MOSHI CO-OPERATIVE UNIVERSITY

CONTRIBUTION OF AGENCY BANKING ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN TANZANIA: A CASE OF NMB BANK IN MOSHI MUNICIPALITY

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BY

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A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS MANAGEMENT OF MOSHI CO-OPERATIVE UNIVERSITY

DECEMBER, 2023

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AND
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I, Herment Samuel Gurisha, declare that this Dissertation is my own original work and that it has not been presented and will not be presented to any other learning institution for a similar or any other academic award.

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CERTIFICATION

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CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by Moshi Co-operative University a Dissertation titled **"Contribution of *Agency Banking on Financial Performance of Commercial Banks in Tanzania: A Case of NMB bank in Moshi Municipality*"** in partial fulfillment of the requirements of the award of the Degree of Master in Business Management of Moshi Co-operative University.

DR. FAUSTINE PANGA

(Supervisor's name)

(Supervisor's signature)

Date 11/12/2023

DEDICATION

This Research is dedicated to my parents for their great support, and encouragement throughout my studies. Again, this work is dedicated to my family, brothers and sisters, relatives and friends who gave me advice, care and tolerance, during the whole period of my studies. May God bless them all.

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LIST OF ABREVIATIONS

AML	Anti-Money Laundering
ASCAs	Accumulating Savings and Credit Associations
ATM	Automated Teller Machines
BOT	Bank of Tanzania
CSR	Corporate Social Responsibility
E-Money	Electronic Money
ICT	Information Communication Technology
POS	Point of Sale
ROE	Return on Equity
SMS	Short Message Service
TBS	Tanzania Bureau of Statistics
USA	United State of America

ABSTRACT

The purpose of the study was to evaluate how agency banking affected Moshi Municipality's commercial banks' financial performance. It looked at how the performance of the banks was affected by low transaction costs, client accessibility to financial services, and operational flexibility. Data were gathered via questionnaires, interviews, and purposeful and accidental selection techniques as part of a cross-sectional study design. For the study, a sample of 71 employees was selected. The results offer insightful information on the Moshi Municipality's commercial banks' financial standing. To analyse the data, the multinomial logistic regression model was employed. The findings show that the performance of commercial banks is influenced by the commission earned from agency banking operations. According to the report, banks' financial performance is much improved when they use agency banking services to cut transaction costs. The study suggests that banks should place a high priority on developing a loyal customer base in order to broaden the institution's flexibility. This will increase fair market competition and stop financial institutions from mistreating their clients. The study's advice is that these financial institutions should continue to offer low transaction rates within of their local agency locations. The study goes on to say that in order to support their agencies and enhance bank performance, commercial banks should continue to provide them a fair share of their profits. The primary goal of this study is to determine how agent banking affects the financial performance of commercial banks. The degree of diversity, market share, and liquidity are just a few of the numerous variables that affect how financially successful commercial banks are. The essential inquiry, aside from agent banking. When analyzing with the remaining factors, it is necessary to look at each one to ascertain its true impact.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Study

Globally, agency banking has been increasingly popular since its infrastructure costs are lower than those of opening a bank branch (CGAP and DFID 2009). To maintain their market effectiveness and improve their financial performance, commercial banks use agent banks (Mbobua, 2013). This has made researching the connection between agency banking and financial institution performance more intriguing (Anyanzwa, 2018). Even though agency banking has advantages for commercial banks and their customers, some agent outlets still have low floatation management costs, which causes their customers to ignore them due to the challenges (Mbugua and Omgwa, 2017). Agency banking, a global practice, involves banks engaging with non-bank, retail commercial channels, with unique names depending on branding strategies.

As per existing literatures, including AFI (2012), Brazil is widely recognised as a global pioneer in the field of agency banking, having been among the first nations to adopt the model and developing over time into an advanced network of agent banks that caters to over 99% of the country's municipalities. Latin America has seen similar developments with Bolivia (2016), Ecuador (2008), Ecuador (2009), Venezuela (2009), Peru (2005), Mexico (2009), Colombia (2006), Argentina (2010), and Ecuador. A number of countries have also implemented the agency banking model to enhance the financial performance and financial services provided by commercial banks (Atandi, 2018).

Nonetheless, agency banking is growing rapidly in African countries because of regulatory policies that have facilitated its growth. Ivatury and Lyman (2016) claim that it enhances the convenience and accessibility of bank operations. In an effort to increase financial inclusion, financial innovation, and depth, a large number of banks and financial services authorities have adopted agency banking. Commercial banks can reach distant areas with a high percentage of unbanked people by utilising agency banking (Barasa and Mwirigi, 2019). Financial services are made available through technology through agent banking (Mwangi 2013). Every time a customer deposits or withdraws cash, bank staff are required to provide them with a receipt (Calleo, 2019).

In addition, the principal business have to incorporate effective techniques for designating delegates and obtaining customer input, such alerting patrons using mobile devices (Diniz, Birochi, and Pozzebon, 2018). The Democratic Republic of the Congo, Nigeria, Namibia, and South Africa were among the countries that pioneered agency banking.

In countries like Tanzania, Kenya, and Uganda, agency banking was first introduced by commercial banks in East Africa (Jagongo and Molonko, 2019). In Kenya, agency banking is allowed to carry out the following tasks, for example: making cash withdrawals, deposits, paying bills, checking bank balances, making card-less deposits (via sim-banking), disbursing and repaying loans, issuing mini-statements, paying salaries, and forcing pin changes (CBK, 2014). Tanzanian commercial banks indicate a highly stable business environment with about equal industry competition (Mutua, 2016). The never-ending innovation of mobile phone service providers has spurred commercial banks to adopt ever-more innovative banking practises (Ngando, 2017).

In undeveloped countries like Tanzania, agency banking is often disregarded, despite its swift growth. The objective of this study is to assess its influence on the financial performance of commercial banks, namely NMB Bank located in Moshi Municipality, and to determine its increasing contribution to enhancing worldwide financial performance. The purpose of the study is to demonstrate how crucial agency banking is to enhancing the performance of commercial banks.

1.2 Statement of the Problem

Prior to the introduction of agency banking, the majority of Tanzanians had almost no access to financial services. But now that an infrastructure based on a model initially developed in Brazil has been institutionalised, this has been updated (BOT, 2017). Over 44% of Tanzanians are either underbanked or unbanked, according to the Tanzanian Bureau of Statistics Report (2017). This is mostly because operating bank branches is expensive and there aren't enough commercial transactions in residents' districts.

The innovative idea of mobile and agency banking was created by Tanzanian commercial banks and mobile phone service providers (Mwachofi, 2013). Whether agency banking has been able to meet the expectations of commercial banks is the question that has to be addressed (Njuki, 2015; Ndungu and Njeru, 2016). It's probable that less people are standing in line at banking halls, more members of the target population are opening accounts, and those who weren't previously banked may now access general financial services (Seltzer, 2010; Vutsengwa and Ngugi, 2018). Commercial banks should consider creating value for their investors in all of their decisions (Njagi, 2017; Ndwiga, 2016). This mandate should be taken into consideration while evaluating agency banking to see if the advantages outweigh the disadvantages (Ngigi, 2018).

According to reports, agency banking has grown in significance over the past ten years in developing nations (Ngando, 2017). It is still unclear, nevertheless, to what degree agency banking may be employed as a strategy to improve the financial standing of commercial banks. According to Barasa and Mwigiri (2013) and Yin (2018), there is a dearth of research on the actual advantages of agency banking for clients, banks, and bank employees.

Despite the fact that agency banking is crucial for boosting commercial banks' competitiveness and financial performance, not much study has been done specifically on how it impacts Tanzanian commercial banks' financial performance (Younus, 2017). Since most of the reviewed research were conducted outside, Aosa (1992) contends that it is incorrect to import a study's entire set of findings without taking contextual characteristics into account. Consequently, in order to have a deeper grasp of the problem, local study is required. Using NMB in Moshi Municipality as a case study, the paper investigates the effect of agency banking on the financial performance of commercial banks in Tanzania.

1.3 Research Objectives

1.3.1 Main objective

The main research objective of the study was to assess the contribution of agency banking on financial performance of commercial banks in Moshi Municipality, Tanzania.

1.3.2 Specific Objectives

Specifically, the study intended to;

(i) Examine the contribution of commission earned on financial performance of commercial banks in Moshi Municipality,

(ii) Determine the effect of low transaction cost through agency banking on financial performance of commercial banks in Moshi Municipality,

(iii) Examine the contribution of financial services accessibility offered by agents on financial performance of commercial banks in Moshi Municipality

(iv) Determine the effect of operational flexibility on the financial performance of commercial banks in Moshi Municipality.

1.4 Research Hypotheses

(i) H_{O1}: Commission earned has no significant contribution on financial performance of commercial banks in Moshi Municipality,

(ii) H_{O2}: Low transaction cost through agency banking has no significant effect on financial performance of commercial banks in Moshi Municipality,

(iii) H_{O3}: Financial services accessibility offered by agents has no significant effect on financial performance of commercial banks in Moshi Municipality,

(iv) H_{O4}: Operational flexibility has no significant effect on performance of financial performance of commercial banks in Moshi Municipality.

1.5 Significance of the Study

The study conforms to the Banking and Financial Institutions Act of 2006, Act Supplement of Banking and Financial Institutions Acts of 2006, Banking and Financial Institutions Act (Principal Legislation) of 2019, and the Financial Sector Assessment Programme (FSAP) of 2019 and 2020. The findings of the study will have a big effect on bank management since the information gathered will help agency banking run smoothly and successfully. NMB Bank will be briefed on the importance of agency banking as a way to improve financial performance. The owners of agencies will get training on the benefits of becoming agents, which will encourage the expansion and expansion of agency locations and enhance business expansion and financial performance. The public will view bank agents as being on par with or even better than the banks themselves because of the additional perks. Because the study adds to the body of knowledge currently available in the literature, it will be helpful to other scholars and researchers. It will grow into an informational tool on the financial industry. Finally, agency banking users (customers) will find this study beneficial since it focuses on improving the availability of banking services within local communities.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Definition of the Key Terms

2.1.1 Agency banking

The practise of a financial institution or mobile network provider contracting a retail or postal business to conduct transactions on behalf of its clients is known as agency banking. This is frequently utilised, particularly in developing nations, to assist clients in reaching new consumer segments or geographic areas and relocating from crowded branches. Agents provide financial services to consumers on behalf of licenced deposit-taking financial institutions (Mwachofi, 2013).

2.1.2 Financial performance

When comparing industries or sectors, a company's financial health is measured by its capacity to generate revenue from its resources. It ought to be seen in aggregate form, taking into account line items such as operating income, cash flow operations, revenue from operations, and total unit sales. Financial performance is an arbitrary metric used to assess how well a company uses its resources to produce income. David (2016).

2.1.3 Commercial bank

Is a financial company that offers services including deposit acceptance, lending for mortgages, business and vehicle loans, and basic investment products like certificates of deposit and savings accounts. The conventional commercial bank is a physical location with tellers, safe deposit boxes, vaults, and automated teller machines. Nonetheless, some commercial banks don't have any physical locations; they often charge lesser fees and provide better interest rates on deposits and investments (Ngando, 2017). The term "commercial banks" in this research refers to banks that carry out a variety of banking operations, including taking deposits, making loans, creating credit, and acting as agencies.

2.1.4 Financial service

Economic services connected to financing offered by financial institutions are known as financial services. A wide number of operations within the service sector are included in financial services, particularly when it comes to consumer finance and financial management. Financial services in this research will only include services provided by agents.

Access to financial services is influenced by various factors such as service types, costs, availability, and quality. These qualities can be categorized into flexibility, dependability, accessibility, consistency, and simplicity. Flexibility allows financial products to be tailored to users' needs, dependability ensures access when needed, accessibility ensures simple access, consistency ensures regular access, and simplicity enables regular access.

2.1.5 Operational flexibility

refers to a power system's capacity to adapt to these modifications. The company's capacity to expedite product development, supply chain, and logistical procedures, as well as to simplify operations. Increasing one's capacity to adapt to uncertainties in the business environment, whether proactively or reactively, is the goal of operational flexibility. The capacity of financial institutions to enhance the agency banking process in the provision of services is referred to in this study as operational flexibility.

2.2 Theoretical Review

2.2.1 Bank-led Theory

At its most basic, the bank-led concept of branchless banking involves a licenced financial institution—usually a bank—providing financial services through a retail agent. To put it another way, retail agents oversee all or most of the customer interactions necessary to distribute the financial services and products that the bank develops (Lyman, Ivatury, and Staschen, 2006). The bank is the primary provider of financial services and the location where customers maintain their accounts. Retail agents deal with cash in and cash out transactions in a way like to that of a branch teller, interacting directly with customers. (Owens, 2006).

In certain countries, retail salespeople also oversee the whole account creation procedure and, in some cases, actively find and support lending clients. Someone who works in a place that takes cash and is near customers might be a retail agent. Regardless of the kind of organisation, every retail agent has the tools necessary to communicate electronically with the bank that hires them. The equipment might be a mobile phone or an electronic point-of-sale (POS) terminal that has card readers.

2.2.2 Strength and weakness of the theory.

The bank-led model, proposed by Lyman, Ivatury, and Staschen (2006), offers a unique alternative to traditional branch-based banking, involving retail agents instead of bank employees or branches. This model, with a distinct target market, different trade partners, and delivery channels, has the potential to expand financial services and be more cost-effective than traditional bank alternatives.

Outsourcing customer contact to retail agents can pose risks to banking regulators due to their remote operations and lack of physical security. Retail agents' functions include credit decisions and require expert training. Banking regulations identify five risk categories, including credit, operational, legal, liquidity, and reputation risk. Additionally, using retail agents may lead to consumer protection issues. The bank lead theory suggests that financial institutions like banks employ retail agents, like a family bank's Pesa pap agent, to handle customer interactions.

2.3 Empirical Literature Review

Eight out of forty-three banks have implemented agency banking services, according to Aduda, Kiragu, and Ndwiga (2016). Equity Bank, Co-operative Bank, and Kenya Commercial Bank have demonstrated a noteworthy performance index. Convenience and cheap transaction costs are credited with this agency banking development, which has improved financial performance.

Furthermore, the statistics show that commercial banks that had adopted agency banking were more successful, based on the number of agents they signed. The agents provide services in compliance with the service charter and the standards of the Central Bank of Kenya, overseen closely by the commercial banks. The paper recommends using improved technology to encourage commercial banks to utilise agency banking. The bank will therefore expand in size and transaction volume, enhancing its financial performance.

According to the study, agency banking considerably raises Kenyan commercial banks' return on equity (ROE), demonstrating its benefit to the banks' overall financial stability. The statistical research shows a strong level of correlation between the rate of return on assets and agency banking characteristics, suggesting that the latter is always improving. This is especially true for banks that have expanded their use of the service because of its effectiveness and ease (Ogetange's, 2014). Commercial banks are advised to completely embrace agency banking by using enhanced technology for increased information security volume, which will increase consumer dependability. The government ought to provide more frequent assistance for the programme and lower the high expenses associated with compliance, registration bureaucracy, and taxes.

