AGENCY BANKING VALUE INNOVATION: A LEAP INTO FINANCIAL PERFORMANCE OF MICROFINANCE INSTITUTIONS IN KENYA

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Abstract
Micro Finance Institutions play a great role in Kenyan economy in offering banking services to the small, medium and micro enterprises sector in Kenya. The numbers of contracted agents by Micro Finance Institutions have been increasing significantly since Central Bank of Kenya gave nod to the implementation of agency banking by Microfinance institutions in 2010. However, the performance of Microfinance Institutions has been declining since the year 2016. The study investigated the effect of agency banking strategy on the performance of microfinance Institutions in Nairobi City County, Kenya. Specifically it sought to establish the effect of transactional volumes on the financial performance of Micro Finance to determine how customer deposits affect the financial performance of Micro Finance and to analyze how loan repayment through the agency model affect the financial performance of Micro Finance Institution in Kenya. Resource based view, Dynamic Capabilities, Agency theory, Bank led theory and Non-bank led theories anchored the study variables. The study adopted a survey descriptive research design specifically cross-sectional design and 65 respondents sampled from the 13 Microfinance institution licensed by the Central Bank of Kenya. A questionnaire was used to collect data from the respondents and the data was analyzed using multiple linear regressions. The findings indicated that transactional volumes, deposits and loan repayments via agents' had statistical significant on financial performance of Micro finance institutions in Kenya. The study recommends that the policy makers to embark on a strategy that lead to banking agents' deposits mobilization and increase the agent outlets as a critical means for loan repayment.

Key Words: Agency Banking, Dynamic Capability, Financial Inclusion, Financial Performance, Microfinance Institutions, Resource Based View

1.0 Introduction

Kenya's 2009 Finance Act adjusted the Banking Act to allow banks to contract third parties for the provision of banking services. These third parties, otherwise known as banking agents, offer various services on behalf of commercial banks and microfinance Institutions. The Central Bank of Kenya has since published guiding principles for agent banking in order to exert control over these agents. The Finance Act, 2009 paved way for licensed institutions to deliver banking services and thus create a network of banking agents for banking institutions. This has given rise to Kenya's agency banking sector. The Central Bank of Kenya (CBK) has consequently given out the precepts that guide and regulate agency banking in the entire banking sector (CBK 2009).

As maintained by the Alliance for Financial Inclusion (2012), agency banking approach has been adopted in many countries across the world as a means for financial inclusiveness into the rural areas. Brazil is predominantly considered as the pioneer for the agency banking strategy implementation. The rise of agency banking model has since been largely adopted in the Latin America countries. Some of these countries include Peru in the year 2005, Bolivia followed suit in 2006, Ecuador in 2008and Argentina which adopted in 2010. During the year the Kenya's finance act gave nod to agency banking model other countries like Mexico and Venezuela also adopted in 2009. With an aim of expanding financial services, the model has also been implemented and recorded varying degrees of success in other countries across the globe, including South Africa, Nigeria, Philippines, Pakistan, India and Uganda (AFI, 2012).

Notably, the Central Bank of Kenya (CBK) has created a remarkably enabling environment for microfinance banking institutions to flourish. This has been made possible through incremental adjustments to the Microfinance Act and regulations. For instance, the 2010 Finance Act amended the Microfinance Act to widen the definition of business places to enable marketing units as well as agencies carry out business. This amendment coupled with the guidelines for appointing and operations of agents by microfinance banks issued by the CBK, has bolstered microfinance Institutions (MFIs) to widen their reach via banking agents.

In 2013, another adjustment of the Microfinance Act enabled the changing of name to 'microfinance banks' from 'deposit taking microfinance institutions.' This permitted MFIs to not only the operation of current accounts, foreign trade and issuance of cheques, but also participation in the national payment system as well obligation to share their customers' credit information with the accredited CRBs (credit reference bureaus). Equipped with the necessary tools and skills, an agent is able to carry out various activities as decided by the contracting institutions such as balance enquiry, payment of bills, funds transfer, cash deposits and withdrawal. Since the inception of agency banking, it has remarkably enabled more and more people to access banking services in areas nearest to them. Agent banking has drastically cut down on the cost of providing banking services to a hitherto unreachable people (CBK, 2016).
Kenya's banking sector has continued to experience growth in leaps and bounds, particularly in terms being all-inclusive, efficient and dependable, which is made possible by proactive legal adjustments, enabling regulatory framework and supervisory reforms and inventiveness. The 2016 Bank Supervision Report by the CBK recorded a remarkable 47.73 percent upsurge in the

