EFFECT OF AGENCY BANKING ON PERFORMANCE OF COMMERCIAL BANKS: A CASE OF NATIONAL MICROFINANCE BANK (NMB) - ARUSHA

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The work contained within this document has been submitted by the student in partial fulfilment of the requirement for Award of the Masters of Business Administration.

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CERTIFICATION

I, the undersigned certify that I have read and hereby recommend for acceptance by Institute of Accountancy the dissertation entitled: **Effect of Agency Banking on Performance of Commercial Banks: A Case of National Microfinance Bank - Arusha** in fulfilment of the requirements for the degree of Masters of Business Administration offered at the Institute of Accountancy Arusha.

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(Supervisor Signature)

...

(Supervisor Name)

Date ………………………………

CERTIFICATION

I, **Zebedayo Israel Mwasakabeto**, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any university for similar or any other degree award.

Signature…………………………………………

Date…………………………………..

DEDICATION

I dedicate this research report to my lovely family including my wife and to all my children for their great support and encouragement during the time of my study.

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I most importantly thank God for giving me the opportunity and resilience to diligently carry out the project. Many thanks to my Institute of Accountancy- Arusha including management and all staffs together with my supervisor Mrs Agnes Mtui for their guidance and support given to me, However the corporations I got from National Microfinance Bank (NMB)- Arusha is the crucial input element in this study. The completion of this work has been possible through the support and encouragement I have received from family especially my wife and friends for their support and encouragement given to me during the entire period. I would like to thank my moderator Solvason James for his insights and encouragement. Finally wish to sincerely thank my boss and immediate colleagues for their patience and understanding during this period.

ABSTRACT

Agency banking is the vital means in banking industry for Banks to serve their customers at lowest costs with efficient and effectiveness. Agency banking is a type of branchless banking that allows the traditional banks to extend their network of branches and services in a cost-efficient manner through authorized agents. This has investigated the effect of agency banking on performance of Commercial Banks using National Microfinance Bank (NMB) – ARUSHA as a case study. Simple random sampling method was used to select respondents. Data was collected by use of questionnaires and the data analysed by the aid of Statistical Package of Social Scientists Program version 25. The findings show that low transaction cost has significant relationship with Commercial Banks performance with a coefficient of 0.411 this means 41% of correspondents agreed that low transaction cost has positive impacts to commercial banks performance. Also, financial services accessibility has a significant relationship with Commercial Banks performance with a coefficient of 0.677 this validates that 68% of correspondents in field agreed that financial services accessibility has positive effect towards the performance of commercial banks. On top of that Level of deposits volume also has a significant relationship Commercial Banks performance with a coefficient of 0.661 and this assures that there is positive relationship between level of deposit volume and performance of commercial banks by 67%. Generally, the study recommended that; commercial banks should fully embrace agency banking since it plays a greater position in increasing performance of Banks but also it reduced costs the fact that will increase profit to the company. Since there is using of technology in agency banking service deliverance so Banks must adopt improved technology for information security volume of to make it more reliable to the customers. Also, this study recommended that financial education should be provided to help customers understanding the operations of agents and assure the security of their money since it will lead into increasing performance of Agency banking the fact will leads into increase of Bank’s performance.

LIST OF ABBREVIATIONS AND ACRONYMS

ATM	Automated Teller Machine
GDP	Gross Domestic Product
IAA	Institute of Accountancy Arusha
IT	Information Technology
MBA	Master in Business Administration
NMB	National Microfinance bank
PIN	Personal Identification Number
ROA	Return on Assets
ROC	Return on capital
ROE	Return on Equity
ROI	Return on Investment

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter consists of the sections namely the background information of problem, statement of the problem, objectives of research, research questions, hypothesis, and scope of the study, limitations and significance of the study.

1.2 Background to the Study

Agency banking means providing financial products that banks offer at locations away from traditional banking premises Modupe, (2010). Agency banking is the contractual arrangement whereby the approved financial institutions use third parties to supply financial products to clients according to BOT, (2014). Agency banking is a part of the broader eBanking area. This requires a contractual agreement within the banking continuum between commercial banks and selected agents to provide specified financial services. Agents are remunerated on a commission basis, depending on the transactions that are carried out. Agent banks are liable for transactions such as cash withdrawal; cash deposits; payment of bills; bank balance enquiry; cardless deposits (via sim-banking); disbursement and repayment of loans; issuance of mini bank statements; payment of salaries; and forced change of pins BOT, (2014). Financial performance tracks revenue generation using company assets. Agency banking has only been suitable for commercial services in the earlier years, but this status has changed over the years to allow other non-bank financial institutions to open agents to better serve Brazilian people Mckay, (2015). Commercial banks ' success is directly linked to how easy access to the financial services is for customers. Failure to serve the public effectively will portray a weak sector of banking or financial systems leading to a decline in the financial performance of those banks.

Many banks and financial services regulations implement Agency Banking in order to enhance financial inclusion and encourage financial deepening and innovation. Commercial can enter remote areas linked to a high percentage of unbanked persons. Manager banking includes financial services distribution channels, using technology. Bank agents are obligated to provide customers with receipts for all cash deposit and withdrawal transactions. In addition, it is expected that the main agency will provide effective ways to identify agents and collect customer feedback, such as sending customer notification through mobile phones. In the adoption of agency banking, the ground breaking countries include; Brazil, Kenya, India, Philippines and South Africa Monica, 2016).