According to a descriptive survey and a descriptive survey, Murugi's 2013 study on Kenyan commercial banks discovered that decreased transaction costs through agency banking had a favourable effect on their financial performance. Financial performance metrics were extracted from annual reports on the financial performance of individual institutions. The total transactional value carried out through the agents and the number of registered agents were also determined using CBK's annual report and supervisory reports.

The study analyzed variables such as cash withdrawals and deposits, active agents, ROA ratio, staff cost to revenue ratio, and cost to income ratio. Kenya Commercial Bank, Equity Bank, and Co-operative Bank had the highest performance indexes among banks implementing agency banking. The report suggests that commercial banks should fully embrace agency banking by using updated information security technologies to enhance client reliability.

In 2017, Mbugua and Omagwa conducted a study in Embu County, Kenya, examining the relationship between commercial banks' financial performance and agency banking. The study, which used a descriptive approach and a 69-respondent sample, found that agency banking has reduced the cost of banking and related transactions.

Mbugua and Omagwa's 2017 study on agency banking and commercial banks' financial performance in Embu County, Kenya, found that agency banking has reduced the cost of banking and transactions, using a descriptive research approach and a stratified random sampling approach. The study used descriptive statistics, correlation analysis, and multiple regressions.

The adoption of agency banking by Kenyan commercial banks was the subject of a 2013 study by Ndiema, who discovered a significant relationship between the two. Data from six banks that provide agency banking services were gathered for the study using a cross-sectional survey. The results shown that agency banking improves financial performance by lowering branch establishment, staffing expenses, and profitability. The study did not take liquidity considerations into account, however it does suggest adoption for higher profitability. Research that compares the financial performance of Tanzanian commercial banks before and after agency banking adoption is suggested.

2.4 Research Gap

The bulk of the reviewed publications indicate that outside of Tanzania, research has been conducted on the relationships between agency banking and the financial performance of commercial banks. The impact of expanding agency banking services on the financial performance of Kenyan commercial banks was studied by Ndiema (2013), although the study was unable to ascertain the degree to which agency banking influences market shares. Kamau (2015) discussed the relationship between agency banking and the financial performance of Kenyan banks. In an effort to comprehend agency banking transaction costs as a driving force behind agency banking in Kenya, Podpiera (2018).

The study highlights the need for further research in Tanzania on the impact of agency banking on the financial performance of commercial banks, highlighting the gap in existing empirical studies. It examines the effects of commissions earned, operational flexibility, decongestion in the banking hall, and cost-effectiveness.

2.5 Conceptual Framework

The study aims to explore the impact of agency banking on financial banks' bottom lines, using revenue and profitability as indicators. A conceptual framework is used to illustrate the relationship between independent and dependent variables, as depicted in Figure 1.

Agency Banking

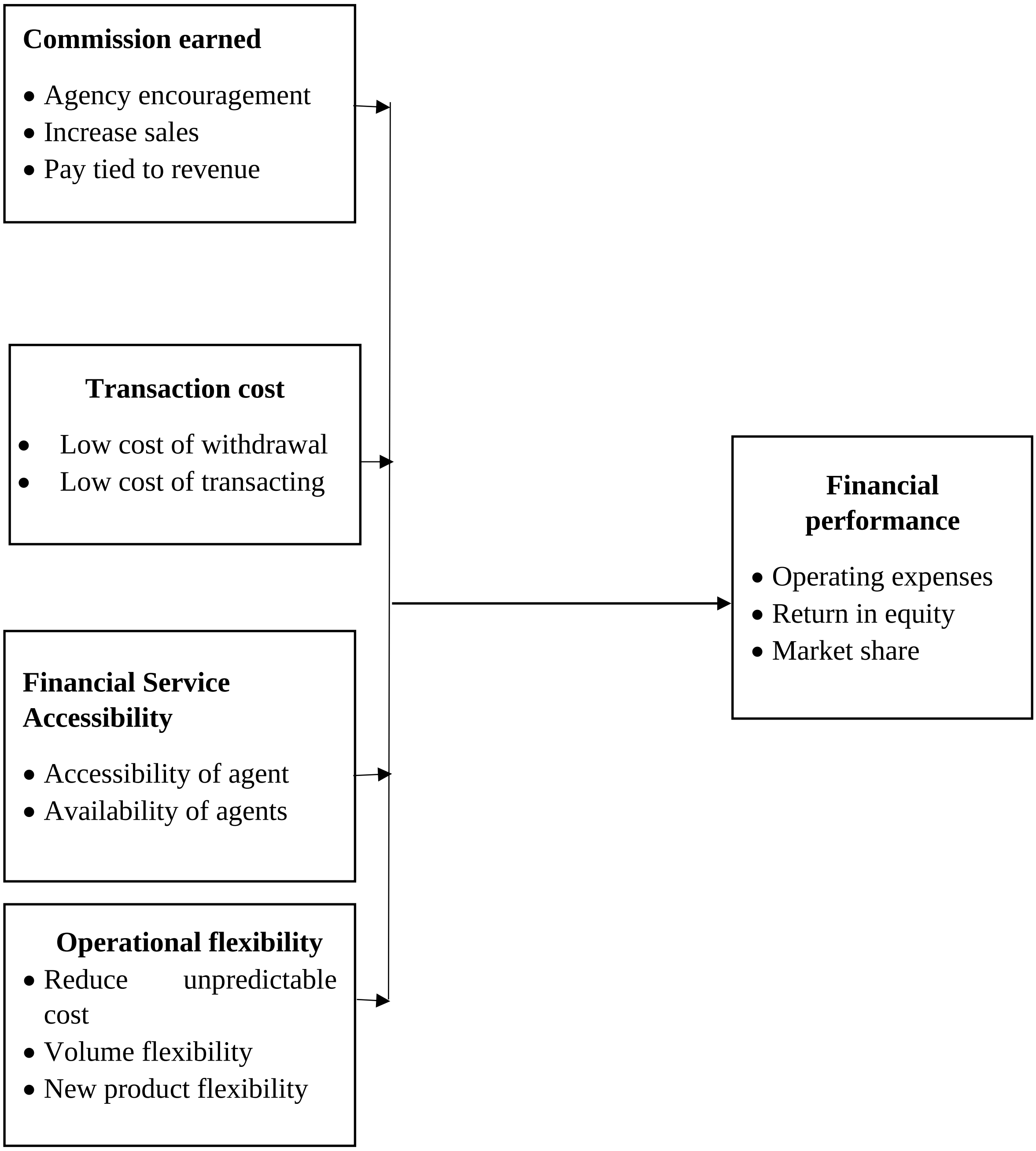

Figure 1 : Conceptual Framework for the Study

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Research Design

The study employed a cross-sectional research design. The reason this design was selected was because it allowed the researcher to collect data on the study's topic just once. Additionally, the architecture was selected because it allowed for the simultaneous collection of data from several sources for analysis at the same time. Bhattacherjee (2012) further noted that this method enables the assessment of the independent and dependent variables at the same time. As a result, the architecture enabled data collection on agency banking and bank financial performance.

3.2 Geographical Coverage.

The investigation was conducted in the Moshi Municipality of the Kilimanjaro Region. Kilimanjaro Region, one of Tanzania's 31 regions, contains 31 administrative areas and is located in the northeastern part of the country's continental territory (TBS, 2017). NMB Bank is the largest bank in Tanzania in terms of branch network and customer base. There were around 224 branches in 2019 and 226 in 2020, covering more than 80% of Tanzania's districts. NMB Bank stands apart from other Tanzanian financial organisations thanks to its extensive branch network. With three branches—Mbuyuni, Mawenzi, and Mandela—it is also one of the largest banks in Moshi Municipality (URT, 2019). Since the majority of people in Moshi Municipality receive their wages from NMB bank, NMB bank was chosen.

3.3 Sampling Procedures

3.3.1 Sampling population

Every NMB employee was part of the study's sampling population. The research included fifty workers from the Moshi Municipality's Mandela branch, nine workers from Mawenzi, and twelve workers from Mbuyuni branch; in all, 71 workers from the three branches participated in the study (URT, 2020).

3.3.2 Sample size

A total of 71 respondents participated in the study: 50 employees from the Nelson Mandela branch, 9 from the Mawenzi branch, and 12 from the Mbuyuni branch. As a result, all workers from the three Moshi Municipality branches, as shown in Table 1, participated in the survey. Because the population was changed to equal the sample size in its whole in this instance—that is, the population and the sample size are the same—no formula was used to determine the sample size.

Table 1: Sample Size Distribution

Sampling unit	Sampling Frame	Sample size
Nelson Mandela branch	50	50
Mawenzi branch	9	9
Mbuyuni branch	12	12
TOTAL	**71**	**71**

3.3.4 Sampling techniques

A sample frame was used to choose workers from each stratum using intentional sampling, a non-probability sampling technique. The sample size was established via a census sampling approach, with 71 employees from each of the three branches in Moshi Municipality included (Table 1). A census is desirable for a population of less than 200 people (Israel, 1992). Furthermore, in order to get information about agency banking and NMB Bank's financial performance that could not have been obtained from a questionnaire, interviews with branch managers, marketing managers, and agency officers were conducted with the study's key informants.

3.4 Types and Sources of Data

For this study, information was gathered on the respondents' age, marital status, family size, degree of education, and other sociodemographic traits. The study also gathered other data on the profitability of commercial banks, such as commission received, low transaction costs, ease of access to financial services, and operational flexibility. By assessing related documents, the research gathered secondary data.

3.5 Data Collection Techniques

For this investigation, data were gathered using a variety of techniques. The study was able to gather many forms of data and offer cross-data validity checks by employing a number of strategies. Specifically, the following methods were applied.

3.5.1 Survey method

In the survey utilised to carry out this inquiry, questionnaires were employed as a data collection tool. Surveys were selected for the study because they are a handy and rapid method of gathering data. Multiple-choice questions are typed or printed in a certain order on one or more forms to make a questionnaire. It is expected of respondents to read, understand, and record their responses in the appropriate section of the questionnaire (Kothari, 2004; 100). They get the questionnaire by mail. The researcher decided to use a questionnaire strategy since it makes it easier to quickly gather a substantial amount of the required data.

3.5.2 Key informant interview

According to Kothari (2004, 97), an interview is a data collection technique in which oral-verbal stimuli are presented and replies are given in the same oral-verbal format. Personal interviews and, if feasible, telephone interviews can be employed using this methodology. Therefore, in order to obtain additional information not included in the survey questionnaire, the researcher will employ this strategy. Three (3) key informant interviews were carried out in this instance with branch managers, marketing managers, and agency bank officials. This made it easier to see how the respondents felt about the survey based on their movements and facial expressions. The method gave each unit of inquiry an equal probability of being chosen among key informants to create a sample.

3.6 Data Analysis

The study analysed qualitative data on agency banking's impact on financial performance using content analysis and descriptive analysis. In order to find themes and concepts, the material provided by key informants was transcribed. Meanwhile, quantitative data was examined using the frequency, percentage, mean, and standard deviation. The financial performance of commercial banks in Moshi Municipality was examined using Excel software to examine the effects of commission received, low transaction costs, accessibility to financial services, and operational flexibility. One nominal dependent variable and one or more independent variables were compared using the Multinomial Logistic Regression Model.

A statistical technique called multinomial logistic regression takes into account a number of presumptions, such as the dependent variable's nominal measurements and the independent variable's continuous, ordinal, or nominal nature. It guarantees that there are no outliers, that the dependent variable and the observation are mutually exclusive, and that there is no multicollinearity among the independent variables. The MNL model, which was employed in this investigation, showed that the nominal independent variables did not multicollinearly.

Table 2: Model definition and unit of measurement

Variable	Description
Agency encouragement	encouragement (1 = encouraged, 0 =not encouraged)
Pay tied to revenue	Pay tied to revenue (1 = tied, 0 = not tied)
Low cost of withdrawal	Low cost of withdrawal (1 = Low cost, 0 = Otherwise)
Accessibility of agent	Accessibility of agent (1 = accessible, 0 = otherwise)
Availability of agents	available or otherwise
Reduce unpredictable cost	Unpredictable cost (1 = reduced, 0 = increased)
New product flexibility	New product (1 = flexible, 0 = not flexible)

3.7 Test for Heteroscedasticity and Multicollinearity

3.7.1 Test for heteroscedasticity

Heteroscedasticity was investigated using Levene's test, assuming homoscedasticity at $P > 0.05$. The findings demonstrated homoscedasticity as each independent variable's variances are the same.

Table 3: Levene's test

Dependent Variable: Performance of Public Institution			
Levene Statistic	df1	df2	Sig.
1.083	1	56	0.301

a. Design: Intercept + commission earned + financial accessibility + low transaction cost + operational flexibility

3.7.2 Test for multicollinearity

Regression models are predicated on independent predictor variables. Using the variance inflation factor (VIF), multicollinearity was examined. Little to no connection is shown by a VIF of 1, moderate correlation is indicated by a VIF of 1, and significant correlation is indicated by a VIF of 5. Every independent variable has a VIF of 1, as Table 3 demonstrates.

Table 4: Test for multicollinearity

Variable	Tolerance	VIF
Commission earned	0.885	1.132
Low-cost transaction	0.892	1.049
Operational flexibility	0.792	1.109
Financial accessibility	0.975	1.180

3.8 Data Validity and Reliability

3.8.1 Data validity

Ten printed questionnaires were given to ten people with agency banking and financial bank performance expertise as part of a pilot research. This made it possible for researchers to determine whether the questionnaire was suitable for the study's objectives. The test-retest approach was used to see if the responses provided by the questionnaire were comparable. The items on the questionnaire were the same, but they were asked in different ways. In order to evaluate the validity of the research instrument, the questionnaire's items were also modified to make them more responsive to the study's objectives based on the expert opinions of selected supervisors and peers.

3.8.2 Data reliability

Consistent outcomes are guaranteed when data gathering methods such as surveys, interviews, and observations are dependable. Internal consistency is measured using Cronbach's Alpha, where a value of 0.7 or higher denotes reliable findings. Cronbach's Alpha was utilised in a pilot study involving ten individuals to evaluate the questionnaire instrument's reliability. Cronbach's Alpha was computed to be 0.842, meaning that each variable had consistent entries.

Table 5: Reliability statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No of Items
0.842	0.823	16

3.9 Pilot Results

Ten procurement professionals participated in the study and answered a pre-test to ensure the correctness of the questionnaire. With their help, the interview guide and questionnaire were revised to better meet the objectives of the study. The validity of the questionnaires was evaluated based on the consistency of the replies. Cronbach's Alpha was used to examine the questionnaire's reliability; the results showed a reliability value of 0.784, which demonstrated the suitability of the data gathering instruments.

