well received by the customers. The rapid expansion of this strategy has led to numerous studies about agency banking strategy. A study was carried out in Brazil by the national treasury in 2012 and established that there were 151,958 bank agents in 2010[2]. The major benefits that motivated the adoption of agency banking strategy included increased sales from foot traffic, expansion ease, lower expansion costs, and efficiency. On the side of the client, the benefits are: more accessible products and services by less literate, lower cost of services and lower banking periods owing to the reduced queues in the banking halls. A study by [3] established that agency banking strategy conducted approximately eight million transactions in Peru. In 2010 only fifty percent of transactions were conducted in banking halls with the rest being conducted through bank agents and other digital distribution strategies. In the

republic of Colombia most of the transactions such as loan repayments, taxes and utility bill were paid through the bank agents.

In Asia, Palestine and the Philippines, among others have adopted an agency banking strategy and in Africa, Kenya, Uganda (2011), Tanzania (2013), South Africa (2005) and Nigeria (2013) among others have adopted an agency banking strategy. In Ghana where it was introduced in 2008, relationship with the telecommunications companies has inhibited its adoption to full potential [4]. In Uganda, the agency banking strategy has increasingly gained importance since its introduction in 2011 although the strategy for distribution remains largely unknown [5]. The agency banking strategy was introduced in Tanzania in 2013 when the Bank of Tanzania (BOT) developed comprehensive guidelines that permitted licensed banks to appoint retail agents for their banking services. In Tanzania, a report by [6] established that bank agents are located mainly in big towns and are supported by 11 major banks, which include CRDB bank, Equity bank, KCB bank, and Access Bank among others. About 35% of agents are in Dar es Salaam, 8.5% in Arusha and 8.39% in Mwanza. The CRDB Bank controls over 50 percent of Agents estimated to be slightly above three thousand five hundred. Access of agent banking strategy in rural areas remained not fully tapped in Tanzania because many agents are located in towns.

In Kenya, agency banking strategy has been relatively new since its inception in 2010. The agents are licensed and regulated by the Central Bank of Kenya [7]. The benefits that are associated with agency banking strategy are lower transaction costs, longer opening hours, and ease of use by the elderly, semi-literate and illiterate, proximity, convenience and reliability among other benefits. The bank's benefits are increased commissions, increased market share, decreased operating costs, enhanced products and services uptake, and reduced branch congestion. The services that are offered at the agent point are cash withdrawals, cash deposits, account opening, balance inquiry, and payments of bills among others [8].

The established agency banking strategy guidelines draw its authority from section 33(4) of the banking act in the constitution of Kenya 2010[7]. Two years after establishing these guidelines, over 10,000 banking agents were in operation. This growth trajectory has been ongoing and by the year 2020, 21 commercial banks and 5 microfinance institutions had 72,617 agents and 1,275 agents respectively. Ninety percent of these agents are recruited by tier one banks namely Equity bank, Cooperative bank and Kenya Commercial Bank (CBK Annual report, 2020). According to [9] the combined number of transactions carried out by agents from 2010 to 2020 was 894,940,147. A significant motivation for this exponential growth is the value provided by the agent to the banks through cost reduction and high penetration into new market segments. Its financial viability lies in leveraging the existing infrastructure to lower the risks for the banking sector's stakeholders [10].

The rapid expansion of agency banking strategy among commercial institutions has led to various studies regarding its benefits to the banks and their markets. The main benefits of agency banking strategy are its ability to increase access to financial services, thus increasing profits significantly at low overheads for banks. It also leads to financial inclusion enjoyed by the population due to an improvement in agency banking strategy in Kenya. The agency banking strategy also aids in spreading the banking culture by bringing the banking services close to the users while making the services available around the clock[11]. The agents can also provide a local experience, thus drawing customers who would otherwise be unbanked. The main disadvantages revolve around the agents' failure to adequately represent the brand's interests. This calls for the need to train agents and continually offer refresher training to ensure they are knowledgeable about the bank's products and services at all times [12]. Engaging a third party through a contract shields the banks from legal liability and financial compensation in case of termination or breach of contract. The terms of the contract require the creation of a dynamic regulatory environment to control the agents' actions which is sometimes difficult for the banks.