Agency banking was introduced to boost financial inclusion and financial differentiation in the banking industry. Once people are financially active, reliable, high-quality financial services are available both formally and informally to non-banked people in a convenient way. Financial deepening has increased financial product sales to many consumers for economic growth enhancement. It generally means a ratio of money supply to GDP increased Monica, (2016). Commercial banks in Tanzania are profit-making institutions and thus the indicator of financial performance can be called income. Financial performance is the degree to which an organisation's financial targets are accomplished. Several financial ratios for measuring profitability were established. These include the Return on Assets (ROA), Return on capital (ROC), Return on Investment (ROI) and Return on Equity (ROE). Bank regulators and analysts used ROA and ROE to analyse industry performance and forecast market structure patterns as inputs into statistical models for forecasting bank failures and mergers and for a number of other purposes where a profitability measure is needed Mmari, (2015).

1.3 Statement of the Problem

Access to banking services was often a rigorous endeavour, especially in rural areas of Tanzania according to Chacha, (2015). To receive services from banks, customers needed to travel long distances and make queues at banking halls. Because of this, commercial banks tried to move closer to customers through the establishment of local city agents. Kithuka, (2018) Agency banking has provided greater access to formal banking services, and is a cheaper alternative to traditional branch-based banking by using delivery platforms such as retail outlets, mobile phones, internet and automated teller machines (ATMs). Tanzania Post Bank, Equity Bank, Cooperative

Rural and Development Bank, National Bank of Commerce and National Microfinance Bank are some of the banks that have rolled out the agency model. The reason for adopting agency banking was to enable Tanzanian financial institutions to take advantage of the cost savings and accessibility that the model of agency banking has brought about Maduhu, (2015). According to the BOT, (2016), the retail deposits among commercial banks that had embraced agency banking have grown considerably. Nevertheless, the connection between commercial bank success and agency banking has yet to be clearly established. On addition Monica, (2016) conducted an on going study of the relationship between agency banking and banks ' financial performance and found a negative and poor correlation between the two. Mwangi ,(2017) sought to establish the role of agency banking in the success of commercial banks in Kenya and found that the cost efficiency (infrastructure, human resources and security costs) associated with agency banks had a positive effect on financial performance of banks. Kithuka (2018), studied factors influencing the growth of Uganda's agency banking and identified that its use has been driven by convenience of technology, accessibility and cost. The issue which arises is to whether the agency banking has succeeded in achieving the set objectives of the commercial banks. The queues in the banking halls may have reduced considerably, more accounts opened by the targeted populace and general financial services availed to the unbanked but have these agents significantly affected the performance of commercial banks? This study aimed and bridged the existing knowledge gap and giving more insight on the effect of agency banking on performance of commercial banks particularly National Microfinance Bank in Arusha.

1.4 Research Objectives

1.4.1 General objective

To assess the effect of agency banking on performance of Commercial Banks, a case of National Microfinance Bank (NMB) – Arusha.

1.4.2 Specific Objectives

i. To determine the effect of low transaction cost of agency banking on performance of Commercial Banks.
ii. To analyze the effect of financial services accessibility of agency banking on performance of Commercial Banks.
iii. To examine the level of deposits volume of agency banking on performance of Commercial Banks.

1.5 Research Questions

i. What is the effect of low transaction cost of agency banking on performance of Commercial Banks?
ii. What is the effect of financial services accessibility of agency banking on performance of Commercial Banks?
iii. What is the level of deposits volume of agency banking on performance of Commercial Banks?

1.6 Scope of the Study

The study will be restricted to the National Microfinance Bank - Arusha specifically the quest effect of agency banking on performance of Commercial Banks. The reason behind this selection is that National Microfinance Bank is among the Tanzanian banks which has adopted agency banking and want to know to what extent it has enhance the performance of the bank.

1.7 Limitation of the Study

The major limitations which the researcher encountered were confidentiality whereby some of important information was not readily available and easily disclosed by the respondents and another limitation was time constraints because the study was carried out within a short period of time in adherence to the deadline of the academic calendar of IAA. To counter such challenges, the researcher assured respondents of confidentiality of information and ensured that the information obtained was used for the purpose of research only. On time constraints, the researcher conducted his research using techniques that are time saving and within the city of Arusha for more convenience.

1.8 Significance of the Study

1.8.1 National Microfinance Bank and other Commercial Banks

This study is expected to be significance to National Microfinance Bank and Bank Sector as it will outline effect of agency banking on performance of Commercial Banks. Through this study manager of National Microfinance Bank and other Commercial Banks will be able evaluate their performance/profitability in relation to agency banking. It will also provide banks who are yet to venture into agency banking valuable insight on the significant effect that agency banking has on the financial performance; in a bid to guide them into adopting and managing their agency banking channels. This in turn maximizes their sales and be able to grow and become more competitive

1.8.2 Researchers and academicians

The study was a supply reference material for future researchers on other related topics. In addition, it will help other academicians who undertake research on related topics. Also the study will be useful to the researcher since it serves as the partial fulfilment of the requirement for the award of the Master Degree of Business Administration from Institute of Accountancy Arusha.