CHAPTER FOUR

4.0 FINDINGS AND DISCUSION

4.1 Introduction

The purpose of the study was to assess how agency banking affected Moshi Municipality's commercial banks' financial performance. It looked at how these banks' financial performance was affected by market share growth, low transaction costs through agency banking, client accessibility to financial services, and central bank supervision. The results offer insightful information on the state of these banks' finances. Data were gathered using both closed- and open-ended questionnaires, and the results were shown using tables and figures. Three categories were created from the data analysis: respondent background, research findings based on the three specific study objectives, and both. A multinomial logistic model was also used to assess if the suggested relationship between agency banking and financial performance actually existed.

4.2 Response Rate

Using distributed questionnaires with a 100% response rate, the study gathered data from 71 respondents. A response rate of 50% is enough for reporting and analysis, whereas a response rate of 60% is preferable, according to Mugenda & Mugenda (2003). 70% or above is considered uncommon and sufficient to extrapolate results, suggesting that this survey had a very high response rate.

4.3 Socio-demographic Characteristics of the Respondents

The demographic data collected, analyzed, and displayed using percentages and frequencies, included the respondent's age, gender, education, and experience.

4.3.1 Distribution of respondents by age

The ages of the responders were noted and scrutinised. Figure 2 presents the results as percentages, with 9.2% of respondents falling between the 26 and 30 age range, 20% between the 31 and 35 age range, 36.9% between the 36 and 40 age range, and 33.8% between the 41 and older age range.

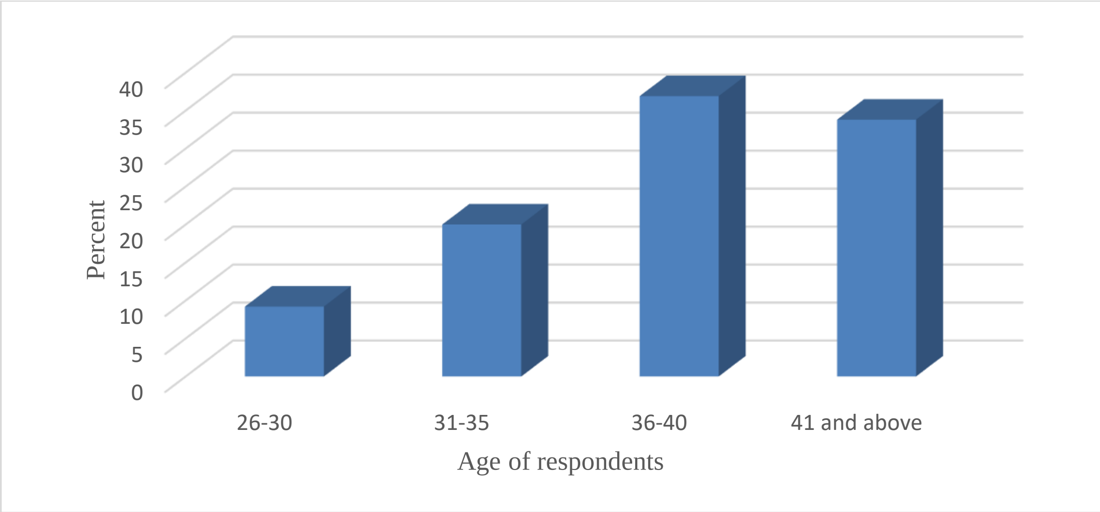

Figure 2: Distribution of respondents by age (n = 71)

The majority of the respondents, whose ages ranged from 36 to above, appeared to be middle-aged, mature, more qualified, and excited about managing agency banking, according to the findings. In addition, the subjects demonstrated the capacity to provide relevant information for the study. Age affects a person's job and experience, according to Mashoka (2016) and Larnsen (2012); the longer a person works at a job, the more used he becomes to his workplace. Thus, it is clear from this data that most respondents (70.7%) had a higher level of experience and were informed about agency banking and financial performance.

4.3.2 Gender of respondents

As seen in Figure 3, the study attempted to ascertain the respondents' gender in order to calculate the proportionate ratio involved in this investigation.

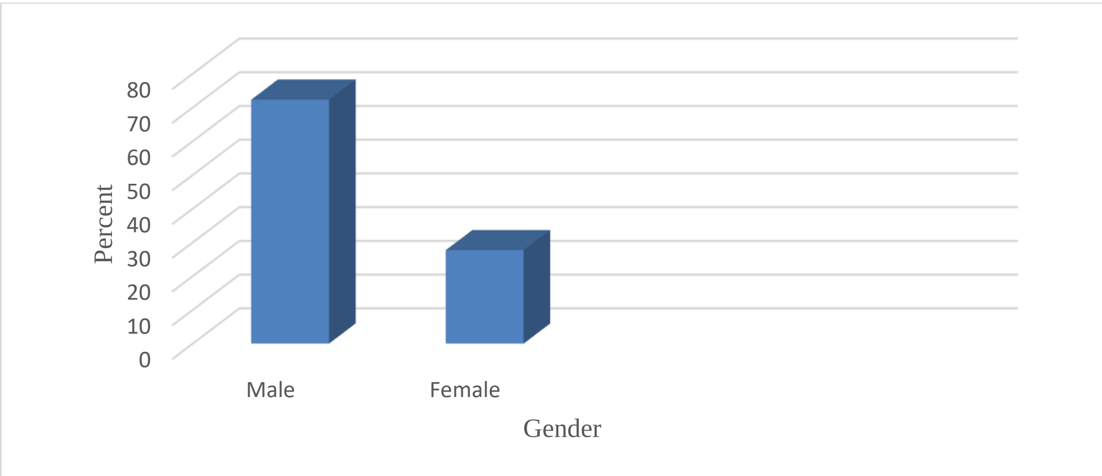

Figure 3 : Distribution of Respondents by Gender (n = 71)

There were 72.3% of male respondents and 27.7% of female respondents, according to the survey's results. The bulk of agency banking clients were, according to the data, men. The results might be the result of real-world issues like cultural disparities and information gaps about agency banking. The study's findings indicate that men favour agency banking over women, which adds to the unequal distribution of this type of banking between the sexes.

4.3.3 Education Level of the Respondents

The study aimed to determine the educational level of respondents to evaluate the suitability of agency banking staff.

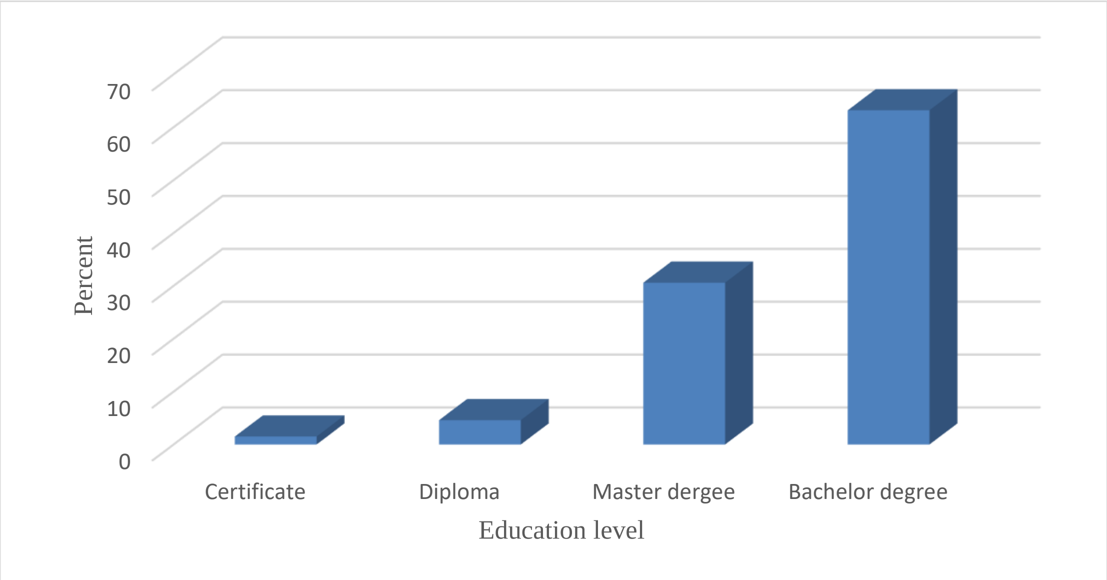

Figure 4 : Distribution of respondents by education level (n = 71)

According to Figure 4, 1.5% of respondents had a certificate, 4.6% had a diploma, 30.6% had a master's degree, and 63.2% had a bachelor's degree. The majority of respondents to the research had a basic understanding of agency banking, which suggests that they were adopting agency banking because they were aware of its advantages.

4.4 Effect of Commission Earned on Financial Performance

Table 6 shows how banks generate commission revenues, which affects their bottom line. 21.5% of respondents believe banks do poorly, while 36.9% and 41.5% strongly agree. The survey shows most bank employees understand how banks pay their agencies based on their services.

The study reveals that understanding sales performance is easier for agencies receiving sufficient commissions. Despite mobile banking being accessible, over half of the world's population, particularly rural areas, has not adopted or been denied access to it. The mobile banking industry's reach varies by nation, increasing commissions for agencies. This highlights the need for better understanding and accessibility of mobile banking services (Aduda, Kiragu and Ndwiga, 2018).

Table 6 illustrates how commission received boosts agency encouragement and impacts the bank's financial performance, with a mean of 3.88 and a standard deviation of 1.125. While 43.1% and 33.8% of the respondents strongly agreed, 23.1% disagreed that commission received enhances agency encouragement since it drives them to work more to increase their profits. The survey's findings demonstrate that most workers understand and value how commission paid might increase agency motivation since their salary motivates them to work. The study indicates that since the bank system would be aware of the bank sales and all of their information, it is highly advantageous to maintain track of your agency sales.

The research draws attention to the Central African Republic and Democratic Republic of the Congo's lack of access to formal financial institutions and lack of information about bank accounts. Adults in North America hold bank accounts at a rate of at least 20%, compared to 30% and 10% in Morocco and Egypt, respectively. 38% of people in Kenya do not have access to fundamental financial services or products, whilst 19% of individuals have access to formal financial institutions, (Ivatury and Ignacio, 2018).

The study reveals that agency performance significantly impacts sales and bank financial performance. Most respondents agree that banks should save customer transaction details for safety. Employees appreciate the way banks treat their agency banking, leading to increased sales. Bank performance is crucial for a bank's success, and agency performance can positively impact product sales. The enhanced accessibility of agency banking has led to more deposits, with two-thirds of Equity Bank's agency banking revenue coming from deposits.

Table 6 shows that commissions earned by banks are linked to revenue and improve agency performance, affecting the bank's financial success. However, 16.9% disagreed, 49.2% agreed, and 33.8% strongly agreed. The majority of respondents commend banks for setting income-based commissions, which improve agency performance and ultimately impact the bank's financial success.

Additionally, Table 6 demonstrates how commissions improve agency performance and are connected with revenue, both of which have an effect on the bank's financial outcomes. This statement was not agreed with by 16.9% of respondents, according to the table, which has a mean of 4.00 and a standard deviation of 1.016. A bit over 49.2% of respondents agreed, and 33.8% strongly agreed. The findings of the survey indicate that the majority of respondents who work for banks commend them for implementing income-based commissions and improving agency performance, both of which have an impact on the bank's profitability.

The study reveals that commission earned in bank activities boosts bank performance and promotes fairness between banks and their agencies. The majority of respondents, including workers, are aware that commission earned favors agencies and has an impact on the financial performance of commercial banks. The study suggests that facilities such as money transfer, standing order payments, foreign exchange transactions, traveler's cheques, discounting, documentary credit, share brokerage, safe deposits, trust departments, confidential share purchases, business advisory services, deposit acceptance, loans, and advances are beneficial for commercial banks.

All of the big banks have introduced mobile banking services in an effort to reach a wider customer base at a relatively lower cost. As to a report by CGAP (2010), governments globally strive to advance the availability of financial services to the impoverished who lack access to banks. To this end, they enact regulatory frameworks that safeguard consumers from fraudulent activities and expedite the proliferation of affordable branchless banking. Finding this balance may be difficult, particularly when it comes to regulating agents, who are often crucial in receiving and allocating cash on the financial service provider's behalf (CGAP, 2010).

Table 6: Commission earned in financial performance

Variable	SD%	D%	N%	A%	SA%	Mean	Std. Deviation
Commision earned benefit the agency	0	21.5	0	36.9	41.5	3.98	1.139
Commission earned increase agency encouragement	0	23.1	0	43.1	33.8	3.88	1.125
Agency performance increase sales	0	23.1	0	58.5	18.5	3.72	1.023
Pay tied to revenue increase agency performance	0	16.9	0	49.2	33.8	4.00	1.016
Financial performance is influenced by the commission earned.	0	18.5	0	43.1	38.5	4.02	1.068

SD=Strongly Disagreed, D= Disagreed, N=Neutral, A= Agreed, SA= Strongly Agreed

4.4.1 Multinomial logistic regression used to test the influence of commission earned to financial performance

Table 7: Model fitting information

Model	-2 Log Likelihood	Chi-Square	Df	Sig
Intercept only	126.460			
Final	27.912	102.589	62	0.000

Link Function: Logit

The -2loglikelihood against the model in the model fitting data was established by the study using Chi Square statistics to evaluate the model's predictability and fitness. The model's results showed a P value of 0.000 when compared to the explanatory variable in Table 7, demonstrating its importance and suitability for the study. These findings demonstrate the efficacy and fit of the model.

Table 8: Goodness-of-Fit

Model	Chi-Square	Df	Sig
Pearson	23.260	60	1.000
Deviance	23.870	60	1.000

Link Function: Logit

The study used a goodness of fit analysis to assess how well observed data fit into the model. The utility of the model is shown by a significant P value more than 0.05, and insufficiency is indicated by a P value less than 0.05. A substantial P value more than 1.000 indicated that the model's fit to the observed data was fulfilled, according to the Pearson Chi Square statistics.

Table 9 : Pseudo R-Square

Cox and Snell	0.723
Nagelkerke	0.806
McFadden	0.543

Link Function: Logit

To find out if the observed data and the model agreed, the research performed a goodness of fit analysis. A substantial P value of more than 0.05 suggests that the model is appropriate for further research, but a P value of less than 0.05 suggests that there is inadequate fit. The model successfully fits the observed data, as evidenced by its large P value of 1.000, which is higher than the 0.05 criterion in Table 8.