volume of banking business done via agencies for commercial banks and microfinance institutions in the period between Dec 2015 and Dec 2016 (CBK 2017). The report also noted a decrease in the expansion of physical banking branches largely attributed to the fact that banks have embraced alternative service delivery channels including agency banking, internet banking as well as mobile banking. In 2017, this growth of provision of banking services via agencies was sustained. Indeed, the volumes of banking transactions conducted by agencies grew by 34.1 percent between December 2016 and December 2017. In that period, eighteen commercial banks and five MFIs had enlisted a total of 63,481 banking agents from a mere 7,580 reported in a similar period in 2016 (CBK 2017).

Ivantury (2008) posits that agency banking is the key to drastically lowering the overheads associated to the provision of banking services to the poor. Ivantury affirms that agent banking is advantageous to contracting banks as it offers longer business hours, greater accessibility for illiterate and the less privileged persons may be daunted going to the Institutions' branch. Agency banking also lowers transaction cost while at the same time increasing the Institution's market share and customer base and makes for shorter queues in branches and hence increased productivity. To the agency, the institution benefits from increased sales as more people visit the commercial entity, differentiation from competition, better reputation for being affiliated to an established financial institution and extra income from commissions (Ivantury, 2008).

The CBK Bank Supervision reports for the period ranging from year 2015 to 2017 noted a declining trend in the overall microfinance institutions' financial performance. In 2017, the overall MFI's profit before tax deteriorated by 65 percent from the previous year that had earlier recorded a decline of 169 percent from the 2015's realized profits before tax. Additionally, the MFI's pretax profits in 2015 had a decline of 41 percent compared to the previous year profits. The overall MFI's Return on Assets had a similar trend of negative 0.9 percent, negative 0.5 percent, 1 percent and 2 percent in 2017, 2016, 2015 and 2014 respectively (CBK, 2017). A significant decline trend on the overall Return on Equity was also recorded as negative 5.5 percent, negative 3.2 percent, 5 percent and 10 percent in the year 2017, 2016, 2015 and 2014 respectively. MFI's net non-performing loans grew from 2,515 in 2015 to 6,565 in 2017 whereas customer deposits shrunk by 3 percent and by 1 percent in 2017 and 2016 respectively (CBK, 2017).

1.1 Statement of the Problem

The CBK Bank Supervision reports for the period ranging from year 2015 to 2017 noted a declining trend in the overall microfinance institutions' financial performance. In 2017, the overall MFI's profit before tax deteriorated by 65 percent from the previous year that had earlier recorded a decline of 169 percent from the 2015's realized profits before tax. Additionally, the MFI's pretax profits in 2015 had a decline of 41 percent compared to the previous year profits. The overall MFI's Return on Assets had a similar trend of negative 0.9%, negative 0.5 %, 1 percent, and 2 percent in 2017, 2016, 2015 and 2014, respectively. A significant decline trend on the overall Return on Equity was also recorded as negative 5.5 percent, negative 3.2 percent, 5 percent and 10 percent in the year 2017, 2016, 2015 and 2014 respectively. MFI's net non-performing loans grew from 2,515 in 2015 to 6,565 in 2017 whereas customer deposits shrunk by 3 percent and by 1 percent in 2017 and 2016 respectively (CBK, 2017). In contrary to the deteriorating overall MFI's financial performance, the CBK annual reports noted a substantial advancement in regard to microfinance institutions' agents that consequently increased the presence of banking agents in the market as individual MFIs continued the impetus to increase the figures of active agents which translates to increased transactions and increased customer base (CBK, 2017).

A number of banks launched various services provided via agencies such as B2B (Business to Business) solutions for learning institutions as well as other entities with collection accounts. This has resulted into a greater number of biller's in respective bank's systems and consequently larger bill payment transactions. Undoubtedly, the increased volumes and value of transactions carried out through agency banking is testament of the model's acceptability by institutions and also highlights Kenyans' confidence in agent banking as a viable, convenient and secure delivery channel (CBK, 2017).