1.8.3 Bank regulators (BOT)

Moreover, the information from this study can be beneficial and usefully guidelines to policy makers and planners at various levels in the country to reduce the regulations and policies that do affect the performance of agents such as float restrictions hence lowering the overall performance of banks.

1.9 Organization of the Study

This study comprises five chapters. Chapter one unveils the problem which informs the study and its context. It provides the justification for the study. Chapter two presents a review of relevant literature, synthesis and research gap to the study. Chapter three describes the research methodology and procedures of data collection and analysis. Chapter four entails data presentation, analysis and discussions, while chapter five provides the summary, conclusions and recommendations of the study. References and appendices cover the last part of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides an insight into the theoretical and empirical environment in which the field of effect of agency banking on performance of Commercial Banks as well as Conceptual framework which will include independent and dependent variables under graphical structure

2.2 Definition of Concepts

Commercial Bank: A financial institution that provides banking and other financial services to their customers according to Sundaram, (2015). A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits, financial inclusion and providing loans to customers BOT, (2015).

Agency banking refers to contracting of a retail or postal outlet by a financial institution or a mobile network operator to process bank clients" transactions. It is different from a branch teller, since it is the owner or an employee of the retail outlet who conducts the transactions, ranging from: deposits, withdrawals, funds transfers, bill payments, account balance inquiry, receiving government benefits or direct deposits from employers Farzana, (2015).

Bank Agent refers to any third party acting on behalf of a bank (or other principal), whether pursuant to an agency agreement, service agreement, or other similar arrangement (Lauer, Dias, & Tarazi, 2011). Banking agents may include: pharmacies, supermarkets, convenience stores, lottery outlets and post offices (CGAP, 2016).

Bank performance is measured by profitability generated and this refers to the net income generated by corporations from gross revenues once the costs incurred have been deducted BOT, (2014). Generally, profitability is described as the relationship between the profits that an organization generated and the resources that the enterprise had to invest to achieve the said profits. Profitability ratios are used to measure how efficient the corporation is in converting resources invested into profits Alshatti, (2015)

Deposits: consist of money placed into banking institutions for safekeeping, these deposits are made to deposit accounts such as savings accounts, current accounts and fixed accounts Investopedia, (2017). The account holder has the right to withdraw deposited funds, as set forth in the terms and conditions governing the account based on mandate for accounts operations agreement.

2.3 Theoretical Literature Review

2.3.1 Agency Theory

Theory generated by Mwangi, (2015). Agency theory analyses the relationships between Financial institution owners and its Agents or third parties who are working on behalf based on contract agreed under commission payments. The key issues in agency theory centre upon whether adequate market mechanisms exist that compel managers to act in ways that maximize the utility of a firm's owners where ownership and control are separated. Under the terms of agency theory, a principal (P) passes on authority to an agent (A) to conduct transactions and make decisions on behalf of the principal in an effort to maximize P's utility preferences. Agency problems can arise if: P and A have different goals; P and A have disparate skills in evaluating A's performance; P and A possess different sets of information relevant to the managerial decisions A must make as a representative of P; or P and A have different degrees of risk aversion. At the core of agency problems is the fact that principals may not be able to monitor agents, either perfectly or costless, as to the agent's actions or the information behind those actions. This theory guided the researcher in investigate the effect of agency banking on performance of Commercial Banks.

2.3.2 Bank-focused Theory

The bank-focused theory arises when a conventional bank uses non-traditional low-cost delivery platforms to provide its existing customers with banking services Kapoor, (2010). Definitions range from the use of automatic teller machines (ATMs) to internet banking or mobile phone banking to provide clients of banks with certain specific banking services. This model is fundamentally additive and may be regarded as a moderate expansion of traditional branch-based banking. Although the bank-focused model provides advantages for the financial institutions concerned, such as greater control and brand exposure, it is not without its challenges. The primary concerns of customers are the quality of experience, identity and transaction protection, reliability and usability of the service as well as the degree of the personalization permitted. Banks address these issues by offering a branchless banking service with an easy-to-use interface, made safer with the aid of multi-factor authentication and other technologies, able to operate 365 days a year without interruptions Salvina, (2014). The bank-focused theory arises when a conventional bank is using non-traditional low-cost delivery platforms to provide its existing customers with banking services. This theory will assist the researcher in determine the effect of low transaction cost of agency banking on performance of Commercial Banks.

2.3.3 Bank Led Model

This model adopted by Kapoor, (2010) This model helps in understanding the effect of financial services accessibility of agency banking on performance of Commercial Banks, is such that agency's general arrangement can only require a bank to serve as a concept in establishing a relationship between agency banking. In the model, a licensed financial institution such as a bank is engaged in the provision of financial services through a retail agent to its clients. The bank usually creates products and services that are useful to its clients but, instead of undertaking to provide the same products and services to end users, transfers responsibility for providing the same products and services to an agent Ngugi, (2013). It is a model that enables a bank or bank partnering with other financial institutions to provide their customers with banking services by relying on the scalable and mobile banking network. This model only becomes feasible in cases where a financial entity such as a bank collaborates with an agency that it properly verifies Bello, (2013). The bank-led model is closely related to this particular study as it emphasizes the means through banks and others to promote the distribution to their customers of the financial services and products they have Onwe, (2015) explains that the bank maintains all customer account information in this form of models while the non-bank agent is involved in the field of service provision. Bank-led models give the banks the ability to significantly improve their customer service delivery. The model uses an established and focused diverse trading partner to enter a market that is distinct from that of the traditional banks. In addition, the Bank maintains the primary responsibility in this model to be the pioneer in activities such as branding, marketing and customer relationship management according to Alliance for Financial Inclusion, (2015). It offers a distinct alternative to traditional branch-based banking, the bank-led model offering customers the ability to transact at retail agent points. In the model, the financial institution does manage the customer relationships and only offers the service delivery service to the agents if necessary Merritt, (2010). In this philosophy, the bank is the major financial services provider, and customers hold their accounts with the bank. Retail agents communicate face-to-face with the customer and perform cash handling functions just as a bank teller performs deposit collection and withdrawal functions for customers Stachen, (2016).