Table 10 : Multinomial Logistic Regression Results for the Commission earned and financial Performance

Commission earned indicator influence by financial performance		**B**	**Std. Error**	**Wald**	**Df**	**Sig.**
Return in equity	Intercept	2.138	2.344	0.832	1	0.002
	[Benefit to the agency =4]	7.380	3.396	4.721	1	**0.029***
	[Agency encouragement =4]	17.558	8.052	4.755	1	**0.032***
	[Increase sales =4]	14.238	5.978	5.673	1	**0.016***
Market share	Intercept	3.671	2.265	2.626	1	0.015
	[Benefit to the agency =3]	7.351	3.431	4.589	1	**0.033***
	[Pay tied to revenue =4]	8.659	4.056	4.556	1	**0.042***
	[Commission earned =3]	17.811	3401.585	0.000	1	0.996
	[Commission earned =4]	-7.146	3.489	4.194	1	**0.041***

*Note: The reference category = cost, Statistically Significant at *(5%), Number of observations = 362, (-) = Negative relationship, (+) = Positive relationship, Pseudo – R^2 = Cox and Snell = 0.723; Nagelkerke = 0.806 and McFadden = 0.543, LR Chi-Square =102.589; Probability sig = 0.001 and Log Likelihood = 126.460*

The multinomial logistic regression results indicate that benefits to the agency, agency encouragement, increased sales, and pay tied to revenue are significant at a P = 0.05 level.

Return in equity with respect to operating expenses

At a substantial level of five percent, the study discovered a positive association between agency benefit and return equity. The findings show that returns on investment, at 7.380, remain constant when compared to operating expenses, and that a rise in financial performance is anticipated to raise the asset's worth to the agency. The bank will do well in terms of return on equity in relation to operational costs, based on the median findings. This is possible because keeping an eye on the agency's advantages ensures that every step is performed efficiently, which enhances the efficiency of the financial operations.

At a 5% significance level, agency encouragement was positively and significantly connected with time delivery, as shown by the P=0.032 value. The findings show that, when all other factors remain same, return equity is more likely to increase by 17.588 the more agency inducement there is. The model's result indicates that maintaining an agency's return equity will be benefited relative to operating expenses. One possible explanation for the results might be that when an organisation maintains agency encouragement, it ensures that all actions are executed correctly, resulting in favourable financial operations performance.

At a 5% significant level (P value of 0.016), the study discovered a positive and significant association between higher sales and timely delivery. According to the findings, a rise in sales should boost return on equity in relation to operating costs by 4.238 percent, assuming no other changes. When contrasted to operational expenses, the model's results indicate that larger sales would yield a higher return on equity.

Market share with respect to operating expenses

P = 0.033 indicates that the agency gained favourably and significantly in relation to quality at the 5% significant level. The findings show that as the agency gains more, quality services are more likely to expand relative to operational expenses while other factors remain same. The model indicates that the more the agency benefits, the more the bank may raise its market share by 7.351 points in relation to operating expenses, which have an inverse connection. This is possible because keeping an eye on the agency's advantages ensures that every step is performed efficiently, which enhances the efficiency of the financial operations.

At the 5% level, there was a substantial and positive correlation between revenue-related pay and quality (P = 0.042). This implies that revenue-tied pay practises would most likely affect financial performance, as opposed to operational expenses. The model's conclusion states that if a bank's remuneration were more closely correlated with revenue than with operational expenditures—which operate as a reference factor while all other factors remain constant—it would have the best financial performance, coming in at 8.659. Pay for performance initiatives assist customers build their capacity, provide them with easy access to information, and stay updated about current needs—all of which may have an effect on the process's market share.

The study found a significant positive link between commission received and quality, suggesting that banks with stricter guidelines on commission received are more likely to lose market share than those with lower operating costs, suggesting that compliance with earned commissions could increase market share.

4.4.2 Hypothesis testing

The purpose of the study was to ascertain whether commission earnings and a bank's financial performance were correlated. This was evaluated using the Chi-Square test, and the critical value was 0.031, which is less than the 0.05 cutoff. This suggests that commission earnings and financial performance are significantly correlated. As a result, the null hypothesis is rejected and the alternative hypothesis—that commission revenue and financial success are positively correlated—is accepted.

Table 11 : Chi- Square Test

Model	Value	Df	Sig
Pearson Chi-Square	7.321[a]	4	0.031

4.5 Effect of Low transaction cost on financial performance

Table 12 illustrates how the bank's financial performance is impacted by the low cost of agency banking transactions. It has a standard deviation of 0.641 and a mean of 4.53. This information is likely to affect bank performance since 54% of respondents believed that consumers' decisions to acquire bank services are influenced by the low cost of agency banking transactions because their agency provides lower costs. Strongly agreeing were somewhat over 46% and 41.5% of responses, respectively. The study's conclusions show that most respondents who are customers agree that utilising bank services is inexpensive, which encourages customers to make bigger purchases.

The majority of agency banking clients are happy with the costs they pay for different bank transactions, according to the survey, since they think the bank is giving them a fair deal. In contrast, Tanzania's circumstances are mostly comparable to those of Nigeria, where the central bank established agency banking regulations in February

2013 (Lawal and Abdulkadir, 2019). Financial institutions have turned to agency banking to save setup and operational costs and compensate for the deficient retail infrastructure. This has been successful in introducing a wide range of bank services to a significant proportion of the low-income population. Banks have also used this method as an alternative to reduce customer traffic in crowded branches and provide simple access to account information.

The study concluded that the financial performance of a bank is not significantly impacted by time spent in agency banking. Sixty-six percent of respondents said that banks make every effort to save time while offering clients high-quality services. 34 percent strongly concurred. The majority of clients acknowledge that they receive services on schedule, which suggests that agency banks work hard to deliver high-quality services quickly. This strategy has improved banking sector efficiency and cut costs, giving customers more affordable access to financial services. Additionally, it has made it easier for banks to grow and reach previously untapped markets with bankable populations. Agent banking is the practise of businesses operating on official banks' behalf.

Furthermore, Table 12 illustrates the speed with which agency bankers serve their customers, a factor that affects the bank's bottom line. 73% of respondents, with a mean score of 4.69 and a standard deviation of 0.599, agreed with this. Twenty-seven percent of the respondents strongly agreed with the statement. The majority of respondents who are clients enjoy how agency banks save their time by providing services with promptness and attention, the study's findings indicate.

The study claims that people who use agency banking often select products and services that save them time and save them from squandering it needlessly. This could only mean that in order to access financial services and goods, residents in informal settlements would need to travel further to banking centres and wait in line for longer periods of time. The entire process would wind up being costly and time-consuming as transportation expenses would also need to be considered. Despite this, with the introduction of agent baking—a cutting-edge distribution technique meant to make financial services and commodities much more available to the local population—the banking industry has been steadily expanding (Burgessy and Wong, 2015).

However, Table 12 shows how agency banking expenses affect the financial performance of the bank, which in turn affects the bank's performance. Customers are content with agency banking charges as long as they continue to utilise their services, according to 81% of respondents, with a mean of 4.74 and a standard deviation of 1.571; 19% of respondents strongly agreed. The study's conclusions show that most respondents who are clients agree that the agency banker's fees are fair to both parties and that they are happy with the pricing they set for their services.

The study suggests that reasonable fees for agency services can satisfy consumers and attract more users to the bank system. This leads to a larger customer base, market share, expanded coverage at lower costs, and enhanced indirect productivity. Additionally, customers benefit from reduced travel expenses due to the service's proximity, resulting in increased income.

The study reveals that low transaction costs significantly impact a bank's financial performance, with 83% of respondents agreeing that most customers choose them for purchases. The majority of employed respondents also agree. The study suggests that banks should consider reducing transaction costs to attract new business and retain existing ones. Regulations dictate the hiring of banking agents, retail locations, and transaction management. Legislators' consent is required for agent banking to function, and laws may issue guidelines and modifications to these regulations, forcing agents to adapt their practices to comply with local laws.

Table 12 : Effect of Low transaction cost 0n financial performance

Variable	**SD%**	**D%**	**N%**	**A%**	**SA%**	**Mean**	**Std. Deviation**
Cost involved in Transacting in agency banking is low.	0	0	0	54	46	4.53	0.641
Time spent in agency banking is low.	0	0	0	66	34	4.62	0.601
Agency bankers are so fast in providing service	0	0	0	73	27	4.69	0.599
Cost involved in agency banking influence bank performance.	0	0	0	81	19	4.74	0.571
Financial performance is influenced by the low transaction cost.	0	0	0	83	17	4.79	0.652

SD=Strongly Disagreed, D= Disagreed, N=Neutral, A= Agreed, SA= Strongly Agreed

4.5.1 Multinomial logistic regression used to test the influence of low transaction cost to financial performance

Table 13 : Model fitting information

Model	-2 Log Likelihood	Chi-Square	Df	Sig
Intercept only	119.230			
Final	202.112	109.672	62	0.000

Link Function: Logit

The study utilized Chi Square statistics to evaluate the model's fitness and predictability, establishing -2loglikelihood in the fitting data. A P value of 0.000, less than 0.05, indicated its significance and appropriateness for investigation.

Table 14 : Goodness-of-Fit

Model	Chi-Square	Df	Sig
Pearson	27.109	60	1.000
Deviance	27.634	60	1.000

Link Function: Logit

The study used a goodness of fit analysis to determine if the observed data was compatible with the model, which was found to be useful with a significant P-value exceeding 0.05.

Table 15 : Pseudo R-Square

Cox and Snell	0.743
Nagelkerke	0.814
McFadden	0.713

Link Function: Logit

The study by Cox and Snell used Nagelkerke and McFadden to analyze the impact of reduced transaction costs on financial performance. The results showed a significant impact of 81.4%, indicating improved financial performance as a result.

Table 16 : Multinomial Logistic Regression Results for the Low transaction cost and financial Performance

Low transaction cost indicator influence financial performance		B	Std. Error	Wald	Df	Sig.
Return in Equity	Intercept	2.845	2.865	.892	1	0.001
	[Cost involved transacting =4]	7.832	3.943	4.879	1	**0.023***
	[Time spent =4]	17.213	8.023	4.943	1	**0.029***
	[fast in providing service=4]	4.854	5.954	5.121	1	**0.013***
Market share	Intercept	3.786	2.785	2.943	1	0.002
	[Cost involved transacting =3]	7.309	3.345	4.674	1	**0.027***
	[Cost involved in agency=4]	8.864	4.099	4.885	1	**0.039***
	[low transaction cost=3]	17.043	231.234	.000	1	0.891
	[low transaction cost=4]	-7.146	3.654	4.122	1	**0.043***

*Note: The reference category = cost, Statistically Significant at *(5%), Number of observations = 362, (-) = Negative relationship, (+) = Positive relationship, Pseudo – R^2 = Cox and Snell = 0.743; Nagelkerke = 0.814 and McFadden = 0.713, LR Chi-Square =102.589; Probability sig = 0.000 and Log Likelihood = 119.230*

Table 16 shows that low transaction cost, time spent, and fast service provision are significant factors affecting financial performance at a P = 0.05 level.

Return in equity with respect to operating expenses

The study found a significant positive association between transaction costs and return on equity at a five percent level. As financial performance increases, transaction costs will likely increase, resulting in a return on equity of 7.832 compared to operating expenditures. The model suggests that banks will perform well in terms of return on equity relative to operating costs, as monitoring transaction costs ensures proper activity execution.

The study found a positive correlation between time spent and return in equity, with decreased time spent increasing return in equity by -17.213, and maintaining time spent ensuring good financial performance, while increasing fast service negatively impacts return in equity by 4.854. Both factors remain constant.

Market share with respect to operating expenses

The cost of transacting demonstrated a significant positive connection with quality at the 5% significance level. The findings show that an increase in the rate of transaction expenses is more likely to result in a gain in market share than in operational expenditures, all other things being equal. The model predicts that for every dollar spent on transactions, a bank may grow its market share by 7.309 points; however, the link between operating expenses and market share is the opposite. This might be the case because keeping an eye on transaction costs ensures that every step is completed correctly, enhancing the effectiveness of financial operations and ensuring that the costs are fair to all parties.

The agency's cost and quality had a positive and substantial correlation at the 5% level. This implies that agency conducting costs—rather than operating expenditures—would most likely have a bigger financial influence on performance. The model's conclusion indicates that when increased expenses are linked to agencies, banks would get the best financing result at 8.864, not operating expenditures, which are used as the reference factor when all other components stay constant. Using an agency comes at a cost, but it also gives customers easy access to information, capacity building, and up-to-date knowledge of legislation, all of which might affect the process's market share.

The study found that banks with low transaction costs are more likely to lose market share, even with constant operational costs, and that maintaining low transaction costs is expected to improve market share compared to operational expenditures.

4.5.2 Hypothesis testing

The study found a strong correlation between a bank's financial success and low transaction costs using the Chi-Square test. The critical value was 0.029, below the 0.05 threshold, indicating a positive link between low transaction costs and financial success.

Table 17 : Chi- Square Test

Model	Value	Df	Sig
Pearson Chi-Square	6.324[a]	4	0.029

4.6 Effect of financial service accessibility on financial performance

The results of Table 18 indicate that the adoption of agency banking in banking systems has exhibited a strong momentum and expanded at an astounding rate, and that it has an impact on the bank's financial performance. With a mean of 3.95 and a standard deviation of 1.165 in the table, 23.1% of respondents did not believe that this was one of the elements affecting performance. About 34.5% of responders agreed with this, and 41.5% strongly agreed. The majority of respondents to the research, who are also clients, saw directly how the adoption of a banking system influences a company's financial success, which is why bankers have really gone out of their way to put it into place.

They will do all in their power to put banking systems in place, maintain a strong momentum, and grow at an incredible rate because the research claims that agency banking is critically needed given their financial performance. Some of the issues that have been cited as preventing access to financial services and products in Africa are the unprofitable banking profits, the dispersed population, the lack of knowledge about financial goods and services, and the ignorance of banking-related issues. Gaining an understanding of these components is essential to breaking into this uncharted banking industry. For financial institutions to properly position themselves, they must concentrate on satisfying the specific needs of the unbanked. Using agency banking is one of these tactics. Mwenda (2019).

Given that it also affects the bank's financial performance, Table 18's mean of 4.03 and standard deviation of 1.075 suggest that there is a lot of opportunity for employing agent banking to offer banking services to the unbanked community. 18.5% of respondents, on the other hand, disagreed, saying that because agent banking would make delivering bank services in remote locations simpler, there is a higher possibility for employing it to give banking services to the unbanked people. That being said, 41.5% of respondents agreed and 40% strongly agreed. According to the study's findings, the majority of respondents who are customers reside far away and need bank services, thus there are lots of chances and possibilities for agencies.

The bulk of them are really located in remote areas and find bank services to be convenient, thus agency banks that are willing to provide services in remote areas without banks are likely to draw in a sizable clientele. Agent banking makes use of a number of technologies to enable financial institutions to keep an eye on the transactions that the retail business completes. These technologies include PIN pads, mobile phones, point-of-sale (POS) card readers, barcode scanners for bill payment operations, and personal computers (PCs) that link to the financial institution's server via a personal dial-up or other data connection. Capital investment and expertise are needed to obtain the technological know-how for each of these technologies (Ivatury, 2018).