With members of the public growing ever so confident in the appropriateness of agency banking as convenient and secure alternative banking channel, the sector's growth has been remarkable. Banking institutions have continued their push for greater market share and more profitability, which has led to counter competition as having a local presence and nearness to customer is of utmost importance to banking institutions (Ivantury &Timothy, 2006).

Many banking institutions seeking local presence in select segments have employed the agency banking model. This model has made it possible for microfinance institutions to have footprints in far-reaching areas and grow their numbers and profitability in rural settings. Agency banking has become popular among banks as they have been under pressure to bring services and products closer to the people, thereby increased operation overheads. Contracting agents is however cost friendly, with customers able to enjoy banking services in their neighborhoods which assures business growth and relationships that increase the much-needed growth in profitability in the loan haul (Ivantury &Timothy, 2006).

A few of empirical studies have been carried out on Kenya's agency banking, where the focus was mainly on the adoption of the business model by commercial banks. For instance, Wambugu (2011) studied the aspects that impact on the adoption of agent banking by Kenya's banks. The research showed that this sector is hindered by serious challenges such as money laundering, fraud and inadequate government policy.

Another study (Rutere, 2012) delved into the elements that affect agent banking operations in Kenya. Rutere's (2012) study established that technological and perception factors were the major factors affecting agency banking while Mwenda (2012) found that risk based factors, training and technological factors via her study that investigated challenges facing agency banking implementation in the country.

Dianga (2014) studied how agency banking has impacted the financial soundness of Kenya's commercial banks and concluded that there's a direct correlation between an institution's financial performance and its agency banking operations as measured by its return on investment and ROA. A similar study by Omanga and Mbugua (2017) found out that agencies contracted to a bank help in lowering the cost of delivering financial services, improve quality of services and enhance growth of the financial sector.

Despite the numerous top-level researches done on Kenya's agency banking, it is safe to observe that there hasn't been a research focusing on the ramifications of agent banking strategy on the fiscal wellness of MFIs in the country. Many MFIs in Kenya have bolstered their push to enroll and contract agents as they seek to enhance their respective financial performance. Nevertheless, limited research has been done establish the relationship between agency banking and financial performance of microfinance Institutions in Kenya.

2.0 Review of Literature

2.1 Resource Based View

As an approach for an organization to attain competitive advantage, the Resource Based View emerged as a theory for strategic management. The prior work on RBV can traced back in the works of Penrose (1959) who emphasized that the firm's growth being based on the firms the internal resources of a firm. Andrews (1971) and Rumelt (1982), among other scholars' works can be traced being the major contributors of Resource Based View Theory. The originator of this theory explained the performance and competitive advantage of a firm because of exploitation and maximum use of the organization's key valuable resources.

The enthusiast of the view claimed that firms should identify the sources of its competitive advantage from the inside. Barney (1991) classified resources as physical, human, and organizational capital resources. Brumagim (1994) categorized resources in a hierarchical approach as production, administrative, organizational, and strategic resources.

The resource-based view theory assumes that the resources are heterogenous, immobile, valuable, rare and inimitable. Heterogeneity in the aspect that every organization acquires resources those are completely different from all other organizations. The assumption on resource immobility in that all the resources that a firm possesses are immobile and cannot move from one firm to another. RBV also assume that resources are rare and only few companies can be able to acquire. Inimitability is another assumption, in the aspect that organization must place barriers or make it very expensive for other firms to imitate its resources

The originator of this theory explained an organization's performance and competitive edge as a result of exploitation as well as maximum use of the organization's key valuable resources. Scholars who have argued for the resource-based theory have identified the organization's resources and dynamic capabilities as the key determinants of the organization growth, firms; overall performance and competitive advantage (Barley, 1991)

In the corporate industry, the strategic managers have employed resource-based view in the endeavors of identification of the attributes and qualities that resources ought to attain and sustain competitive advantage. Resource Based View (RBV) theory have viewed resources as inimitable, immobile, heterogenous and non-substitutable (Barley, 1991). The inability to replicate intangible resources, gives room for resources heterogeneity for persistence of the firm. over a long period of time. The resource Based View theory, (RBV) advocate for proper utilization of the firm resources to outshine competitors within the industry (Barley, 1991).

Resource based view only factor in the internal resources, the organizations acquired resources for competitive advantage however, the theory does not put into consideration to the external factors. There are other factors externally or from the external environment that influences the organizations' success and competitive advantage (Barley, 1991). Agency Banking being institutions 'strategy to gain competitive advantage and improve financial performance of the Micro Finance Institutions, therefore, the Resource Based View theory anchored the study is as far as the organization's resources influence the financial performance.