### **1.1 Statement of the Problem**

Competition in the banking sector has become more vigorous. This has resulted in commercial banks and other financial institutions competing for customers. To remain competitive, they have devised numerous distribution strategies and invested resources to improve their services' efficiency, convenience, and reliability. The agency banking strategy forms a branchless banking section that leverages on modern Information Communication

Technologies to provide financial services outside the banking halls [14]. Since its introduction, commercial banks in Kenya have been able to reach the diverse financial needs of their clients in different localities. This has made banks more competitive in gaining market share, retention, and customer satisfaction, as well as enhanced profitability through improved products and services uptake. According to [15], educating users on agency banking strategy plays a vital role in the uptake of bank products and services. This was established after a study was conducted in a peri-urban setting in Siaya County, Kenya. The study concluded that telecommunications companies and commercial banks had not done enough to educate the subscribers and customers on the products and services available on the platform. The study only concentrated on how customer education influenced products and services uptake. The study overlooked other key factors that affect uptake such as cost effectiveness, security of agency outlets, proximity, convenience and reliability which this study intended to bridge. Family Bank Limited distributes its products and services through agents to enhance uptake of products and services. Despite the availability of agency banking strategy, customers prefer visiting the banking halls while others defer transactions to later dates as opposed to using agency banking strategy to access offered products and services which affects the level of uptake.

### **1.2 Objective of the study**

To investigate the influence of Agency banking strategy on uptake of products and services in Family Bank Limited, Kenya.

### **1.3 Research hypothesis**

**H<sub>02</sub>:** There is no statistically significant influence of agency banking strategy on uptake of bank products and services in Family bank Limited, Kenya

## **II. LITERATURE REVIEW**

### **2.1 Theoretical review**

#### **2.1.1 Agency Theory**

Agency theory was developed by Jensen and Meckling in 1976 [16]. The theory postulates that there is a relationship between the enterprise and the agents. The theory takes a keen interest in evaluating if there are sufficient market mechanisms for the agents to perform as expected by the firms' owners to maximize the returns. Even though the agents work for the principal, the owners work towards ensuring that there is a clear distinction between ownership and control. The principle passes control to the agent legally to make some decisions and transact on behalf of the firm. The principal always expects that the agents are going to work on their behalf and in their best interests. There are some times when the interests of the agent and the principal differ. Due to these differences, there are some agency problems that occur when the agent is not aligned with the objective of the principal. The theory was important for this study because there has been increased onboarding of commercial bank agents to conduct transactions on their behalf to enhance products and services uptake as well as increase profitability and cut the cost of operations. The theory looks at whether there are enough mechanisms to allow the agents to perform towards the goals and vision of the firm they are acting for. The theory takes cognizance of the fact that there is a need to have seamless coordination between the managers of the firms and the agents. If this coordination is not looked into keenly, there will always be challenges and the returns to the principal will not be maximized. This is brought about by the first problem that arises when the goals of the principle and the agent are not aligned and the principle is not able to verify what the agent is doing. The second risk arises when the agent and the principal have taken different stands regarding the risks. The agent may take a different risk tolerance from that of the principal [17]. The theory posits that the agent may adopt the interests of the principal and behave in the best interests of the principal if the contract is outcome-based, particularly at a fee. The agent may also comply with the goals of the principal if the agent is aware of the mechanism in place that enables the owner to verify the behavior of the agent. The purpose of having agents in banking is to foster efficient and reliable financial services. In the study, the agency theory has been used to demonstrate how the agency banking strategy has transformed the way banks interact with their customers from

the way they used to do it traditionally before the invention of this technology. Although some critics have argued that control mechanisms in agency theory are not only costly, but also ineffective, because the mechanisms used to protect shareholders may interfere with strategic decisions. The critics also argue that the scattered agents may lack the requisite information and institutional mechanisms to bargain terms of employment to monitor or control the management activities [18] Despite the criticism, the study adopted the agency theory because the capabilities and competencies of agency banking strategy have enabled commercial banks to compete and promote their products uptake [19] The agency theory informed the study on the influence that the agency banking strategy has on the uptake of bank products and services. This is because the theory looks at how the bank streamlines the relationship between the banks and bank agents to maximize the returns.

### **2.1.2 Bank- Led theory**

The study was guided by the bank-led theory and was put forth by Lyman, Ivatury and Stachen in 2006 [14]. The theorists posit that the financial institutions are responsible for developing products and services and their distribution via agents. The agents are therefore responsible for making customer transactions on behalf of the commercial banks just like the bank tellers would [16]. Agency banking comes with several advantages such as convenience, profitability, and increasing customer base. The risks associated with this are legal risks, operation risks and security risks among others. The financial services are principally provided by the principle bank as well as maintainance of the accounts in the core banking systems. The customers have a direct interaction with the agents and perform the authorized functions just like the way a bank teller would do. These functions are cash withdrawals, cash deposits, balance enquiries, bills payments and fund transfers among others. The retail agent of a bank could operate from a retail shop, gas stations outlets, Public service vehicles terminus and any other outlet that is located proximate to the customers. These agents are equipped with the electronic gadgets such as Pont of Sale machines and mobile phones to communicate with the bank servers and complete customer transactions [20].