Customers in rural places may now obtain financial services much more easily thanks to agency banking, which has an impact on banks' financial performance. There is a demand for bank services because the majority of clients in distant locations have restricted access to banks, according to the report. By providing a range of banking services, including account opening, cash deposits, withdrawals, and money transfers, agency banking enables banks to extend their reach into rural regions where they may not have physical offices. Policy makers and regulators are taking notice of this approach even if banking laws continue to hinder its expansion. The report emphasises how crucial agency banking is to the banking sector.

Additionally, Table 18 shows how commercial banks' profitability and financial performance have been influenced by the provision of banking services through agency banking. The average and standard deviation of the table are 3.92 and 1.108, respectively, showing that 21.5% of respondents strongly agreed and 43.1% disagreed with the statement that the availability of banking services through agency banking has contributed to the profitability of commercial banks. The study's findings demonstrate that agency banking influences bank performance because it typically provides financial services in remote areas and connects with customers that are challenging for traditional banks to serve.

The paper claims that growing market sales are causing banks to become less profitable. In order to increase bank profitability, bank agencies should promote growing sales and client numbers. The banking industry as a whole and financial players are said to be involved in a vigorous, non-stop rivalry, contributing to Kenya's highly dynamic economic environment.

More innovation and the growth of mobile banking have increased competition. Mwangi (2017) asserts that the evaluation of agency banking's contribution to the overall performance of commercial banks was a key element in the industry's increased success. The Equity Bank implemented the strategy in 2011. The approach has produced incredible outcomes. The number of agents decreased from 875 at the beginning of 2011 to 3991 by March 2013. This suggests that the impact of cash transactions is substantial (Alfansi and Sargeant, 2019). The bank's nine-month financial reports from September 2011 revealed a 39% increase in pre-tax profit. (Anyanzwa, 2018).

Furthermore, Table 18 demonstrates the relationship between financial performance and the accessibility of financial services. Its standard deviation is 1.134 and its mean is 3.89. In contrast, 23.1% of respondents contended that consumers should always have simple access to financial services, no matter where they are in the nation. Roughly 41.5% of respondents agreed, and 35.4% strongly agreed. The survey's findings indicate that most participants, who are customers, believe that the ease with which financial services are available to them motivates them to utilise them because banks have created an environment that supports this accessibility. According to the report, the provision of basic financial services in bank operations impacts and enhances the banks' performance, encourages a growth in bank.

Cheyech, Kitilit, Bowen, and Amata's 2016 study looked at how agency banking may increase financial accessibility. According to the study's findings, agency banking is crucial to the convergence of diverse banking and non-banking companies that provide financial services to all end consumers of financial services. Moreover, it increases the number of access points that provide financial services. It was discovered that an agency unit provided monthly services to over 200 customers. Because most of the agencies handle more than 100 clients each month, it is clear that they cater to a substantial clientele.

Table 18 : Financial service accessibility in financial performance

Variable	**SD%**	**D%**	**N%**	**A%**	**SA%**	**Mean**	**Std. Deviation**
Agency banking adoption in banking systems has shown a great momentum and spread at an unbelievable pace.	23.1	0	35.4	41.5	3.95	1.165	23.1
There is great potential of using this in agent banking for provision of banking services to unbanked community.	18.5	0	41.5	40	4.03	1.075	18.5
Agency banking has led to accessibility of financial service to many customers in remote areas	16.9	0	41.5	41.5	4.08	1.050	16.9
Accessibility of banking service through agency banking has led to profitability of commercial banks	21.5	0	43.1	35.4	3.92	1.108	21.5
Financial performance is influenced by the financial service accessibility.	23.1	0	41.5	35.4	3.89	1.134	23.1

SD=Strongly Disagreed, D= Disagreed, N=Neutral, A= Agreed, SA= Strongly Agreed

4.6.1 Multinomial logistic regression used to test the influence of financial accessibility to financial performance

Table 19 : Model fitting information

Model	-2 Log Likelihood	Chi-Square	Df	Sig
Intercept only	121.378			
Final	214.322	111.473	62	0.001

Link Function: Logit

Chi Square statistics were employed in the study to evaluate the predictability and fitness of the model at a selected probability threshold. Table 19 was used to calculate the -2loglikelihood of the model and compare it to the explanatory variable. The P-value of the model was 0.001, which is less than 0.05, suggesting that it is relevant and valuable for the study. This shows how well the model fits the data.

Table 20 : Goodness-of-Fit

Model	Chi-Square	Df	Sig
Pearson	25.783	56	1.000
Deviance	25.578	56	1.000

Link Function: Logit

The goodness of fit analysis was used to assess the compatibility of observed data with the model, with a P-value greater than 0.05 indicating a satisfactory match, and less than 0.05 indicating a poor match.

Table 21 : Pseudo R-Square

Cox and Snell	0.674
Nagelkerke	0.897
McFadden	0.834

Link Function: Logit

Cox and Snell computed Nagelkerke and McFadden in Pseudo R-Square to show how much financial accessibility affected financial success. Table 21's Nagelkerke of 0.897 shows that the predictor's variables significantly impacted financial performance by 89.7% at the 95% significant level. The study's conclusions indicate that financial accessibility enhances financial performance.

Table 22 : Multinomial Logistic Regression Results for the financial accessibility and financial Performance

financial accessibility indicator influences financial performance		B	Std. Error	Wald	Df	Sig.
Return in equity	Intercept	2.675	2.546	.784	1	0.001
	[Banking systems =4]	7.453	3.325	4.453	1	**0.003***
	[banking services to unbanked community =4]	17.732	8.987	4.987	1	**0.001***
	[Remote areas =4]	4.989	5.453	5.231	1	**0.000***
Market share	Intercept	3.322	2.967	2.785	1	0.002
	[Banking systems =3]	7.988	3.453	4.657	1	**0.003***
	[profitability =4]	8.337	4.987	4.564	1	**0.004***
	[financial service accessibility =3]	17.711	231.231	.000	1	0.891
	[financial service accessibility =4]	-7.756	3.786	4.332	1	**0.003***

*Note: The reference category = cost, Statistically Significant at *(5%), Number of observations = 362, (-) = Negative relationship, (+) = Positive relationship, Pseudo – R^2 = Cox and Snell = 0.674; Nagelkerke = 0.897 and McFadden = 0.834, LR Chi-Square =111.473; Probability sig = 0.001 and Log Likelihood = 121.378*

Table 22's results showed significant results on multinomial logistic regression on transaction costs, financial performance, and accessibility of banking systems, services to underbanked communities, and distance locations.

Return in equity with respect to operating expenses

At a considerable level of five percent, banking systems and return on equity exhibited a favourable and significant association. This suggests that, if other parameters stay constant and financial performance rises, its banking systems should see an increase in return on equity of service, which stands at 7.453 relative to operating expenditures. The model's output indicates that the bank will do well in terms of return on equity when compared to operational costs. This could be the case since monitoring banking systems guarantees that every action is carried out correctly, leading to a strong performance for the financial activities.

At 5% significance level, the provision of banking services to the unbanked populace was positively and substantially correlated with return on equity. According to the research, the likelihood of a rise in return on equity by 17.732 increases with the provision of banking services to the unbanked group, while all other parameters stay same. The model's conclusion suggests that, in comparison to operational costs, sustaining banking services for the unbanked group in exchange for equity will be positively impacted. The reasons for the outcomes might be that when a bank continues to provide banking services to an unbanked population, it guarantees that every action is carried out properly, which improves the performance of the financial operations.

At the 5% significant level, there was a positive and significant correlation between financial service in distant locations and return on equity. The results suggest that, if other things stay the same, expanding financial service in remote locations will result in a higher return on equity (4.989 vs operating expenditures). According to the model's conclusions, expanding financial services to rural regions would raise equity returns relative to operating costs.

Market share with respect to operating expenses

At the 5% significant level, banking systems had a positive and significant relationship with quality. The results demonstrate that, while operational expenditures stay the same, there is a greater likelihood of a rise in market share when rates on banking systems are raised. According to the model, banks may increase their margin growth rate by 7.988 percentage points in relation to operational expenditures, which have an inverse relationship, the more banking systems they have. This could be the case since monitoring banking systems guarantees that every action is carried out correctly, leading to a strong performance for the financial activities.

Profitability and financial service accessibility are positively related to quality at a 5% level, indicating that profitability affects finance performance more than operating expenses. More profitability leads to better financial results, with a higher market share. Financial service accessibility reduces market share, while profitability allows customers to access information and build capacity. Both factors remain constant, indicating that profitability and financial service accessibility are crucial for a bank's success.

4.6.2 Hypothesis testing

According to the study's hypothesis, there is no meaningful correlation between a bank's financial success and its accessibility to credit. At a 95% confidence level, the Chi-Square test is used to assess the degree of correlation between financial success and accessibility. The outcome is displayed in Table 23, where the Chi- Square critical value was less than the Chi- Square critical value of 0.05, at 0.001. This suggests that financial performance and financial accessibility are significantly correlated. Consequently, the alternative hypothesis—that there is a strong positive association between financial success and financial accessibility—is accepted and the null hypothesis is rejected.

Table 23 : Chi- Square Test

Model	Value	Df	Sig
Pearson Chi-Square	25.783	56	0.001

4.7 Effect of operational flexibility on financial performance

Findings in Table 24 show that operational flexibility affects financial performance, which in turn affects the banks' financial performance. The mean was 4.02, and the standard deviation was 0.960, indicating that 6.2% of respondents did not agree that a customer base positively impacts financial performance. According to 43.1% of respondents and 33.8% of respondents strongly agreeing, operational flexibility has an impact on this. The study's conclusions show that the majority of respondents have seen how operational flexibility affects financial success.

According to the study, knowing your customers' behaviour and being able to maintain them as repeat buyers will help you retain them and improve your financial performance. This will also have an impact on your operational flexibility. Operational flexibility had an impact on profitability, but market growth also gave banks additional opportunities to increase their earnings. Diniz, Birochi, and Pozzebon (2012) found that expansion had a particularly strong correlation with profitability and that larger banks received a higher proportion of their revenue from non-interest income. The bank's size will be determined by its operational capacity. This includes capital, the number of loan accounts, the number of deposits, and net asset deposits.

Additionally, Table 24 shows the results, which show that increasing mixed flexibility can positively increase banks' financial performance. It had a mean of 4.20 and a standard deviation of 0.939. Of the respondents, 7.7% disagreed that banks' financial performance can improve if they can positively increase their mixed flexibility, while 40% agreed and 44.6% strongly agreed. According to the study's findings, the majority of respondents who are clients agree that more mixed flexibility improved financial performance, which in turn can influence higher profit margins and sales.

According to the report, banks should prioritise growing their institution's mixed flexibility in addition to boosting sales and profit margins via maintaining a strong clientele. The bank's financial performance will improve as a result. Having a higher market share also gives the bank more authority to set its own rates for services and pricing that it charges its clients. Ndiema (2018) found that a bank has more influence over its pricing and client services the larger its market share. Kamau (2018) and Ndwiga (2016) have noted that there is an adverse correlation between market share and profitability.

Furthermore, Table 24 illustrates how reducing unpredictable costs will positively impact banks' financial performance. Its Mean = 4.00 and standard deviation = 1.016 indicate that, while 9.2% of respondents disagreed, 33.8% and 38.5% of respondents strongly agreed that reducing unpredictable costs would likely increase an institution's sales rate as well as its financial performance. According to the study's findings, the majority of respondents, who are also consumers, acknowledge that lowering erratic costs will improve both the bank's and the sales unit's financial performance. According to the survey, all financial institutions and service providers have to think about cutting their unexpected expenses.

Additionally, Table 24 illustrates the importance of volume flexibility in any organisation and how it affects banks' financial performance. Its mean value is 3.91, and its standard deviation is 0.964. However, Table 24 also shows that 4.6% of respondents disagreed that volume flexibility improves bank performance because of the services or products they use. About thirty-eight percent of respondents strongly agreed, and about 36.9% of respondents agreed. The results of the study show that consumers' use of the product or service they use can very likely lead to an increase in volume flexibility. According to the report, volume flexibility is one of the most important elements that improves banks' financial performance.

The way banks and other financial institutions advertise their goods and services is being impacted by the customers' marketplace's ongoing segmentation into smaller sub-sections based on requirements and behaviours. Finding new markets to serve as a potential source of additional revenue streams would primarily result in a reduction in the number of secure income regions with retirees and employees of public institutions (like teachers) acting as potential arranged groups for lower-cost, low-volume loan products (like credit cards and cash loans) that boost the financial institution's revenue streams (Oyugi, 2018).

The study found that financial performance is influenced by new product flexibility, which increases operational flexibility. The majority of respondents agreed, with 35.4% agreeing and 27.7% strongly agreeing. This is a good indicator of financial performance, as it increases sales and profit margin. The study suggests that an increase in customer base can also increase new product flexibility and operational flexibility in financial institutions, leading to increased financial performance. This system of measurement helps companies understand their market size and competitors, allowing them to reach greater scale in operations and increase profitability. Companies and industries constantly strive to increase their market share by enhancing demographics, reducing prices, and marketing through advertising.

Table 24: Operational flexibility in financial performance

Variable	SD%	D%	N%	A%	SA%	Mean	Std. Deviation
Financial performance is influenced by the operational flexibility	3.1	3.1	16.9	43.1	33.8	4.02	0.960
Mix flexibility increase operational flexibility of banks.	1.5	6.2	7.7	40	44.6	4.20	0.939
Reduce unpredictable cost can positively increase financial performance.	1.5	7.7	18.5	33.8	38.5	4.00	1.016
Volume flexibility are more likely to increase operational flexibility	3.1	1.5	27.7	36.9	30.8	3.91	0.964
New product flexibility are more likely to increase operational flexibility	3.1	3.1	30.8	35.4	27.7	3.82	0.983

SD=Strongly Disagreed, D= Disagreed, N=Neutral, A= Agreed, SA= Strongly Agreed

4.7.1 Multinomial logistic regression used to test the influence of operational flexibility to financial performance

Table 25 : Model fitting information

Model	-2 Log Likelihood	Chi-Square	Df	Sig
Intercept only	196.563			
Final	273.977	102.785	56	0.000

Link Function: Logit

The study utilized Chi Square statistics to evaluate the model's fitness and predictability, with a P value of 0.000, indicating its usefulness and relevance for the investigation, indicating its effectiveness in predicting results.

Table 26 : Goodness-of-Fit

Model	Chi-Square	Df	Sig
Pearson	23.674	56	1.000
Deviance	23.884	56	1.000

Link Function: Logit

The Goodness of Fit test was conducted to ensure the model's relevance for analysis. A P value less than 0.05 indicates insufficient model matching, while a significant P value over 0.05 indicates model significance. Pearson Chi Square statistics confirmed satisfactory model matching.

Table 27 : Pseudo R-Square

Cox and Snell	0.647
Nagelkerke	0.764
McFadden	0.734

Link Function: Logit

The study by Pseudo R-Square, Cox and Snell, Nagelkerke and McFadden reveals that financial accessibility significantly impacts financial performance, with a Nagelkerke value of 0.764.