2.2 Dynamic Capability Theory

As the Resource-Based View majorly focus on the categories of resources and the firm's abilities to maximize on its resources to portray competitive advantage, the dynamic capabilities view primarily focus on how the firms 'resources ought to change and rejuvenated to maintain their relevance in the organization cycle as well as the ever changing market environment. Teece, Pisano, and Shuen (1997) as part of the improved works of the Resource Based View pioneered the dynamic capabilities as the foundation for organizations' competitive advantage.

In the current global environment that is subjected to rapid change in the market, the dynamic capabilities model tends to explore the competitive advantage within the environment. The leaders of the institutions ought to build capabilities fixed in the organizations learning culture with an aim of achieving periodic sequence of competitive advantage.

Dynamic capabilities are developed from organizations' processes that are strategic in nature and with value addition aspect through inherent resources manipulation. Dynamic capabilities are therefore considered as institution's processes that are strategic in nature through which the organization create new set-ups with an aim of rejuvenating firms 'resources as per the requirements placed in the market (Eisenhardt & Martin, 2000). The key objective of dynamic capabilities is achieving tangible and sustainable organization's competitive advantage which is dependence on decent strategic decisions and in turn leads to an improved organization's performance (Muithya & Muathe, 2020). The study was anchored to Dynamic Capabilities view model in the aspect that the Institutions exist in a rapid changing market environment that demand resources rejuvenation for them to attain competitive advantage.

2.3 Agency Theory

Agency theory was the brainchild of Jensen and Meckling (1976) and aimed at expounding on the relations as well as conflicts of interest between organizations and businesses. This theory provides a description of how principal businesses and their agents relate and how control is delegated. Additionally, it elucidates on the relationship in which the principal party defines the work while the agent party performs or carries out the work on the principal's behalf.

The originators of this theory explained agency relationship as a kind of relation or contract entered between an organization's owners and the managers. Jensen and Meckling wrote that agency relationship can be likened to a situation whereby a company's owner (principal) engages or appoints a manager (agent) to carry out the activities of the company in behalf of the proprietor (principal). According to Jensen & Meckling (1976), this kind of arrangement calls for the owners to depute decision making jurisdiction to the agents or managers.

In the same way, agency banking model can be applied in the relationship between MFIs and the agents they contract to bring their products and services closer to customers. Agency theory will thus provide this study with important insights regarding the probable conflicts that can affect agency banking and leverage the relationship between microfinance banks and the agencies they contract. This study will therefore attempt to find out how concepts of agency theory have impacted on agency banking model on the financial soundness of Kenya's MFIs.

2.4 Bank –Led Theory

Timothy, Lyman, Ivantury and Stefan (2006) envisioned the bank-led theory. These authors observed that institutions licensed to offer financial services (typically banks) deliver these services through retail agents. This theory holds that the role of banks is to develop products and services, while distribution is carried out through agencies who handle the majority if not all customer interactions. The bank however remains the ultimate giver of financial services and products, and is also the entity that clients hold accounts.

The agencies maintain physical interactions with clients and carry out cash deposit and withdrawal functions just the same way tellers at the bank branches would process customer deposits as well as withdrawals. In some models of agency banking, agencies conduct all procedures of account opening, while in other instances, retail agents are able to identify as well as service loan clients. Almost all establishments handling cash and in close proximity to customers are potential retail agents. Whatever the institution, every retail agent is equipped with capacity to connect by electronic means with the major financial institution it is working for. Electronic equipment ranges from mobile phones to point of sale terminals that read cards (Lyman, *et àl.*, 2006). When an account is opened or a loan is granted, the client visits the retail agent to process some or all financial transactions. The agent is tasked with the role to check customer's identification document(s) and process the transaction such as debiting the client and crediting the beneficiary account when the customer transfers funds or makes a purchase. Apart from transactions that comprise of purely transfer of funds between accounts, other transactions require money to be withdrawn from or deposited to the retail agent's cash drawer. All transactions are accompanied by respective electronic records that are either sent directly from the agency to the bank or are taken care of through a payment processing agent responsible for settling transactions between sender and recipient accounts. Indeed, some payment processing agents have the capability to settle transactions between banks (Lyman, et *àl.*, 2006).