2.3.4 Non-Bank Led Model

This is a different model to the bank-led one, where parties that are not banks act as chief executives in forming agent banking associations. There is no bank institution in this model but a principal who can either be a mobile phone network service provider keeps customer information while the retails act as a point of consumer access to the services provided in the organization Ngugi, (2013). In the model, a central bank approval company provides consumers with mobile payment services Bello, 2013). Non-bank-led models include digital Internet financial services and telecommunications providers Buckley, (2014). This model has features that classify it as both a financial and a payment tool, and it does contract agents either directly or as intermediaries, and has e-money accounts for customer money kept by the main company CGAP, (2006). In the non-bank model, the bank itself never comes into the picture apart from cases where it may be appropriate to use the bank to safeguard the surplus funds in the model Wambari, (S 2009). Consequently, the customers do not at any stage interact with the bank in this model for the banking transactions in which they participate. It is the non-bank firm like an operator of a mobile network service that enables all the banking functions in this model CGAP, (2006). The business is the central catalyst of all of the system's operations, practically from marketing to branding and customer account management Alliance for Financial Inclusion, (2013). As mentioned earlier, this form of agent banking does not involve the banks. Telecommunications companies and, in some cases, credit card issuers are transaction facilitators and banking operators based on Onwe, (2015). In this model, consumers have to negotiate with non-bank companies like the mobile network service providers according to Kengere, (2014). The agents in this model therefore work much like those in the banked model. They involve in the taking and disbursement of cash, which in this context is termed as loading and offloading of money in the e-money system, and which in typical business language is known as the buying and selling of cash. The Nonbank-led model is found relevant to the study as it explains how agent deals with level of deposits volume on behalf of the bank.

2.4 Empirical Literature Review

Jadiyappa et al. (2020) carried study entitled multiple banking relationships, agency costs and firm value: evidence from India. The authors use multivariate panel regression to examine the hypotheses. The conditioning effect of the incentive to govern (the amount of average bank lending) is modelled using an interaction variable. Based on the result of the Hausman test, the authors employ two-way fixed effects estimator to estimate the coefficients. First, the negative relationship between multiple banking relationships and firm value holds true among Indian firms. Second, the authors show that this negative relationship is lessened for firms with high average bank debt or higher free cash flows. The analyses suggest that these moderating effects are related to a reduction in the free rider problem rather than a decrease in financial constraints. However, these results are only significant among larger firms.

Mukuvari, (2019) scrutinize the impacts of Alternative Business Channels (ABC) on financial performance of in the case study of ZB bank. The study employed descriptive research design. Data collection was done through the use of questionnaires and secondary sources and analysed using statistical tool. Alternative banking channels leads to competitive edge against competition .24hrs a day and 365 day a year banking result in convenience thus in the long run create customer loyalty. Findings concluded that alternative banking channels for example ATM, internet banking, mobile banking, agency banking and payment cards has a great effect on the bank financial performance because revenue will increase, lower cost of transactions, increase bank asset, convenience and increase efficient The of relationship of alternative banking channels and performance of ZB bank is given in the table 4.9.1 where by N is 55 of respondents and the significant level is 0.05, the findings shows that independent variables have a positive high correlation to dependent variable equal to .621** and the p-value is .001 which is less than 0.05. When p-value is less than significant level, therefore researchers conclude that variables are correlated. As conclusion alternative banking channels positively impacted financial performance of banks as witnessed by ZB bank. This indicates that there's an important positive relationship between alternative banking channels and performance of ZB bank. In conclusion alternative banking channels positively impacted the performance of the bank as witnessed by of ZB bank.

Ahmed, (2018) ought to investigate the effect of financial innovation on the performance of commercial banks in Kenya. The study was founded on the resource-based theory, the transaction cost innovation theory and the constraint-induced financial innovation theory. The study adopted a descriptive research design. The study targeted all the 16 commercial banks which have embraced all the financial innovations under the study in Kenya. The study used primary data collected using structured questionnaires which were administered to the senior management employees and secondary data obtained from the Central Bank of Kenya Bank Supervision reports. Descriptive statistics were used to describe the quantitative data. Pearson's correlation, analysis of variance and multiple regression analysis were used to establish the relationships among the study variables. The study found that agency banking, mobile banking, internet banking as well as ATM banking had a positive and statistically significant effect on the performance of commercial banks in Kenya. Based on the study findings, the study concluded that financial innovations namely agency banking, mobile banking, internet banking as well as ATM banking affected the performance of commercial banks positively and significantly through various channels such as increased profitability, reduced costs of banking and other infrastructural costs, increased productivity and efficiency, increased customer outreach and customer relationship management, increased accessibility to services as well as quality of services. The study recommends that commercial banks should expand the number of ATM outlets even as they expanded their bank branches; they should increase customer sensitization on the use of internet banking through making the aware of the benefits and how they can use them in making their banking transactions safely; they should increase the number of bank services and products provided by agency outlets since the number of customers using these outlets had continued to increase significantly over the years and that banks should invest adequate capital and knowledge resources towards improving existing financial innovations.