Table 28 : Multinomial Logistic Regression Results for the operational flexibility and financial Performance

Market share indicator influences financial performance		B	Std. Error	Wald	Df	Sig.
Return in Equity	Intercept	2.703	2. 659	.765	1	0.001
	[Mix flexibility =4]	7.635	3.799	4.784	1	**0.002***
	[Reduce unpredictable cost =4]	17.556	8. 669	4.663	1	**0.004***
	[Volume flexibility =4]	4.623	5. 617	5.903	1	**0.000***
Market share	Intercept	3.600	2. 855	2.675	1	0.002
	[Mix flexibility =3]	7.699	3. 024	4.442	1	**0.002***
	[New product flexibility =4]	8.580	4. 066	4.736	1	**0.003***
	[operational flexibility =3]	17.714	231.334	.889	1	0.891
	[operational flexibility =4]	-7.727	3.675	4.563	1	**0.001***

*Note: The reference category = cost, Statistically Significant at *(5%), Number of observations = 362, (-) = Negative relationship, (+) = Positive relationship, Pseudo – R^2 = Cox and Snell = 0.647; Nagelkerke = 0.764 and McFadden = 0.734, LR Chi-Square =102.785; Probability sig = 0.00 and Log Likelihood = 196.563*

Table 28 shows significant results from multinomial logistic regression on customer base, revenue increase, talent acquisition, market penetration, and market share at a P = 0.05 level.

Return in equity with respect to operating expenses

At a 5% significance level, the analysis discovered a positive and substantial correlation between mix flexibility and return on equity. In comparison to operational expenditures, return on equity of service is expected to improve by 7.635 as financial performance rises. According to the model results, banks will perform well in terms of return on equity relative to operating expenditures because retaining mix flexibility guarantees that each activity is carried out correctly, which improves the performance of financial activities. At a 5% significance level, reducing unpredictable costs was similarly positively correlated with return on equity, with a 17.556 rise in return on equity for every 1% decrease in unpredictable costs. According to the model, return on equity is significantly impacted by preserving lower unexpected costs as compared to operational expenditures.

At the 5% level, the study discovered a strong positive correlation between volume flexibility and return on equity. If all other parameters were the same, it was projected that improving volume flexibility would boost return in equity by 4.989 relative to operating expenditures.

Market share with respect to operating expenses

According to the study, at a 5% level, increasing mix flexibility has a considerable influence on both market share and quality. In comparison to operating expenditures, banks are more likely to grow their market share if they have greater flexibility. According to the model, operational expenditures have an inverse relationship with market share performance, and greater flexibility results in a 7.699 rise in the latter. The reason for this is because enhanced oversight of mix flexibility guarantees the proper execution of every task, resulting in improved financial outcomes. At a 5% level, new product flexibility also has a beneficial influence on quality, indicating that it is market penetration—rather than operational expenses—that drives superior financial performance at 8.580. Customers may readily obtain information, stay up to date with current needs, and expand their capacity thanks to this flexibility, which may have an impact on their market share.

Operational flexibility and accessibility were positively and substantially linked with quality at the 5% significant level. The findings show that banks with operating flexibility policies have a higher chance of expanding their market share compared to those with constant operating expense policies. The model's result indicates that, in comparison to operating expenses, market share should increase by sticking to operational flexibility.

4.7.2 Hypothesis testing

The study's premise was that a bank's operational flexibility and financial performance would not be significantly correlated. The Chi-Square test is used to evaluate the degree of association between marketing and financial success at a 95% confidence level. The outcome is shown in Table 29. As can be observed, the Chi-Square critical value was below than the 0.05 criterion at 0.000. This implies a strong correlation between financial performance and operational flexibility. Therefore, rejecting the null hypothesis and adopting the alternative, it may be inferred that operational flexibility and financial performance are significantly positively correlated.

Table 29 : Chi- Square Test

Model	Value	Df	Sig
Pearson Chi-Square	102.785	56	0.000

4.8 Financial performance

Table 30's results show that low operating expenditures have a favourable impact on financial performance. The mean was 4.65, and the standard deviation was 1.180. However, 31.2% of respondents disputed that low operating income is one of the elements influencing performance. Regarding the same, about 41.8% of respondents agreed and 27.0% strongly agreed. The results of the study show that the financial institution's performance would improve if it takes into account the low operating expenditures. According to the report, banks and other financial institutions should prioritise reducing their operational costs since doing so will improve their financial performance.

Financial inclusion and banking sector development are closely related. It is verified that broader access to banking services is referred to as financial inclusion. The application and employment of agents in financial transactions and services helps to advance, greatly enhance, and raise the accessibility to official financial goods and services, such as savings accounts, money transfers, and insurance sales, for the underprivileged and marginalised people. (2019, Bold).

The study found that an increase in sales units can positively impact financial performance in financial institutions like banks. Most customers agree that an increase in sales units can improve financial performance. Banks should focus on activities that increase sales units to achieve their goals. The agency model and branchless initiatives have shown significant growth in Africa. Account ownership varies across Africa, with 23% of adults having an account in mainstream banks and 24% in sub-Saharan Africa. However, this varies from 11% in central Africa to 51% in southern Africa.

The study found that a positive margin growth rate can enhance the financial performance of banks. However, 34.4% of respondents disagreed, while 38.1% agreed and 21.9% strongly agreed. Most customers believe that the growth of the institution influences financial performance. The study suggests that banks can control their growth margins to improve their performance. This growth is also related to customer base, market penetration, and market share. Overall, the study suggests that effective growth management can lead to improved financial performance.

Table 30 : Financial performance

Variable	**SD%**	**D%**	**N%**	**A%**	**SA%**	**Mean**	**Std. Deviation**
Low operating expenses positively increase financial performance.	0.00	31.2	0.00	41.9	27.0	4.65	1.18
Sales unit can positively increase financial performance.	6.00	34.0	7.40	34.0	18.1	3.24	1.26
Margin growth rate can positively increase financial performance.	0.00	34.4	5.60	38.1	21.9	3.47	0.86

SD=Strongly Disagreed, D= Disagreed, N=Neutral, A= Agreed, SA= Strongly Agreed

Quantitative measures of a company's performance include cash flow metrics like free cash flow over sales; growth metrics like 1-, 3-, and 5-year historical revenue growth; and profitability metrics like gross margin, net margin, and examples of return on sales, return on equity, economic value added, return on equity less cost of equity, and return on capital employed. A company's success should ideally be assessed using metrics that look forward, like predicted profitability, cash flow, and growth, as the organisation structure and number of hierarchical levels of the current operation will have an impact on future performance. (Okiro and Ndungu, 2019).

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 An Overview

The purpose of the study was to evaluate how agency banking affected the commercial banks in Moshi Municipality in terms of their financial stability. In chapter four, the findings are summarised, measures for enhancing banks' financial performance are suggested, and conclusions, recommendations, and topics for more research are offered.

5.2 Summary of the Study

5.2.1 Effect of Commission earned on financial performance.

According to the study's findings, the majority of respondents who are employed do recognise and comprehend how banks get paid commission for agency work depending on the services they do. The results of the survey show that, given that their pay drives their work, the majority of respondents who are workers do appreciate and comprehend how commission received might boost agency incentive. According to the study's findings, the majority of respondents who are employed said they like how banks handle their agency banking and help them improve agency performance, which ultimately boosts sales. According to the study's findings, the majority of respondents who work for the banks commend them for setting up commissions that are paid according to revenue and improving agency performance, both of which have an impact on the bank's financial success. According to the study's findings, the majority of respondents who are workers are aware that commission earned—which frequently favours agencies—has an impact on the financial success of commercial banks.

5.2.2 Effect of low transaction cost on financial performance

According to the study's findings, the majority of respondents who are workers acknowledge that they pay a low fee for bank services, which encourages them to make larger purchases. According to the study's findings, the majority of respondents who are clients have acknowledged that, given how frequently they use the agency bank's services, they usually receive them on schedule. According to the study's findings, the majority of respondents who are workers value how agency banks save customers' time by delivering services quickly yet carefully. According to the study's findings, the majority of respondents who are employed acknowledge that they are really happy with the price the agency banker set for their services and that it is reasonable for both sides. According to the study's findings, the majority of respondents who are employed acknowledge that they typically choose transactions with minimal transaction costs.

5.2.3 Effect of financial service accessibility on financial performance

According to the study's findings, the majority of respondents who work in banking have seen firsthand how the adoption of a system may affect a company's financial performance, thus they have made a sincere effort to embrace it. Additionally, the study's results show that the majority of respondents who are employees live in distant places and require bank services; as a result, agency banking has a lot of potential to reach these areas and offer services.

The results of the survey show that the majority of respondents who work in banking observed that there aren't many banks in distant locations, therefore bank clients who live there also require bank services. The results of the study show that agency banking drives bank performance because it reaches clients that are difficult for banks to reach and offers banking services in remote locations. The majority of respondents who are workers in the survey have seen that financial service accessibility encourages them to use financial services since banks have made the accessible environment easy to access.

5.2.4 Effect of operation flexibility on financial performance

The study found that operational flexibility significantly influences financial performance. Customers support increased mixed flexibility, which can lead to increased sales and profit margins. Employees also agree that reducing unpredictable costs can improve financial performance and sales. Employees can increase volume flexibility through their products or services. New product flexibility is a good indicator of financial performance, as it increases operational flexibility, leading to increased sales and profit margins.

5.2.5 Financial performance

According to the study's conclusions, the financial performance of financial institutions will improve if they take operational income into account. According to the study's findings, the majority of respondents, who are consumers, believe that higher sales volumes will improve the functioning of financial institutions like banks. The results of the survey show that the majority of respondents, who are also consumers, believe that the institution's expansion has an impact on the improvement of financial performance. Financial performance increases in direct proportion to the bank's expansion.

5.3 Conclusion

If their agency gets a good enough commission, it's easy to understand how well their sales are performing and trending, according to the report. Over half of the world's population has either not accepted mobile banking or financial services, or has been refused access to them, despite the fact that mobile phones may be used for mobile banking. This fact is really interesting. The report states that having an agency sales record is highly beneficial since the bank system would be aware of all bank sales and all of their specifics. Since the bank will be aware of the increase or decrease in sales, the record will also help determine the performance of the bank. Customers in rural places may now obtain financial services much more easily thanks to agency banking, which has an impact on banks' financial performance. There is a demand for bank services because the majority of clients in distant locations have restricted access to banks, according to the report. By providing a range of banking services, including account opening, cash deposits, withdrawals, and money transfers, agency banking enables banks to extend their reach into rural regions where they may not have physical offices. Policy makers and regulators are taking notice of this approach even if banking laws continue to hinder its expansion. The report emphasises how crucial agency banking is to the banking sector.

The study's conclusions indicate that although agencies strive to provide high-quality services, they do so rapidly, and this will unavoidably increase with time. According to the study's findings, clients would like to use services that save them from squandering time. The study's conclusions indicate that fair pricing for agency services can entirely satisfy customers and attract new ones since they will be more inclined to compare prices for bank services. According to the survey, banks should consider lowering the transaction costs for their clients in order to draw in new business and retain their current clientele.

Agency banking's financial success relies heavily on its ability to implement banking systems, maintain momentum, and rapidly expand. Its ability to serve isolated locations without banks attracts a large client base, as many live in distant areas and find bank services distant. Agency banking is significant for the banking sector as it ensures client satisfaction and boosts profitability by promoting sales and a larger client base. Accessible financial services positively impact bank operations, performance, and client growth.

As per the findings of the study, you may enhance your financial performance by keeping your consumers as repeat customers by understanding their behaviour. This will affect your operating freedom as well. The paper suggests that banks should place equal emphasis on expanding the diverse flexibility of their organisation and increasing sales and profit margins by retaining a loyal customer base. As a consequence, the bank's financial performance will get better. The report suggests that all financial institutions and service providers should consider reducing their unforeseen costs. The study indicates that one of the key components that enhances banks' financial success is volume flexibility. The paper suggests that expanding the client base might enhance the adaptability of new products as well as the operational adaptability of banks and other financial institutions, all of which would eventually boost financial performance. This kind of measurement gives a more comprehensive view of a company's size depending on its competitors and market.

The research suggests that banks and other financial institutions prioritise operational income as a means of enhancing their financial performance. In order to enhance their financial performance, banks should make sure they are participating in initiatives that would increase sales, according to the poll. The study suggests that banks would do better financially if they could control their growth margin better. Growth margins are connected with increases in market share, penetration, and client base.

5.4 Recommendations

The study discovered that there were benefits and drawbacks to agency banking and financial success. Consequently, suggestions were given in light of the primary issues, particularly those that adversely affected financial performance and were listed.

(i) The study recommends that commercial banks continue to provide their agencies with a suitable commission since doing so benefits the agencies and enhances bank performance, based on the summary and findings. The performance and trend of the agency's sales volume are also easily understood. This will boost fair market competition and stop financial firms from mistreating their clients.

(ii) The research suggests that financial institutions should continue to offer low transaction rates at their local agency sites. The study also found that agency banking reduces the cost of delivering financial services, which implies that commercial banks should lower the costs related to doing business with agency banks. This will lead to more transactions being completed by customers using agency banking. Maintaining sufficient capital allows any financial organisation to be stable and avoid financial instability; for this reason, the bank should require the agent banks to maintain higher floatation costs. As a consequence, clients feel more at ease interacting with the agents. Because of this, more transactions will be made through agents, which will boost profitability.

(iii) The poll suggests that banks should consider growing their network of agency banks to ensure that customers can obtain services, which would improve their bottom line. The research advises financial organisations to consider creating strategies to improve the market they now dominate. The bank will thus have more control over how much it spends and what services it offers to customers. The survey also found that clients are encouraged to do more transactions using agency banking. Customers are able to save more as a consequence, which increases the loan amount. This improves the financial performance of commercial banks.

(iv) The report indicates that agency banking improves accessibility to financial services. As a result, the research recommends that commercial banks increase the number of agents they employ for estates and rural areas. This can be accomplished in part by lowering the requirements for becoming a bank representative. The paper suggests that the government should bolster security in urban areas, estates, and rural areas. To promote acceptability of agency banking, commercial banks could improve customer impression through increased marketing initiatives and the creation of more advertisements. In particular, this will boost adoption in comparison to its competitors.

5.5 Other areas of study

This study examines the impact of agent banking on the financial performance of commercial banks. The degree of variety, market share, and liquidity levels are some of the variables that affect how financially successful commercial banks are. Other topics outside agent banking required to be examined in the research. It is vital to examine all of the variables together in order to determine their actual influence when combined with the other elements. Furthermore, the study's evaluation of the period from 2016 to 2019 restricts the findings.