In some kinds of bank-led agency banking, the bank enters into agreement with management companies to identify, enlist, equip as well as monitor retail agencies on behalf of the bank. In most instances, the management agencies take responsibility for money handled by retail agencies, even as banks are also liable to clients in cases of fraud and/or negligence by retail agents. Bank-led theory maintains that this agency banking model is a distinctive banking practice different from the traditional branch-based practice given that clients are empowered to undertake nearly all financial transactions through retail agents rather than depending on bank branches and bank employees (Lyman, *et àl.*, 2006). By employing the agency banking model, commercial banks aim to improve their bottom lines by radically lowering costs of service delivery, relieving long queues experienced in branches as well as expand their reach.

Tomaskova (2010) noted that the bank led model points that the bank is at the core of the relationship with the account holder and that agency banking results to an enlarged customer base which ultimately translates to improved financial wellness of the financial institution. This theory is appropriate to this research, in that, the embracing of agency banking by MFIs has been crucial to how microfinance banks come up with distribution channels for the services and products they offer. Bank agents are empowered to process customer transactions in-order to enhance the bank's financial performance.

The adoption of agency banking by MFIs comes with the potential for greater sustainability as the bank may considerably grow its financial service provision outreach through the use of different delivery channels such as mobile gadgets and retailers located near customers. Adopting agent banking also means that the bank can deliver services via distinguished trade partners such as chain stores.

2.5 Non-Bank-Led Theory

Kumar *et al.* (2006) maintained that in nonbank led theory, clients neither maintain bank accounts nor deal with a bank. In its place, customers relate with a non-banking organization either through prepaid card issuance or via mobile network operator and retail agencies act as channels of client interactions. In such models, clients trade their cash with e-money that is deposited in virtual e-money accounts on the nonbank institution's servers, which are in turn linked to the individual bank accounts of clients.

Critics of this model argue that it's more risky because the nonbank institutions and outlets operate in a regulatory environment that may not adequately emphasize on issues such as customer due-diligence and thus they are prone to money laundering and terrorism financing risks. In addition, nonbanks are insufficiently regulated in the realm of transparent documentation as well as record keeping, which is paramount for a safe financial environment. Regulators are also accused of lacking experience and knowhow in controlling this sector. The nonbank led theory informed the study more so on how agencies deal with customers on behalf of the bank.

3.0 Empirical Review

3.1 **Transactions Volumes and Financial Performance**

According to Githemo (2014), agent banking model has proved to be a successful strategy in driving the financial performance of commercial banks in various developing economies including India, Brazil, Peru, Colombia and Kenya. In Kenya's banking industry, deposits grew by 4.8 percent to reach KES 2.61 trillion at the end of December 2016 from KES 2.49 trillion deposited in the previous year. This increase was buoyed by deposits collected via agent banking as well as mobile banking platforms (CBK, 2016).

At the end of Dec 2016, five microfinance banks had conscripted 2,068 agents, while eighteen commercial banks had enlisted 53,833 agents across the country. In comparison, at the end of December 2015, MFIs had contracted 1,154 agents while commercial banks had recruited 50,592 agents. This translates into a 79% growth of the number of agents enlisted in the microfinance sector and a 33% increase of the number of agents serving commercial banks. Consequently, the amount of banking transactions conducted via agencies grew by 30.9 percent to hit 104,193,459 transactions in Dec 2016 from 79,620,211 recorded in the previous year (CBK, 2016).

Indeed, the amount of banking transactions conducted via bank agents grew by 34% from 2016 to reach 139,751,189 transactions at the end of 2017. The growth of both bank agents and clearly indicates that banking industry in Kenya has adopted the agency banking model and growth in banking transactions over the past few years is key indicator of growth in the institutions' financial performance

In his research on the effect of agency banking on the financial performance of commercial banks in Kenya, Dianga (2014) intended to establish how agent banking has impacted financial performance of banks in Kenya. This study employed a descriptive survey design and results showed a positive relation between the total assets of banks and their financial Performance as measured by Return on Equity. In addition, this research found out that banks that have embraced agency banking are capable of investing more assets and utilizing the infrastructure that exists with greater efficiency and thus improve their bottom lines.