According to [21] the Bank Led Theory focuses on a model of financial transactions where bank customers do not deal directly with the bank or its tellers. A customer would deal directly with bank-approved retail agents. The bank creates different products and services and then hands over the services and products to an independent agent to deliver to its customers. The retail agents can be based anywhere and carry out the same functions as the bank-based tellers. However, these retail agents are never within the physical bank or direct employees of the bank [22]. On the flip side, the method has some risks associated with it. The first risk is the security of the customer information and account details [22]. A bank entrusts the retail agents with confidential information, which if in the wrong hands can cause financial harm to the customers who visit the agents. Secondly, the retail agents are not direct employees of the bank, they operate without special protection such as the presence of armed security guards. The absence of bank-provided security means that the retail agents are an easy robbery target. Finally, as the model posits, there is a legal risk whereby the bank could be sued in case of illegal transactions, breach of privacy and loss of funds by customers. The theory was relevant to this study because Family bank Limited develops its products and services and develops them through Pesa Pap agents. Therefore, any Family Bank customer or customers of other banks with visa branded cards can do transactions such as withdrawal, deposits and funds transfers among others from their bank through the agents as the theory postulates [21].

### **2.2 Empirical literature**

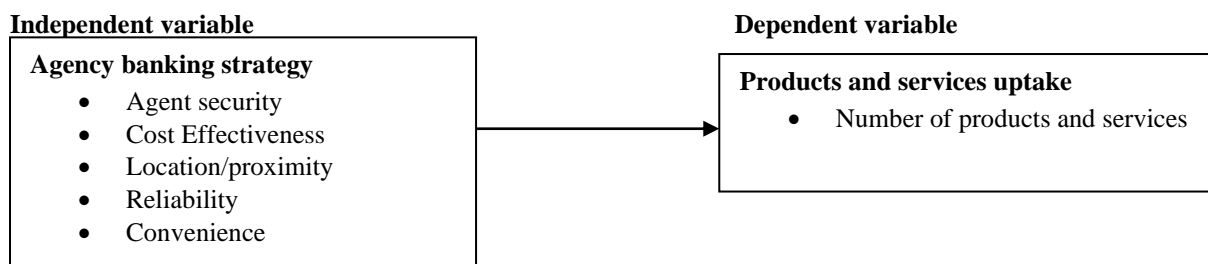
[23] Assessed the factors that influenced uptake of agency strategy banking products in Ethiopia. In this study, a survey research design was used and 363 out of 399 questionnaires viable for analysis were collected. The sample population included the customers of the Commercial Bank of Ethiopia, United Bank S.C., Lion International Bank S.C, and Cooperative Bank of Oromia. The analysis was done using Statistical Package for Social Sciences version 20. Performance expectancy, effort expectancy, and Perceived risk were found to be significant influences. The study concluded that banks should rigorously train their agents and leverage on

strategic advantages through public sensitization activities such as; promotion, marketing, and cross-selling to win public trust and reach new customers.

[24] Assessed how financial innovations had influenced the banking industry in South Sudan in a five-year study from 2009 to 2013. The descriptive survey design was used and sampled 18 of the 28 banks that were operating in South Sudan by 2013. Primary data was obtained through the distribution of the questionnaires to respondents and secondary data was collected from the annual reports published by the Central bank of South Sudan between 2010 and 2013. The study found that agency banking strategy was one factor contributing to a positive Return on Assets (ROA) for the banks in South Sudan. Tools used in agency banking strategy, transactions on mobile money and automatic Teller Machines, were found to have facilitated over 24 million in revenues in Sudanese dollars annually from 364,054 transactions. The number of daily transactions was a significant indicator of positive ROA for the banks.

[25] Assessed the strategic options adopted in agency banking strategy by commercial banks in Mombasa County to differentiate their products and services offering. The Kenya Commercial Bank, Equity Bank, and Co-operative bank had combined agents' populations of 1,263. A sample of 110 was drawn using simple random sampling and questionnaires. The data analysis was done using Pearson's correlation coefficient and parametric one-way ANOVA. The study established a significant positive correlation between product and service pricing and performance of agency banking strategy, quality of customer service and performance of agency banking strategy [26] researched on the role of agency banking strategy as a diversification strategy by commercial banks in Kenya. The researcher adopted a descriptive research design. The study found that commercial banks used agency banking strategy as a way of expanding geographically as they distribute their products and services. It recommended that the infrastructure that supports agency banking strategy be improved to ease usability by the customers. The study concentrated on expansion and not the influence that the agents banking strategy had on products and services uptake, a gap that that this study intended to close.