King'ang'ai et al (2016) investigated the effect that banking through agents has on performance of banks financially in East Africa's Rwandan nation using a sample of the four Rwandese commercial banks in operation as at 31st December 2015. The study findings revealed that regulating agency banking, low transaction cost through agency banking, access of services related to banking by customers through the bank agents and growth in the overall in the market positively affect the performance of banks financially in the country. The results of the multiple linear regression model established a positive significant association the agency banking effect and the performance of commercial banking institutions in Rwanda.

Caitlin, (2013) conducted a research study in Brazil with an aim to establishing if agents have an improving effect on financial inclusion. The study found that mostly in Brazil distance and accessibility is not a big challenge, with quite a large percentage of the Brazilians agreeing that they bill at agent points. The study also established that an insignificant portion of the nation's population utilize the agency banking platform to open and also make transactions on bank accounts, as well as access credit facility. The study also revealed that majority of the users of the platform are the poor, people of low levels of education, mostly work in the nation's informal sector, and a large percent of them as being women. Finally, the study revealed that the households that are unbanked visiting an agent on regularly basis represented an opportunity missed in providing financial services to under banked Brazilian people through this agent banking.

In a research study work by Hawkins ,(2012) to establish if agency banking had an effect toward improving financial inclusion in the South African nation. In the findings, it was concluded that although not sufficient, there was a need to address the various barriers that hinder proper functioning of agency banking in order to improve financial inclusion. Besides, this study proposed that regulatory mechanisms should be in place to improve financial inclusion. Per the study, such mechanisms could include banking licensing, monitoring, and effective measurement of financial inclusion on a regular basis for the sector to work more efficiently.

Sammy, (2016) assessed the contribution of agency banking on financial performance of commercial banks in Kenya. His study was guided by counsels of previous researches undertaken abroad in an effort to find out the contributions of agency banking on financial performance of the commercial banks in Kenya. This study adopted a descriptive survey. The study found that the move by the central bank to regulate agency banking had a positive influence on the financial performance of commercial banks in Kenya. The study also found that low transaction cost through agency banking had a positive impact on the financial performance of commercial banks in Kenya. The study found that financial services accessibility by customers through baking agencies had a positive impact on financial performance of commercial banks in Kenya. The study found that increased market share had a positive effect on the financial performance of commercial banks with many banking institutions indicating that increased market share allowed a company to achieve greater scale in its operations which generally improved its profitability.

Khamis (2016) studied the effect that agency banking strategies have on customer services in commercial banks. Referring on such aspects as reduced time in the bank hall queues, reduced service costs, and personalized banking services influence the services rendered to customers, concluding that good agency banking and customer service improvement relate strongly. Further, the study found that bank agents significantly improve the overall efficiency and customer service quality in commercial banks. As a result, the study found it necessary for banking institutions to find ways to ensure that their agents are well motivated, proposing that use of performance-based bonuses could be one such ways.

Gekara (2015) evaluated how agency banking affects performance of bank business using a sample of 32 agencies in Thika municipality and collected using a questionnaire. The study also used the linear regression model to analyse the association between the agency banking and performance. The study established a head start in licensing has created concentrated monopoly in competing banks thus loss of other agency business in the process. The study also established that it is almost impossible for the agents to maintain sufficient cash as well as e-money floats as balance to allow them the opportunity to meet customer withdraw and deposit demand all the time may discourage clients from frequenting the other business. The study revealed that lack of in-depth knowledge and modern skills of banking industry has affected speedy growth of the agency banking and the other business they operate.

Mutie (2015) assessed the role of agency banking in increasing accessibility to banking services and helping in decongesting the banking halls in Kitui, Kenya through an analysis of the costs and benefits raised by agency banking and how these are distributed among the stakeholders. The study used descriptive survey design and a sample of 100 account holders in Equity bank in Kitui. The study findings established that agency banking had availed banking services closer to the customers leading to more accessibility hence saving the customers the transport cost. The study also found that agency banking is efficient in terms of transaction cost and time saving and most of the respondents were impressed by their performance.

Oloko, (2015) evaluated the possibility of innovative technology having an effect in the performance of commercial institutions in the country. Their study focused on establishing the effect of mobile phone banking, ATM banking, and other platforms currently being used by people to do banking such as online banking as well as agency banking on the performance of financial banks in Kenya using a target population of 43 Kenyan banks. By use of multiple linear regressions method to analyse the data the researchers concluded that these banking platforms effected financial performance of the sampled banks positively for a period of five years, 2009 to 2013.

Musau, (2015) researched on the how Kenyan banks utilize agency banking. By use of descriptive research study design, the researchers consensually included all the banks across the country which had taken the initiative to roll out to the agency banking. They used questionnaires for the data collection, and for the analysis employed the use of inferential descriptive statistics method. They established that aspects such as availability, regulation of the agencies, the infrastructure to support the smooth running of the agency, and security issues were of critical influence in regard to how banks viewed the agency banking platform. The study concluded that it is paramount for banks to have greater attention to security issues and also to employ proper methods in the vetting of the persons they mandate with the responsibility of becoming banking agents.