According to Dianga (2014), the implementation of agent banking has made it possible for commercial banks to be more accessible by members of the public and therefore improve their market share and incomes. The conclusions of this study show that the financial performance of banks is positively impacted by their embracing of agency banking. Agency banking gifts financial institutions with the capability to enlarge their market reach by spreading their services and products to populations that were previously not served. Dianga (2014) endorse more banks to adopt agency banking as only a third of the commercial banks in the country have implemented agent banking strategy. Banks are able to augment their financial performance by implementing agency banking as it taps into customers' withdrawals and deposit which is vital in fetching transactional income.

Simboley's (2017) research on the impacts of agent banking on the fiscal wellness of Kenya's commercial banks used descriptive research design. In order to give every element of the population an equal chance to be selected in the research, simple random sampling technique was used. Twelve banks and a hundred and twenty agents were selected as a representative sample for the rest of the industry. This study recorded that agency banking positively impacted on the growth of customer base. Additionally, the study established that commercial banks in the country utilized various inventive channels for recruiting customers and that agency banking model offers banks with an avenue for cost reduction and greater profitability.

A study by Mungai (2017) sought to identify the effect of challenges linked to the adoption of agent banking on the Financial Performance of 4 local banks in Kenya. This research employed probability statistical research design and found out that most of the agencies do not have the appropriate skills as the employees who handle customer interactions usually only have basic education attained in secondary schools. Despite the challenges facing agency banking, this study showed that agent banking model reduces costs on the part of banks as it lowers transaction costs, enhances efficiency and ultimately improves profitability. Agent banking reduces operational costs, lowers provisioning costs and to more bank sales and consequently bigger profit margins.

According to Mungai (2017), agency banking further improves a financial performance as a bank is able to fetch more transactional income via increased bill payments, customers are able to access their bank's services and products in real time and the bank is also able to grow its internal cash reserve thereby enhancing asset quality. Mungai (2017) recommended that banks should allocate greater chunks of resources for use by agencies as this would lower administration and operational costs, increase revenue, and enhance asset quality, ultimately enhancing the financial performance of the bank. The delivery of banking services via agents is undoubtedly a strategic resource enabling banks to achieve greater efficiency, better control of operations as well as reduce costs by ditching traditional paper based and labor intensive systems in favor of automated procedures that lead to increased productivity and profitability.

Other recommendations of this study include that banks should consider integrating agency banking as they explore and find new clients, boost communication speeds, develop new products, collect and manage information, as well as share technical information with their regulator, the CBK. The banks and other financial institutions can advance their operations by increasing public sensitization by conducting regular open day meetings, exhibitions and media productions (Mungai, 2017).

3.2 Banking Deposits and Financial Performance

In his 2011 research study, Wambugu tried to find out the factors prompting the adoption of agent banking model by banks in Kenya. In his study, Wambugu collected primary data through questionnaires and his research used the descriptive research design. Results from this study showed that agency banking faces serious hurdles such as fraud, money laundering, inadequate government policy as well as the likelihood of burglary in premises housing agencies. As revealed in his study, banks have employed growth strategies basing on their capacity to attain new customers through improving access to the unbanked populace while at the same time maximizing profitability.

According to Wambugu (2011) study showed that with agent banking and better accessibility to electronic delivery channels for banking services and products, financial institutions are continuously inventing and widening their array of services as well as products. With the implementation of agency banking, banks are able to reach a bigger geographical area and at the same time customers are able to effect transactions in their bank accounts without having to visit a bank branch.

Another study by Argamo (2015) aimed at establishing how agencies impacted on the financial wellness of commercial banks in 2014. The study centered on Chase Bank and sought to identify how the bank's financial performance was affected by its agency banking strategy. Argamo employed questionnaires to collect primary data and both inferential and descriptive statistics to conduct analysis. The results of the study showed a Progressive Improvement of Chase Bank's agency banking that lead to substantial increase of the bank's financial performance. While this study was limited to Kenya's Chase Bank, it recommended that more studies ought to be done on the effects of delivering banking services via agencies on the financial performance of on all the banks in the country. Additionally, Argamo (2015) recommended further assessments on the factors hindering the implementation of agency banking by Kenya's commercial banks as well as enquiries into the customer related challenges hampering the adoption of agent banking model by Kenya's banks.