Further study is needed to determine how agent banking affects financial inclusion and the overall economic prosperity of Moshi Municipality. While there have been suggestions that greater financial inclusion contributed to the nation's economic growth, Moshi Municipality has not had notable advancements in this area. Research on the challenges commercial banks have implementing agency banking is recommended by the study. The study recommends conducting further research on the challenges that commercial banks have while introducing agency banking. The paper recommends more investigation into the customer-related concerns that surface with the usage of agency banking.

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APPENDICIES

Appendix I: Survey Questionnaire

Dear Respondent

My name is **Herment Samuel Gurisha** pursuing Master of Business Management at Moshi Co-operative University. I am conducting a study on **"*Contribution of Agency Banking on Financial Performance of Commercial Banks in Tanzania: A Case of NMB bank in Moshi Municipality*".** Kindly please take a few minutes of your time and fill all questions in the questionnaire. Please be assured that information provided in this questionnaire is purely for academic purpose and therefore would be treated with utmost **CONFIDENTIALITY**.

This questionnaire is divided into four (4) parts please put a **[√]** mark on the best option among many on each question that suits your opinion.

PART A: BACKGROUND INFORMATION

1. Age of respondent ……………
2. Gender of respondent: 1=Male ( ) 2=Female ( )
3. Marital status 1=Married ( ) 2= Single ( ) 3= Widow/ widower ( )
4. Main occupation1=Farming ( ) 2=Employment ( ) 3=Business ( )
5. Level of education 1= No formal education ( ) 2= Primary ( )

3= Secondary ( ) 4= University ( )

PART B: TRANSACTION COSTS

1. Does low transaction cost of agency banking affect the financial performance of commercial banks in Tanzania?

Yes [ ] No [ ]

2. To what extent does low transaction cost of agency banking affect the financial performance of commercial banks in Tanzania?

To a very great extent [ ]

To a great extent [ ]

To a moderate extent [ ]

To a little extent [ ]

To no extent [ ]

3. To what extent do you agree with the following statement relating to low transaction cost of agency banking and its effects on financial performance of commercial banks in Tanzania?

	1	2	3	4	5
Cost involved in transacting in agency banking is low compared to banking hall					
Time spent in agency banking is low compared to the normal banking					
Cost involved in agency banking positively influence performance of commercial banks					
Agents prior experience with the banks customers is positively related to both performance and survival					

4. How else does low transaction cost of agency banking affect the financial performance of commercial banks in Tanzania?
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…Does financial services accessibility through agency banking affect the financial performance of commercial banks in Tanzania?
Yes [ ] No [ ]
5. To what extent does financial services accessibility through agency banking affect the financial performance of commercial banks in Kenya?
To a very great extent [ ]
To a great extent [ ]
To a moderate extent [ ]
To a little extent [ ]
To no extent [ ]

PART C: COMMISSION FROM AGENTS

6. To what extent does commission from bank agent contribute to financial performance of the bank.
To a very great extent [ ]
To a great extent [ ]
To a moderate extent [ ]
To a little extent [ ]
To no extent [ ]

7. What is your level of agreement on the following statement relating effects of financial services accessibility through agency banking on financial performance of commercial banks in Tanzania?

	Strongly agree	Agree	Moderate	Disagree	Strongly disagree
Agency banking adoption in banking systems has shown a great momentum and spread at an unbelievable pace across the world which has increased the accessibility of financial service					
There is great potential of using this in agent banking for provision of banking services to unbanked community					
Agency banking has led to accessibility of financial service to many customer in remote areas					
Accessibility of banking service through agency banking has led to profitability of commercial banks					

8. How else does financial services accessibility through agency banking affect the financial performance of commercial banks in Tanzania?

   …………………………………………………………………………………………
   ……………………………………………………………

Thank for Your Corporation.

CONTRIBUTION OF AGENCY BANKING ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN TANZANIA: A CASE OF NMB BANK IN MOSHI MUNICIPALITY

HERMENT SAMUEL GURISHA

ABSTRACT

The study was conducted to assess the contribution of agency banking on financial performance of commercial banks in Moshi Municipality. Specifically, the study intended to examine the contribution of agency banking on financial performance of commercial banks in Moshi Municipality; determine the contribution of low transaction cost through agency banking on financial performance of commercial banks in Moshi Municipality; examine the effect of financial services accessibility by customers on financial performance of commercial banks in Moshi Municipality and determine the effect of operational flexibility on the financial performance of commercial banks in Moshi Municipality. A cross-sectional research design was adopted whereby purposive and accidental sampling techniques were used to select a sample of 71 staff whereas, questionnaire and interview were used to collect data. Data were analysed through Multinomial logistic regression model. The findings show that the commission earned from agency banking activities will influence performance of commercial banks. The study concludes that financial performance of banks depends on low transaction cost through agency banking services has high influence on performance of banks. The study implies that bank should high concentrate on the increasing mixed flexibility of their institution by ensuring they have a good customer base. This will enhance fair market competition and thus barring financial institutions from customer exploitation. The study recommends that these financial institutions should continue offering low transaction rates within their local agency points. The study further, recommends that commercial banks should continue providing enough commission earned to their agency which will benefit them and increase bank performance. This study is concentrated on the contribution of agent banking on the financial performance of commercial banks. The financial performance of commercial banks is affected by several variables such as liquidity levels, market share, degree of diversification among other variables. Other than agent banking, the study required to examine. There is a need to examine all of the

variables to determine the actual effect of each when analyzing with the rest of the variables.

1. Statement of the Problem

For the majority of Tanzanian's population, access to banking services has been almost non-existent until the arrival of agency banking. However, this has been revised with the institutionalizing an infrastructure based on a model first pioneered in Brazil (BOT, 2017). The Tanzanian Bureau of Statistic Report (2017) indicates that more than 44% of Tanzanians are either under-banked or unbanked (Ndirangu, 2018). This is partly because of the high cost of maintaining the bank branches and the low nature of business transactions in their residential areas, a situation which makes opening of new branches in these areas a less productive venture.

Commercial banks in Tanzania in collaboration with the mobile phone service providers came up with the new innovation of mobile and agency banking (Mwachofi, 2013). The issue which arises is to whether the agency banking has succeeded in achieving the expectations of the commercial banks (Njuki, 2015; Ndungu and Njeru, 2016). The queues in the banking halls may have reduced considerably, more accounts opened by the targeted population and general financial services availed to the previously un-banked individuals (Seltzer, 2010; Vutsengwa and Ngugi, 2018). Every action by the commercial banks should be geared towards creation of value to its shareholders (Ndwiga, 2016; Njagi, (2017). Agency banking should be evaluated in light of this requirement and to establish whether the benefits out-weigh the costs for prolonged sustainability (Ngigi, 2018).

It has been reported that agency banking has increasingly gained importance in developing countries over the last decade (Ngando, 2017). However, the extent to which agency banking can be used as a tool to deepen the financial performance of commercial banks remains largely unknown. Barasa and Mwigiri, (2013) and Yin, (2018) indicates that the true benefits of the agency banking to customers, the banks and the bank agents are largely unstudied.

Despite the relevance of the agency banking to the commercial banks competitiveness and enhancing financial performance, there has been limited research conducted specifically on the contribution of agency banking on commercial banks' financial performance in Tanzania (Younus, 2017). Most of the studies reviewed were done abroad and according to Aosa (1992), it’s not right to import the wholesome results of a research without taking into account the contextual differences and hence the needs to carry out local research in order to understand better the problem. This study therefore, aimed to assess the contributions of agency banking on financial performance of commercial banks in Tanzania taking NMB in Moshi Municipality as a case study.

3. RESEARCH METHODOLOGY

3.1 Research Design

The study adopted a cross-sectional research design. This design was selected because it allowed the researcher to collect data once on the subject matter under the study. The design was also adopted since it allowed collection of data at single time from many different variables that can be analysed at once. Furthermore, as noted by Bhattacherjee (2012) with this design the independent and dependent variables are measured at the same time. Therefore, the design enabled collection of data on agency banking and banking financial performance.

3.2 Geographical Coverage.

The study was conducted in Moshi Municipality in Kilimanjaro Region. Kilimanjaro Region is one among the 31 regions of Tanzania with 31 administrative regions located in the North-Eastern part of mainland Tanzania (TBS, 2017). NMB bank is the largest banks in Tanzania, both when ranked by customer base and branch network. With over 224 in 2019 and 226 in 2020 branches located in more than 80% of Tanzania’s districts. This broad branch network distinguishes NMB bank from other financial institutions in Tanzania. It is also one among the biggest banks in Moshi Municipality and with three branches namely, Mbuyuni, Mawenzi and Mandela (URT, 2019). NMB bank was preferred because most of the population in Moshi Municipality receive their salaries through NMB bank therefore, increases the customers in NMB bank compared to any other bank (URT, 2017).

3.3 Sampling Procedures

3.3.1 Sampling population

The sampling population of this study included all employees of NMB. The study comprised of 50 employees from Mandela branch, 9 employees from Mawenzi and

12 employees from Mbuyuni branch in Moshi Municipality whereby, the total was 71 staff from the three branches (URT, 2020).

3.3.2 Sample size

The study involved a total of 71 respondents, comprising of 50 staff from Nelson Mandela branch, 9 employees from Mawenzi branch and 12 employees from Mbuyuni branch. Therefore, the study involved all employees from the three branches from Moshi Municipality as presented in Table 1. In this case therefore, there was no formula applied to compute the sample size because the population was transformed to be the sample size in its totality i.e. Population is the same as the sample size.

Table 1: Sample Size Distribution

Sampling unit	Sampling Frame	Sample size
Nelson Mandela branch	50	50
Mawenzi branch	9	9
Mbuyuni branch	12	12
TOTAL	**71**	**71**

3.3.4 Sampling techniques

Purposive sampling, a non – probability sampling technique was used to select employees from each stratum from a sampling frame. To establish a sample size, census sampling was conducted among employees of all three branches in Moshi Municipality whose total number stood at 71 (Table 1). Census is attractive for a population less than 200 (Israel, 1992). Moreover, the branch managers, marketing manager and agency officers were interviewed as the key informants this study to give the information on agency banking and financial performance of NMB bank which could not be obtained by the use of a questionnaire.

3.4 Types and Sources of Data

This study gathered data related to socio-demographics information of respondents such as age, household size, education level and marital status. The study also gathered other data such as commission earned, low transactional cost, financial service accessibility and operational flexibility on the financial performance in commercial banks. The study gathered secondary data from the related documents review.

3.5 Data Collection Techniques

Multiple methods were to collect data for this study. Using various techniques, the study was able to obtain different types of data and provide cross-data validity checks. In particular, the following techniques were used.

3.5.1 Survey method

Survey was employed to undertake this study with the use of questionnaire as a data collection tool. Survey was preferred in the study because it allowed rapid data collection and it is convenient for gathering data. A questionnaire consists of a number of questions printed or typed in a definite order on a form or set of forms. The questionnaire is mailed to respondents who are expected to read and understand the questions and write down the reply in the space meant for the purpose in the questionnaire itself (Kothari, 2004; 100). Therefore, the researcher used questionnaire method because the method helps a large proportion of the desired information to be collected within a short time.

3.5.2 Key informant interview

Kothari (2004; 97) defines interview as the method of collecting data that involves presentation of oral-verbal stimuli and reply in terms of oral-verbal responses. This method can be used through personal interviews and if possible, through telephone interviews. So, the researcher will use this method so as to get more information that will not be provided in survey questionnaire. In this case, three (3) key informant interview with branch managers, marketing managers and agency bank officers were conducted. This helped to note even the feelings of the respondents about the study through respondent's gestures and facial expressions. The technique provided equal chance to the units of inquiry of being selected from key informant to form a sample.

3.6 Data Analysis

In this study, qualitative data were analyzed using content analysis whereby, the information from the key informants were transcribed to obtain themes and concepts relevant to the contribution of agency banking and financial performance. Descriptive analysis used to analyze quantitative data on socio-demographic information and to the specific objectives through frequency, percentage, mean and standard deviation in order to establish the extent of which agency banking contributes to the financial performance. The results were presented in figures and tables with the help of Excel software. Multinomial Logistic Regression was used to analyze the four specific objectives; examine the effect of commission earned, determine the effect of low transaction cost, examine the effect of financial services accessibility and determine the effect of operational flexibility on the financial performance of commercial banks in Moshi Municipality. Multinomial Logistic Regression Model was used when there is one nominal /ordinal response variable that has more than two categories of dependent variable (Lani, 2010). It is also used to show the relationship between one nominal dependent variable and one or more independent variable.

Multinomial logistic regression considers number of assumptions such as; dependent variable should be measured at nominal level; independent variable is continuous, ordinal or nominal. Likewise, there should be independence of observation and dependent variable should be mutually exclusive; no multicollinearity between the independent variable, there should be linear relationship between any continuous independent variable and logit transformation of dependent variable; and no outliers. Thus, in this study MNL model was used since the dependent variable was nominal having three categories of choices; operation expenses, sales unit and margin profit rate. The independent variables (commission earned, low transaction cost, financial service accessibility and operational flexibility) were nominal and there was no multicollinearity between the independent variable. Table 2 shows the model definition and unit of measurement.

Table 2: Model definition and unit of measurement

Variable	Description
Agency encouragement	encouragement (1 = encouraged, 0 =not encouraged)
Pay tied to revenue	Pay tied to revenue (1 = tied, 0 = not tied)
Low cost of withdrawal	Low cost of withdrawal (1 = Low cost, 0 = Otherwise)
Accessibility of agent	Accessibility of agent (1 = accessible, 0 = otherwise)
Availability of agents	available or otherwise
Reduce unpredictable cost	Unpredictable cost (1 = reduced, 0 = increased)
New product flexibility	New product (1 = flexible, 0 = not flexible)

FINDINGS AND DISCUSION

4.1 Introduction

This chapter presents data analysis, interpretation and discussions following the objectives of the study. The general objective of the study was to assess the contribution of agency banking on financial performance of commercial banks in Moshi Municipality. Specifically, the study sought to examine the effect of central bank regulation on financial performance of commercial banks in Moshi Municipality, determine the effect of low transaction cost through agency banking on financial performance of commercial banks in Moshi Municipality, examine the effect of financial services accessibility by customers on financial performance of commercial banks in Moshi Municipality and determine the effect of increased market share on the financial performance of commercial banks in Moshi Municipality.

Data collection was done using questionnaire (open ended and closed ended questions) and results were presented through tables and figures. The analysis of the data was grouped into background of the respondents, study findings basing on the three specific study objectives. Moreover, multinomial logistic model used to test the existence of the hypothesized relationship between agency banking and financial performance.

4.1.1 Effect of Commission Earned on Financial Performance

The study implies that providing enough commision earned to their agency which benefits them, it is easy to understand the performance and tendency of their sales. However, of great interest is that while the mobile phone offers several features including the possibility of mobile banking, almost half of the world populations have either failed to embrace mobile banking and financial services or they have been deprived of the same. Astonishingly, half of the populations especially the rural folk do not have an understanding on mobile banking. However, the outreach of the mobile banking sector has been found to vary across country which generally increase the commission earned to agency (Aduda, Kiragu and Ndwiga, 2018).