Wanyoike & Njogu, (2014) conducted a research study to assess the effect of customer levels of satisfaction on the market penetration strategies used by agency banking at the Nakuru branches of the Kenyan Cooperative Bank. The study employed the use of a descriptive survey study design and a sample 400 clients having access to Cooperative bank banking agency outlets in Nauru Town, with questionnaires being used as the method of data collection. The study findings showed a strong correlation in the positive direction between the halving of a running account in the bank and payment of school fees and also in regard to service enquiries by clients, cash deposit as well as money transfer, the study concluded that customers were happy with services offered by bank agents.

2.5 Research Gap

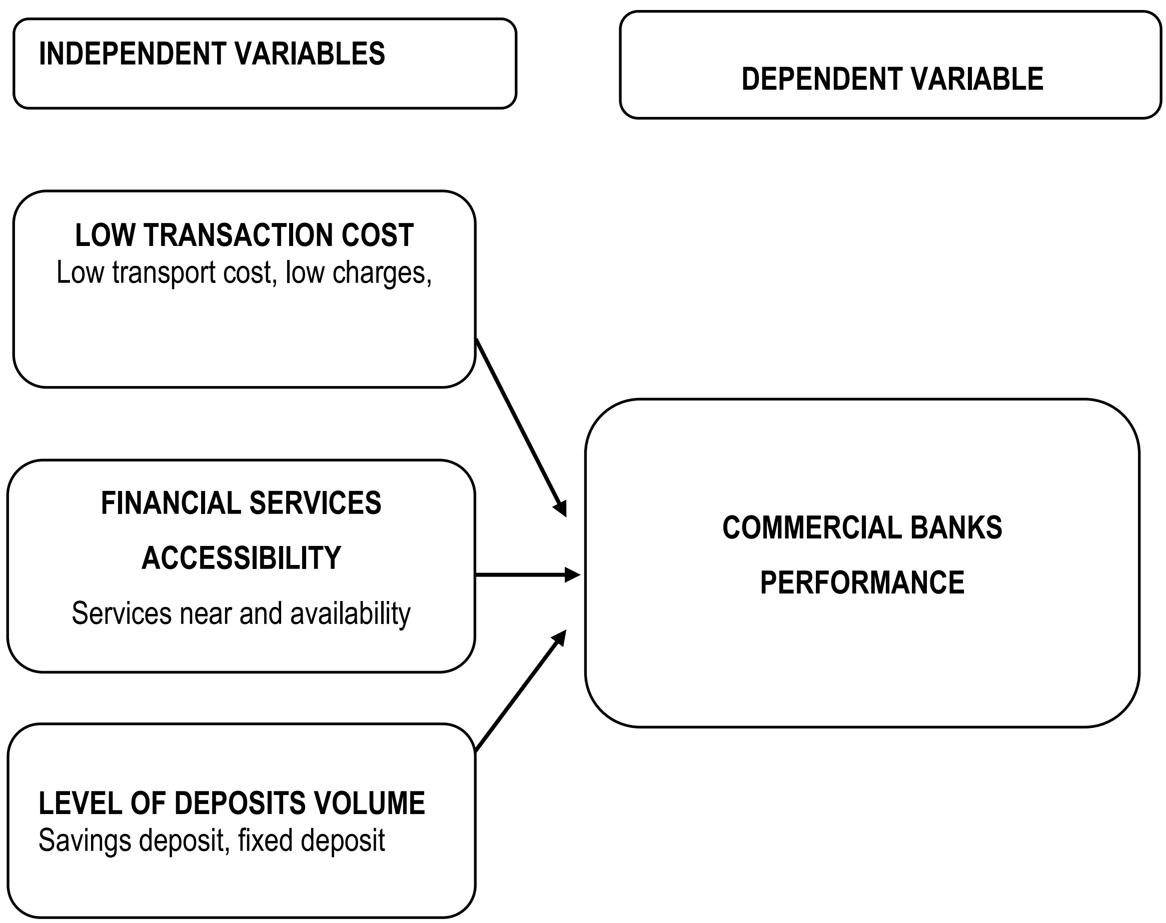
Most of the studies by various scholars in various nationalities have been reviewed and most of them acknowledge agency banking is a revolutionary innovation whose main aim is financial inclusion. However, most of the reviewed studies examine the effect of agency banking on financial inclusion and customer satisfaction. Other available studies also focus more on the challenges of agency banking and the factors that influence the performance of agency banking.

Up to date the researcher not yet seen the study analysed the effect of Agency banking on performance of commercial bank in Tanzania, So the study focused on the assessment of relationship between agency banking and performance of commercial banks in Tanzania. Hence the study aimed filled this gap by establishing the relationship between agency banking and performance of commercial banks in Tanzania.

2.6 Conceptual Framework

Conceptual framework of this study explains relationship between independent variables and dependent variable. Independent variables in this study are low transaction, financial services accessibility and level of deposits volume. Dependent variable of this study is Commercial Banks performance.