According to Kwamboka (2012) research sought to identify challenges deterring the implementation of agency banking model by Kenya's commercial banks. This research used descriptive design and revealed that the major hindrances to agency banking strategy included liquidity management, money laundering and fraud. The study found out that it was challenging for agencies to hold large sums of money as they feared that this could result to break-ins in their premises. Moreover, the study pointed out that for agent banking model to work and achieve set objectives, the apportionment of resources is paramount,

Wairi (2013) did a study aiming at identifying the aspects swaying the implementation of agency banking in Kenya. Wairi's study discovered that the specific factors impacting the implementation of agent banking in Kenya are availability of suitable retail channels, risk management and obtainability of fitting communication and information technology infrastructure. Wairi's research results also showed that Kenya's banks were keen to adopt agency banking strategy as an alternative channel for delivery of services and products because agencies offer opportunities for fast expansions at drastically low cost while taking advantage of the existing investment of agent institutions by equipping them with the necessary communication technology. Also, Wairi (2013) recorded that the main incentives driving financial institutions to embrace agency banking were the projections of reduced cost in service delivery and enhanced customer service.

A study investigating the slow uptake of agency banking model as strategic response by Kenya's commercial banks was undertaken by Mosoti and Mwaura (2014). This study sought to explore the elements influencing slow embracing of retail agent banking services by consumers as an additional financial instrument by banks in Kenya. In this study, questionnaires were used to collect primary data in a descriptive research design. The results of this study discovered that transactional fee was a major restrictive factor for consumers to use the services of bank agencies. Indeed, the findings of this study showed that the costs of using bank agent services were higher than the traditional bank fees like ATM charges. One of the recommendations of this research was that banks that have embraced agency banking should engage in intense advertising drives to create awareness to their clientele base as well as the general public.

Another recommendation by Mwaura (2014) was for banks to assume bigger responsibility to improve management systems, advance working processes and enhance customer satisfaction at the agency's network. A social mobilization and awareness is necessary for an institution to fully take advantage of the financial infrastructure occasioned by agency banking. This would not only improve the financial soundness of the bank, but also increase profitability for agencies and result to better gratification on the part of the customers (Mwaura, 2014).

3.4 Loan Repayment and Financial Performance

Kirera (2009) did a study aiming at identifying the factors that influence loan default rate in commercial banks of Kenya. Kirera's study discovered that the specific factors influencing loan default rate in commercial banks of Kenya are loan product design, client screening and credit committee control management. Kirera's research results also showed that the interest payable on the loan influences the capability of the borrower to service the loan advanced to them hence high probability of the customers to default on reservicing schedule and time. Kirera's study also established that the business creditworthiness is a factor of repayment ability that affects the performance of financial institutions.

According to Gakuru (2017) study investigated on the relationship between the virtual lending and the loan repayment in the Commercial Banks in Kenya. In his study, it was established that the virtual lending policy, lending rates, lack of collateral and easy loan accessibility as the factors influencing the loan repayment in the Commercial Banks of Kenya. The study also found that the implementation of the lending policy has also a significant influence towards loan repayment and eventually performance of Commercial Banks.

A study to determine the determine the relationship between the non-performing loans and the Financial Performance of the Commercial Banks in Kenya found that there was a negative substantial relationship between the nonperforming loan size, age and cost with the returns, on assets of the Commercial Banks in Kenya. The study established a positive relationship between the Financial Performance of Commercial Banks in Kenya with the value of collateral of non-performing loans. The study also revealed a negative significant relationship between the Financial Performance of Commercial Banks in Kenya and the numbers of non-performing loans, oldness of non-performing loans and cost of non-performing loans (Cheruiyot, 2018). From the literature reviewed the following hypotheses were conceptualized:

H01: Transaction volume has no significant effect on financial performance of Microfinance Institutions in Kenya.

H02: Agency banking deposits has no significant effect on performance of Microfinance Institutions in Kenya.

H03: Loan repayment has no significant effect on financial performance of Microfinance Institutions in Nairobi City County, Kenya.