The study implies that agency performance can positively increase sales of the bank products as the agency do their best in order for them to increase their commission earned. By creating greater access to financial services, agency banking has in turn increased the level of deposits for banks. Providing the 'un-banked' access to safer and cheaper financial services has led to banks recording more deposits than ever before. Equity bank attributes two third of the income from agency banking as a result of deposits and the remainder on withdrawals (Bankelele, 2015).

4.1.2 Effect of Low transaction cost on financial performance

The study implies that most of the users of agency banking are satisfiend with the costs that they are charged in different bank transactions as the bank to have consider a fair price to their customers. Similarly, in Nigeria the central bank released guidelines for agency banking in February 2013 (Lawal and Abdulkadir, 2019) which do not differ much to the Tanzania's case. Financial institutions have turned to agency banking to compensate for the poor retail infrastructure, minimize set up and running costs. This has worked well in providing much low-income population with their first experience to a range of bank services. Banks have also used the model as an alternative to decongest crowded branches and allowing customers access their account information with ease (Mutua, 2016).

The study implies that users of agency banking prefers to acquire services that save their time and avoinding wastage of time unesesarily. This could only mean that those in informal settlements would only have to spend a bigger part of their day travelling to banking facilities and their bear with long queues to access financial products and services. The whole process would prove to be time consuming and costly since transportation cost would also be taken into consideration. Despite that the banking industry has been facing gradual development with the introduction of agent baking, which is an innovative delivery approach which is determined to have accessibility to financial services and products which are far much closer to the local citizens (Burgessy and Wong, 2015).

However, Table 12 presents that cost involved in agency banking influence bank performance through influencing financial performance of the bank, had a Mean = 4.74 and standard deviation = 1.571 as 81% of the respondents agreed on the fact that customers are satisfied wihth the cost that are involved in agency banking as they keep purchasing their services, 19% of the respondents strongly agreed on the same. The study findings indicates that most of the respondents who are customers admit that they are very satisfied with the cost that are set by the agency banker for their services and that the cost are fair to both parties.

The study implies that having fair cost that are set for agency seervices can fully satisfy users and increase the number of new customers to the bank system as they consider beter prices when purchasing the bank services. This in turn, will ensure an increased in client base and therefore, the market share, widened coverage with low-cost expenses, resulting in realization of revenue through improved indirect productivity by minimizing congestion and reducing queues in existing branches. Customers will in turn benefit from agency services since the cost of travelling distances has been reduced considerably with the service being at close proximity (Birch, 2018)

The study implies that in order for the banks to gain more customers and retain the ones that they have they should consider lowering transaction cost for their customers. Regulators determine what kind of financial institutions are permitted to contract banking agents, what products can be offered at the retail outlets as well as, how financial institutions have to handle financial transactions and all aspects regarding the operation of agency banking. Without the approval of the lawmakers, agent banking would not be operational. Lawmakers also provide guidelines and alterations of the policies regarding operation of agent banking from time to time, which necessitates the banking agents to change their operations to be in line with the prevailing laws of the land (Ivatury and Mas, 2018).

4.1.3 Effect of financial service accessibility on financial performance

The study findings indicate that most of the respondents who are customers have witnessed that adoption of banking system influence the financial performance and hence banker have trully tried their best in adopting it.

The study implies that agency banking are so inneed due to their financial performance therefore they will do their best to adopt banking systems and maintain a great momentum and spread at an unbelievable pace. A number of challenges have been highlighted to be affecting access to financial service and products in Africa and they include; - uneconomically banking incomes, dispersed population, lack of financial products and service knowledge as well as ignorance on issues relating to banking. To reach this untapped banking market, one has to appreciate these factors. For financial institutions to position themselves successfully, they must seek to address the special needs of the unbanked. One of such approaches is agency banking (Mwenda, 2019).

The study implies that having agency bankings who are willing to provide sevices in remoted areas where there is no banks they are likely to get enough customers as most of them are trully found in remote and find bank services so far to them. Agent banking involves a number of technologies in order for the financial institutions to keep track of the transactions done by the retail outlet. These technologies include: point-of sale (POS) card readers, mobile phones, barcode scanners to scan bills for bill payment transactions, Personal Identification Number (PIN) pads and personal computers (PCs) that connect with the financial institution’s server using a personal dial-up or other data connection. All of these technologies require expertise and capital investment in acquiring the technological equipment which is a challenge to the retail outlets that have limited capital (Ivatury, 2018).

The study implies rural areas without a financial capacity for a formal branch. This is true of remote areas with a high number of people who do not access banking services (Siedek, 2018). This has prompted stakeholders such as policy makers and regulators to give the model attention even though banking regulations still stifles its growth

The study implies that profitability of banks is inceasing by increasin sales in the market market and therefore, bank agency stimulate the increase of sales and increase of customers which will led to the increase of profitability of banks. The Kenyan business environment is very dynamic and it has been reported to be having very stiff competition among the financial players and the banking industry as a whole leading to no exception.

4.1.4 Effect of operational flexibility on financial performance

The study findings indicate that most of the respondents have witnessed that financial performance is influenced by the operational flexibility.

The study implies that one of the indicators of financial performance is understanding of customers’ behavior and be able to retain the customer that you have which will keep them purchase your products repetitively whereas, this will influence the operational flexibility. operational flexibility influenced profitability but also the development in the market created more chances for a bank and thus earning more profits. According to Diniz, Birochi and Pozzebon, (2012) discovery indicated that growth had a remarkably positive relationship with profits and larger banks have a larger share of their income in terms of non-interest income. The operational flexibility will give the bank size. This comprises of net asset deposits, capital, number of loan accounts and number of deposits.

The study implies that bank should highly concentrate on increasing the mixed flexibility of their institution but also the sales and the profit margin of the institution by ensuring they have a good customer base. This will positively increase financial performance of the bank. A larger market share also means there will be more power to the bank in controlling the prices and rates of services it offers to the customers. Ndiema (2018) discovered that the more the market share, the greater the bank's control over its prices and the services it offers to customers. Kamau (2018) and Ndwiga (2016) pointed out that market share has unfavorable relationship with profitability.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 An Overview

The main objective of the study was to assess the contribution of agency banking on financial performance of commercial banks in Moshi Municipality. This chapter therefore, summarized the findings of the study as analyzed and presented in chapter four basing on the study objective(s). This chapter also provides clear recommendations to decision on how banks will increase their financial performance. Furthermore, the chapter present conclusions based on the study findings, recommendations and areas for further related research.

5.2 Summary of the Study

5.2.1 Effect of Commission earned on financial performance.

The study findings indicate that most of the respondents who are employees do appreciate and understand on how banks earn commission from the agency activities based on how they provide their services. The study findings indicates that most of the respondents who are employees do appriciate and understand on how commission earned can increase agency encouragement as their performance is motivated by their earnings. The study findings indicates that most of the respondents who are employees they do appreciate the way that banks do treat their agency banking and support them in increasing agency performance which at the end increase the sales.

The study findings indicates that most of the respondents who are employees do congratulate the banks for arranging the commision earned to be pay tied to revenue and increase agency performance as it is influencing financial performance of the bank. The study findings indicates that most of the respondents who are employees understand that one of the influence of financial performance in the commecial banks is the commission earned that most of the times favour agency.

5.2.2 Effect of low transaction cost on financial performance

The study findings indicate that most of the respondents who are employees accept that they are charged low cost when occurring bank services thus it influences them in increasing their purchase. The study findings indicate that most of the respondents who are customers have accepted that considering most of the time that they receive services from the agency bank they obviously get their services on time. The study findings indicate that most of the respondents who are employees appreciate the way that agency bank does save the time of the customer by providing services on time and in a hurry but in a careful way. The study findings indicate that most of the respondents who are employees admit that they are very satisfied with the cost that are set by the agency banker for their services and that the cost is fair to both parties. The study findings indicate that most of the respondents who are employees admit that most of the time they prefer low transaction cost when making a transaction.

5.2.3 Effect of financial service accessibility on financial performance

The study findings indicate that most of the respondents who are employees have witnessed that adoption of banking system influence the financial performance and hence banker have truly tried their best in adopting it. Further, the study findings indicate that most of the respondents who are employees are in remote areas and they need bank services therefore it is a great opportunities and potential to agency banking in trying to reach the remote areas to provide services.

The study findings indicate that most of the respondents who are employees witness that in remote areas banks are few in numbers and therefore, bank customers who are found in remote areas also need bank services. The study findings indicate that agency banking motivates the performance of banks as they provide bank services in remote areas and reach customers which it is hard for banks to reach them. The study findings indicate that most of the respondents who are employees have witnessed that financial service accessibility to them motivate them to access financial services as banks have created smooth environment for the accessibility

5.2.4 Effect of operation flexibility on financial performance

The study findings indicate that most of the respondents have witnessed that financial performance is influenced by the operational flexibility. The study findings indicate that most of the respondents who are customers support that increase in mixed flexibility led to the increase in financial performance which also can affect the increase in sales but also increase in profit margin. The study findings indicate that most of the respondents who are employees admit that reduce unpredictable cost will increase financial performance of the bank but also the sales unit. The study findings indicate that it is very possible for employees to increase the volume flexibility due to the product or service that they use. The study findings indicate that most of the respondents responded that new product flexibility as it increases operational flexibility. This is one of the good indicators of financial performance as it increases sales and also profit margin.

5.2.5 Financial performance

The study findings indicate that if the financial institutions will consider the operating income, it will positively increase the financial performance. The study findings indicate that most of the respondents who are customers if there will be an increase in sales unit can positively increase the performance of financial institutions such as banks. The study findings indicate that most of the respondents who are customers suggest that increase of financial performance is influence by the increase of growth of the institution. The more the increase in growth of the bank, the more the increase financial performance.

5.3 Conclusion

The study implies that providing enough commission earned to their agency which benefits them, it is easy to understand the performance and tendency of their sales. However, of great interest is that while the mobile phone offers several features including the possibility of mobile banking, almost half of the world populations have either failed to embrace mobile banking and financial services or they have been deprived of the same. The study implies that having record of your sales from agency it is a great advantage as bank system will be aware of the bank sales and their full information. In addition, the record will also help to identify the performance of the bank as they will be aware of the increase or decrease of their sales. The study implies that agency performance can positively increase sales of the bank products as the agency do their best in order for them to increase their commission earned. By creating greater access to financial services, agency banking has in turn increased the level of deposits for banks. Providing the ‘un-banked’ access to safer and cheaper financial services has led to banks recording more deposits than ever before. The study implies that having verification of your customer it ensures that bank will be capable of understanding its activities better and gain more information about their customer as they will be more close to their customer. The study implies that the commission earned in the bank activities in influence and boost the performance of the banks and stimulates fairness between the banks and their agency in term of bank activities

The study concluded that agency tries their level best to provide quality services but in a very short time which will automatically increase as years go. The study concluded that customer prefers to accrue service that save their time and avoiding waste of time unnecessarily. The study concluded that having fair cost that are set for agency services can fully satisfy customers and increases the number of new customers to the bank system as they consider better prices when purchasing the bank services. The study concluded that in order for the banks to gain more customers and retain the ones that they have, they should consider lowering transaction cost for their customers.

The study concluded that agency banking is so in need of their financial performance therefore, they will do their best to adopt banking systems and maintain a great momentum and spread at an unbelievable pace. The study concluded that having agency banking who are willing to provide services in remote areas where there are no banks, enables getting enough customers as most of them are truly found in remote and find bank services so far to them. The study concluded that agency banking is very useful and have their importance in banking industry as they provide services to the remote areas where there are no banks and satisfy bank customers as they should be. The study concluded that profitability of banks is increased by increasing sales in the market therefore agency bank stimulates the increase of sales and increase of customer which will led to the increase of profitability of banks. The study concluded that the easy financial service accessibility in the bank activities influence and boost the performance of the banks and it stimulates increase of customers in bank.

The study implies that one of the indicators of financial performance is understanding of customers' behavior and be able to retain the customer that you have which will keep them purchase your products repetitively whereas, this will influence the operational flexibility. The study implies that bank should highly concentrate on increasing the mixed flexibility of their institution but also the sales and the profit margin of the institution by ensuring they have a good customer base. This will positively increase financial performance of the bank. The study implies that for any financial institution or any institution that provide service they should consider reducing unpredictable costs. The study implies that in the financial performance of banks, volume flexibility is one of the most critical factors which increase the performance of banks. The study implies that the increase of customer base can together increase the new product flexibility as it increases operational flexibility in the financial institutions such as banks which automatically will led to increase in financial performance. This system of measurement is used to give a more general view of the size of a company according to its market and its competitors.

The study implies that banks and other financial institutions should clearly deal with operating income increasing the financial performance. The study implies that banks should ensure the activities that will increase the sales unit of bank if their goals is to increase the financial performance in the bank. The study implies that if banks can well control their growth margin it will positively increase the financial performance. Increase of growth margin is also related to the increase the customer base, market penetration but also the market share

5.4 Recommendations

The study identified both strengths and weakness related to agency banking and financial performance. Recommendations were therefore made basing on the basis of the key issues, particularly those negatively impacted financial performance as listed.

(v) From the summary and conclusions, the study recommends that commercial banks should continue providing enough commission earned to their agency which benefits them and increase bank performance, it is easy to understand the performance and tendency of their sales volume. This will enhance fair market competition and thus barring financial institutions from customer exploitation.

(vi) The study recommends that the financial institutions should continue offering low transaction rates within their local agency points. The study also found that agency banking reduces the cost of offering financial services and therefore, recommends that commercial banks should also lower the charges of making transactions in agency banks. This will help to increase the number of transactions made by customers through agency banking. Adequate capital maintenance enables any financial institution to be stable and avoid running into distress and therefore, the bank should require the maintenance of higher floatation costs by the agent banks. This creates more confidence on the customers in transacting through the agents. This will increase the transactions though agents and hence improved profitability.

(vii) The study recommends that the banking institutions should consider intensifying the agency banking network which will ensure services accessibility by customers and thus improving financial performance. The study recommends that banking institutions should consider coming up with strategies for improving the already captured market. This will award more power to the bank in controlling the prices and services it offers to its customers. The study also found that agency banking increases the number of transactions made by customers. This in turn helps the customers to save more and hence the amount of loan increases. This helps to improve the financial performance of commercial banks.

(viii) The study found that the agency banking improves accessibility to financial services. The study therefore, recommends that commercial banks should increase the number of agents in estates and in the rural areas. This can be done by reducing the requirements of becoming a bank agent. The study also recommends that the government should improve security in towns, estates and in the rural areas. To improve the adoption of agency banking, commercial banks should improve customers perception by making more advertisements and increase promotion activities. This will especially improve adoption like its competitors.

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