### 2.3 Conceptual framework



### III. METHODOLOGY

This study referred to positivism research philosophy. The philosophy posits that knowledge is based on facts. According to [27], the facts that make up knowledge are gathered from objective reality and analyzed numerically to give conclusions or relationships between variables and not based on the subjective nature of a person. The positivism research philosophy uses hypothesis testing and regression to draw conclusions which have been included in this study. The study used descriptive research design and the research was carried out in Family Bank Limited in Mt Kenya region, comprising of 23 branches. This region was chosen because it constitutes customers engaging in various income-generating activities ranging from agriculture, business and employment who visited branches rather than transacting remotely via bank agents. A sample of 384 was drawn from the target population using Fischer formula. According to [28], the formula for determining sample size for

populations greater than 10,000 is given by  $n = \frac{z^2 pq}{d^2}$  Where n = this forms the desired sample size for populations greater than ten thousand. z = this represents the required standard deviation of 1.96. This is a 95% confidence level. P = represent the part of the target population estimated to have measured characteristics. q = 1-p thus (1-0.5) = 0.5. d = this is the statistical significance required (accuracy = 0.05 level desired). Having no estimate available of the proportion in the target population assumed to have the characteristic of interest, 50% or 0.5 will be used in the equation to get the sample size. Thus  $n = \frac{(1.96)^2 \times (0.50) \times 0.50}{0.05^2}$  this formula gives n to be 384, but the researcher assumed a non-response rate of 5 %.

Primary data was collected using questionnaires. The secondary data was collected from the Central Bank of Kenya and Family Bank Annual reports. To ensure validity, the instrument was submitted to Murang'a University of Technology supervisors for evaluation and feedback. Pre-testing was conducted on 38 respondents which formed 10% of the sample and edited where errors were noted to ensure content and construct validity. The study tested reliability by Computing Cronbach's alpha to ensure the instrument had all essential items and eliminated the unwanted ones. The Cronbach's alpha value of 0.705 was generated indicating acceptable reliability [24]. The study considered ethical issues such as confidentiality, rights to withdraw from research and explanation of the purpose of the research to respondents. The data was entered in Statistical Package for Social Sciences tool and analyzed to establish descriptive statistics such as frequencies and means and inferential statistics which included the regression model as well as calculate bivariate statistics such as means and the standard deviations. The results helped to draw conclusions and answer the research question. The regression was estimated using the model:  $Y_i = \beta_0 + \beta_1 X_1 + \epsilon_i$  where, Y is products and services uptake,  $\beta_0$  is constant,  $\beta_1$  coefficient of independent variable and  $\epsilon_i$  the error term.

#### IV. RESULTS AND DISCUSSIONS

##### 4.1 Response rate

Table 1: Response rate

Response	Frequency	Percentage
Responded	354	92%
Not responded	30	8%
Total	384	100%

Source: Field data (2021)

##### 4.2 Agency Banking Strategy Response rate

The research administered 384 questionnaires to the respondents. Some were dropped and picked by the research assistants after they were filled while others were administered in terms of interviews. Three hundred fifty-four questionnaires were responded to translating to 92% response rate. According to [29], a response rate of 80% and above is good enough for research work.

##### 4.3 Customer usage of agency banking

Table 2: Customer Usage of agency banking

Total Respondents	Those who use Agency Banking	Percentage of Agency banking users
354	127	36%

Source: Field data, 2021

The study established that 36% of customer's use agency banking. Three hundred and fifty four returned the response but only 127 had used agency banking strategy. This indicates that Family Bank may embark on more promotion to ensure that customer use agency distribution strategy. Advertisements in mainstream and social media should also be considered by the management in its strategic plans on improving uptake of products and services.