4.0 Research Methodology

The research design employed in assessing the effects of agency banking strategy on the financial performance of microfinance institutions in Kenya was descriptive survey specifically cross-sectional design, which allows an array of conditions for data collection and analysis in a way that brings about a combination of applicability to the study purpose and prudence in procedure. Research design is presumed to be the conceptual structure in which a research is carried out; it comprises of a plan for data collection, measurement and analysis (Mugenda & Mugenda, 2003, Kothari, 2004, Muathe, 2010, Muathe, Wawire & Ofafa, 2013). Questionnaires were administered to 65 respondents from the 13 Microfinance Institutions in Kenya. The collected data was validated, edited, coded and then analyzed using multiple linear regressions at a 95% confidence level. A regression model of; $Y = \beta0 + \beta1X1 + \beta2X2 + \beta3X3$

Where:

Y represents Financial Performance

$\beta0$ represents, Constant Term

$\beta1$, $\beta2$ and $\beta3$ represent Beta coefficients

X1 represents, Transactional Volumes

X2 represents, Agency Banking Deposits

X3 represents, Repayment of loans

5.0 Findings and Discussion

Table 1a below present summary of the regression model

Table 1a: Regression Model

Model	Multiple R	R Square	Adjusted R Square	Standard Error
1	0.64732	0.47893	0.56336	26.3979

Source: Research Data (2020)

From table 1a the findings indicates that the independent variables consisting of deposits, Loan Repayment and transactional Volumes explained 56.3& of the financial performance of Microfinance Institutions in Kenya.

Table 1b: ANOVA

Model		**df**	**SS**	**MS**	**F**	**Sig. F**
1	Regression	1	8335.991	8335.991	11.44319	0.00697
	Residual	10	7284.676	728.4676		
	Total	11	15620.67			

Source: Research Data

The analysis of variances in table 1b indicates that the model was significant since p-value of 0.00697 was lower compared to the alpha value of 0.05 leading to a conclusion that the three independent variables can be significantly relied to predict the outcome of dependent variable.

Table 1c: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		*Sig*	*Lower 95%*	*Upper 95%*
	B	*Standard Error*	Beta	*t Stat*			
(Constant)	7.802	0.216		2.954	0.001	53.003	21.534
Agent Banking Deposits	0.306	0.198	2.435	1.476	0.006	2.66332	12.9423
Transactional Volume	0.106	0.778	0.344	1.363	0.001	1.453	9.0154
Loan Repayment	0.101	0.023	1.447	0.144	0.004	0.233	0.065

Source: Research Data (2020)

In table 1c results indicates that Agent deposits had a p-value of 0.006 which is lower than 0.05 hence statistically significant. These findings concur with Dianga (2014) study that found Agency Deposits positively impact the financial performance of Commercial Banks in Kenya which found the coefficient of regression for Agency Deposits being statistically significant. In addition, the finding was consistent with Ndirangu (2013) who found a p-value of 0.003 for Agency Deposits. Transactional Volume had a p-value of 0.001 which is lower than 0.05 hence it was statistically significant. The finding was consistent with Ndirangu (2013) and Argamo (2015) studies which established the existence of a positive relationship between Agency transactional Volumes and the financial performance of commercial banks in Kenya. The coefficient of loan repayment had a p-value of 0.004 which is lower than 0.05 hence it was statistically significant. The finding of the current study was consistent with Dianga (2014) who found a bank's assets that represents loans having positive correlation with the respective banks financial performance.

6.0 Conclusion and Policy Recommendation

The study findings revealed that the transactions volume, banking agent deposits and loan repayment had statistical significant effect on financial performance of microfinance institutions in Kenya. This implies those Microfinance institutions which focus on growing the network base of their agents, consider the transactional amount and also terms of the loan repayment are more like to improve their financial performance in Kenya. Hence the study therefore recommends policy makers in Microfinance Institutions to adopt strategies which grow agency banking transactions, the policy makers to embark on a strategy that lead to banking agents' deposits mobilization and finally the Microfinance Institutions to increase agent outlets as a critical means for loan repayment.

6.1 Limitations and Future Research

Although the head offices of the 13 Microfinance are located in Nairobi City County, which is the capital city of Kenya, the capital city is a metropolitan and highly industrialized area. This makes it difficult to generalize the results to regional areas in Kenya Self-reporting was used to measure agency baking performance but as argued by Marjan (2006); Muathe, Wawire and Ofafa 2013, self-reporting might create self-generated validity and thus inflate causal linkage.

Finally, the current study was a cross-sectional study and lacks a longitudinal aspect related to the survey data. . Nevertheless, this study gives insights into the effect of Agency Banking Value Innovation: A Leap into Financial Performance of Microfinance Institutions in Kenya. However, future study on more determinant of agency banking, consider longitudinal design and focus on other country city County for the purpose of generalization of the study.

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