Figure 2.1: Conceptual Framework



Source: Researcher *2020*

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology, which was used to conduct the study. It further describes the area of the study, research approach, population, sample, sampling techniques and source of data and data analysis and the validity and reliability of the study used.

3.2 Research Design

Research design relates to the overview, plan or system used to provide responses to the issue of study. It indicates the inquiry plan and structure according to Bhattacharya, (2016). This study used descriptive research design. This research employed descriptive research design because the nature of this study is to evaluate and describe the effect of agency banking on performance of Commercial Banks.Descriptive research relates to a scientific research method in which information are gathered and analysed to define the present circumstances, terms or interactions Kothari ,(2015)

3.3 Area of the Study

The study was conducted at Arusha region, specifically at National Microfinance Bank in Arusha. The reason behind this selection is that National Microfinance Bank is among the Tanzanian banks which have adopted agency banking and want to know to what extent it has enhance the performance of the bank. The reason for choosing this area is that it is very familiar and accessible to the researcher and was easy to get the information needed in data collection. The target population comprised a total of 71 employees which was drawn from all departments of NMB – Arusha including few Agents found in Arusha.

3.4 Research Approach

Kothari (2015) emphasized that there are two basic approaches to research are quantitative and qualitative approach. This study used both quantitative and qualitative research approach where by Quantitative research involves the use of computational, statistical, and mathematical tools to derive results Kothari, (2015). This study used quantitative research approach because this method helped researcher to quantify the problem and understand how prevalent it is by looking for projectable results to a larger population. Also, the researcher used qualitative approach to analyse the data collected from field. Quantitative research is a structured way of collecting and analysing data obtained from different sources. However Qualitative approach was used for seeking the quantitative data through closed questions which appeared in questionnaires and also it helped to seeking structured responses that could be summarized in numbers like percentages and averages.

3.5 Sampling Techniques and Sample Size

3.5.1 Sampling Techniques

The study used simple random sampling techniques in selecting respondents. Simple random technique was used to obtain respondents of the study. Simple random sampling technique was used because each individual in the sample has an equal probability of being selected Saunders et al, (2015). Each and every respondent from target population in this study had an equal chance to be included in this study since the sample was selected based on purpose of the study.

3.5.2 Sample Size

Sample size is finite part of a statistical population whose properties are studied to gain information about the whole population According to Krejcie & Morgan, (2010) also sample size is an estimation method provided a given number of population and its sample size. The determination of sample size is a common task for many organizational researchers. Appropriate and adequate sample sizes influence the quality and accuracy of research. On the basis of the study, a sample size of 52 employees from all departments National Microfinance Bank - Arusha was employed for the study. Because of the time period of this study, researcher considered this sample size as suitable because he was able to administer the questionnaire using the sample size of the 52 employees. The following table summarizes the total population and the corresponding sample which was taken from each department. Sample size was calculated by the following formula generated by Krejcie & Morgan, (2010);

$$\mathrm{n} = \frac{\mathrm{N}}{1+N.e^2} \quad n = \frac{71}{1+71*0.07^2} = 52$$

Where n = number of samples, N = total population=71; e = standard error of sampling (7%) is tolerated. By entering each value of the variable into the formula (1) above, obtained large sample size of 52 respondents. The sample size is in line with argument of Hair *et al* (2006) who state that a research study designed to reveal factor structures should have more observations than variables, and that the minimum absolute sample size should be 50 observations.

Table 3.1: The Targeted Sample Size

Respondents	**Population**	**Sample size**
Department of Marketing	8	5
Agency banking department	15	8
Bank Agents from NMB	21	16
Department of Customer Service	12	10
Department of Finance	11	10
Department of Information Technology	4	3
Total	**71**	**52**

Source: Researcher, (2020)

3.6 Data Collection Methods

Research methods may be understood as all those methods that are used by the researcher in conduction of research Kothari, (2015). This study relied heavily on primary data which was collected by use of structured questionnaire. Primary data refers to the data which collected afresh and for the first time and therefore happen to be original in character Kothari, (2015). The questionnaire was appropriate since the researcher did not need to be present to collect the data, since the study covered samples from a wide area of National Microfinance Bank - Arusha. Questionnaires were distributed through 'drop and pick' method and in some cases by email.

There was follow-up by to ensure that questionnaires collected on time as well as to assist respondents who faced difficulties in completing the questionnaires. Kothari (2004) defined secondary as a source that provides second hand data or information Secondary data was gathered from various sources include both published and unpublished sources such as books, journal articles (printed and electronic) research reports, dissertations, seminar and conference proceedings. This technique was used to complement the questionnaire as a tool for collecting data.

3.7 Pilot Study

Before administering the questionnaire, the researcher conducted a pilot test involving conducting a preliminary test of data collection tools and procedures to identify and eliminate problems, allowing programs to make corrective changes or adjustments before actually collecting data from the target population. The researcher conducted a pilot test among ten members of the target population in order to identify inconsistencies with the research instruments in regard to the research questions and research techniques which was then adjusted and modified. This method was chosen because it is very economical and fairly accurate.