#### 4.4 Descriptive statistics for Agency banking

**Table 3: Descriptive statistics**

Agency banking statement	n	Mean	Standard Deviation
Convenience of agency banking	127	4.2	1.789
Proximity of agent outlets	127	4.84	0.39
Security of agent outlet	127	4.71	.0312
Reliability of agents	127	4.79	1
Cost effectiveness of agent	127	4.68	0.409
<b>Average</b>	<b>127</b>	<b>4.64</b>	<b>0.78</b>

The results of Table 2 established that most of the respondents rated the influence of convenience of Family bank agents with a minimum average of 4.2 and a standard deviation of 1.789. The highest average score by the respondent was for proximity of agent with a mean of 4.84 and a standard deviation of 0.39. This implies that respondents strongly agreed that Family bank agency banking strategy influence uptake of products and services. This study agrees with the findings of [22], who researched on the role of agency banking as a diversification strategy by commercial banks in Kenya. The study established that agency banking contributed as a diversifying strategy in commercial banks. The study recommended the use of agents by the commercial banks and that the agent strategy is made accessible to customers to increase products and services uptake.

The findings also agree with the findings of [30] who researched on the factors influencing the slow adoption of agent banking services by customers as a financial inclusion tool by commercial banks in Kenya. The study established that factors such as agency banking service charges, transport cost, low coverage, trustworthiness and security and power failures influenced the level of use by customers. The study findings further agree with [19] who assessed the factors that influence uptake of agency banking products in Ethiopia. The study concluded that banks can leverage strategic advantages through public sensitization activities such as promotion, marketing, rigorous training, and cross-selling to reach new customer niches. The study disagrees with the findings of [27], who researched the utilization of agency banking strategy on the performance of selected banks in Nairobi County. The study established that inadequate liquidity by the agents made them unreliable, contrary to the finding by this study that the agents were reliable.

#### 4.5 Regression model

**Table 4: Simple regression**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.983 <sup>a</sup>	.966	.965	.31911

a. Predictors: (Constant), Agency Banking

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.077	.047		1.651	.102
	Agency Banking	.197	.004	.913	55.481	.000

a. Dependent Variable: Products uptake

The study sought to investigate the influence of agency banking strategy on products and services uptake in Family Bank Limited, Kenya. A null hypothesis ( $H_0$ ) was formulated with the assumption that there was no statistically significant relationship between Agency banking strategy and uptake of bank products and services in Family bank Limited. Tables 4 indicate that the correlation coefficient(R) was 98.3%, indicating a direct linear relationship between agency banking strategy and products and services uptake in Family bank. The results further established from the coefficient of determination ( $R^2$ ) that agent banking strategy influenced 96.6% variations in products and services uptake.

The beta coefficient of 0.913 with a P- value of 0.00 implies that a unit increase in agency banking leads to an increase in products and services uptake by 0.913. Therefore, at  $P < 0.05$  level of significance led to rejection of null hypothesis implying a statistically positive and significant relationship between agency banking and the uptake. The regression model was fitted as:  $Y=0.077+0.913X_1 + u\dots\dots$  [1]. The study agrees with the findings of [25], who assessed the strategic options adopted in agency banking by commercial banks to differentiate their products and services. The study also agrees with [19], who assessed the factors influencing the uptake of agency banking products in Ethiopia. The study concluded that rigorous training of agents by the banks would improve the uptake of services through better quality of services and gain of public trust. The study recommended that banks can leverage strategic advantages through public sensitization activities such as; promotion, marketing, and cross-selling to reach new customers.

## **V. CONCLUSIONS AND RECOMMENDATIONS**

The objective was to investigate the influence of agency banking on uptake of the bank's products and services. The study concluded that agency banking influenced products and services uptake. Regression analysis concluded that agency banking had a positive and statistically significant influence on the uptake of bank products and services. The beta coefficient was 0.913 indicating a unit increase in agent banking leads to 0.913 unit increase in uptake. The study recommends increasing the number of agents and sensitization of the customers on the variety of products and services available. The study also recommends that the institution and partners ensure 100% network uptime and that customers are issued with Visa cards and trained on use to enhance uptake. The bank should formulate a policy to ensure that the agents' liquidity is maintained at an optimum level.

## **VI. GAPS OF THE STUDY**

The study established that the commonly used products and services at agent points are deposits, withdrawals, bill payments, and school fees payments. Electricity bills, water bills, television bills and M-pesa services were rarely consumed products and services. Therefore, the research recommends a study to determine the influence of product knowledge among the customers and staff on uptake. The study established that customers complained of not getting the services they needed at agents' points because the proprietors of agent outlets did not sustain liquidity. The research further recommends that a study should be conducted to examine the influence of agents' motivation on the uptake of bank products and services in commercial banks. A policy may be formulated to ensure that the agents' liquidity is maintained at acceptable levels and advance interest-free loans to agents to increase liquidity and ease service delivery.

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