3.8 Data Analysis

According to Wambura, (2011) Data analysis is a process of assembling or reconstructing the data in a meaningful or comprehensive fashion. It is the process of examining the collected raw data and detects errors and corrects them. Data was cleaned, coded, entered and analysed using Statistical Package for Social Science (SPSS, Version 25.0). SPSS was used because it is fast and flexible and provides more accurate analysis resulting in dependable conclusions. Technically speaking, data processing implies editing, classification, coding, and tabulation of collected data so that they are amenable to analysis Kothari, (2015). Data analysis involves computation of certain measures along with searching for patterns of relationships that exist between the dependent variable and independent variables. The data was analysed according to variables and objectives of the study. Descriptive statistics was used to analyse, present and interpret data. Descriptive analysis involved use of frequency distribution tables and cross tabulation which was used to generate values between dependent and independent variables used in the study.

3.9 Validity and Reliability of Instrument

3.9.1 Validity of Instrument

Validity is the appropriateness, correctness and meaningfulness of the specific references which are selected on research results (Wallen, 2004). According to Mugenda (1999), validity is the accuracy and meaningfulness of inferences, which are based on the research results. It is the degree to which results obtained from the analysis of the data actually represent the variables of the study. Content validity instrument provides adequate coverage of the topic under study (Kothari, 2004). On the validity of the instrument, Kaiser-Meyer-Olkin was used. The result of Kaiser-Meyer-Olkin was 0.703 which entail that data collected were valid as suggested by Crano (2009) who argued that Kaiser-Meyer-Olkin should be either 0.6 or above.

Table 3.2: KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.703
Bartlett's Test of Sphericity	Approx. Chi-Square	102.365
	df	6
	Sig.	.000

Source: Field Data 2020

3.9.2 Reliability of Instrument

Reliability is concerned with consistency, dependability or stability of a test Nachmias,(1996). Reliability can be tested using the split-half form, where items are grouped into two and then correlated with the Spearman-Brown formula. The researcher will measure the reliability of the questionnaire to determine its consistency in testing what it was intended to measure. Reliability of the data collection instrument was calculated using Cronbach's Alpha to get the whole test reliability. The results showed that Cronbach’s Alpha for each item was above 0.6. This value acceptable as by George & Mallery (2003) that when Cronbach' alpha is greater than 0.9 (>0.9) it means that the internal consistency reliability is excellent. When it is greater than 0.8 (>0.8) the reliability is good; while greater than 0.7 is acceptable and greater than 0.6 is still acceptable.

Table 4.2 Reliability statistics

Reliability Statistics

	Cronbach's Alpha	N of Items
Low Transaction Cost	.769	5
Financial Services Accessibility	.610	7
Level of Deposits Volume	.719	4

Source: Field Data 2020

3.10 Ethical Considerations

Cohen et al (2010) stipulate that ethical principles when conducting of research include acquiring research clearance and the informed consent of the participants as well as maintaining confidentiality. A data collection letter was obtained from the department of Postgraduate studies - Institute of Accountancy Arusha which introduced the researcher to the selected government schools. The respondents were assured of confidentiality of the information which they provided and that the study findings were to be used for academic purposes only. The research findings were also presented exactly as reported by survey respondents without any alterations being made by the researcher.

CHAPTER FOUR

PRESENTATION AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter consists of data presentation, interpretation and discussion of the findings. Data is analysed using mean scores and percentages and presented in tables and figures. The first section presented the demographic information of employees from National Microfinance Bank – Arusha, while other sections are presented according to the research questions. 52 questionnaires were distributed but only 50 questionnaires were returned.

4.2 Presentation of Findings

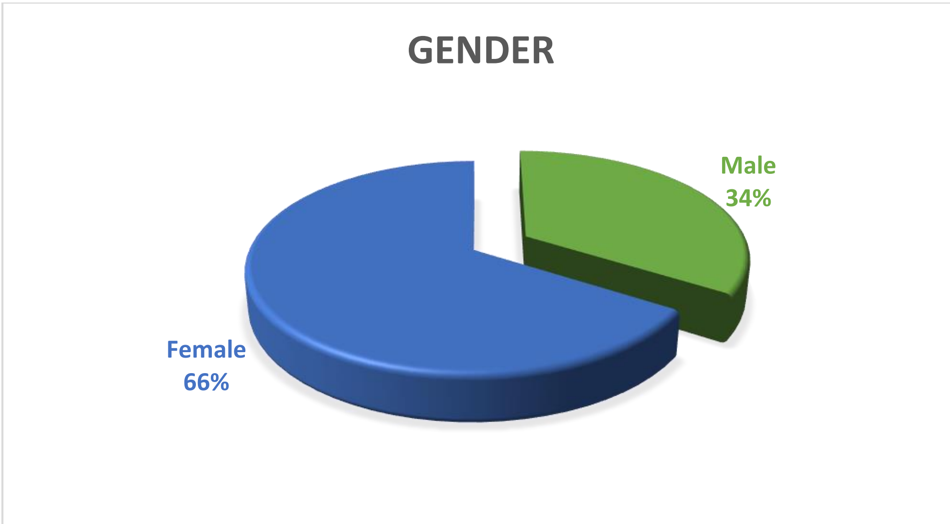
4.3.1. Demographic Information

In social sciences research personal characteristics of respondents have very significant role to play in expressing and giving the responses about the problem. In this study a set of personal characteristics namely, gender, age, education and service duration have been examined and presented in this section

4.2.1 Gender

Each of the respondents was requested to indicate their gender as one of the key attributes of mapping out respondent's characteristics. Their responses were as provided in figure 4.1 below:

Figure 4.1: Gender



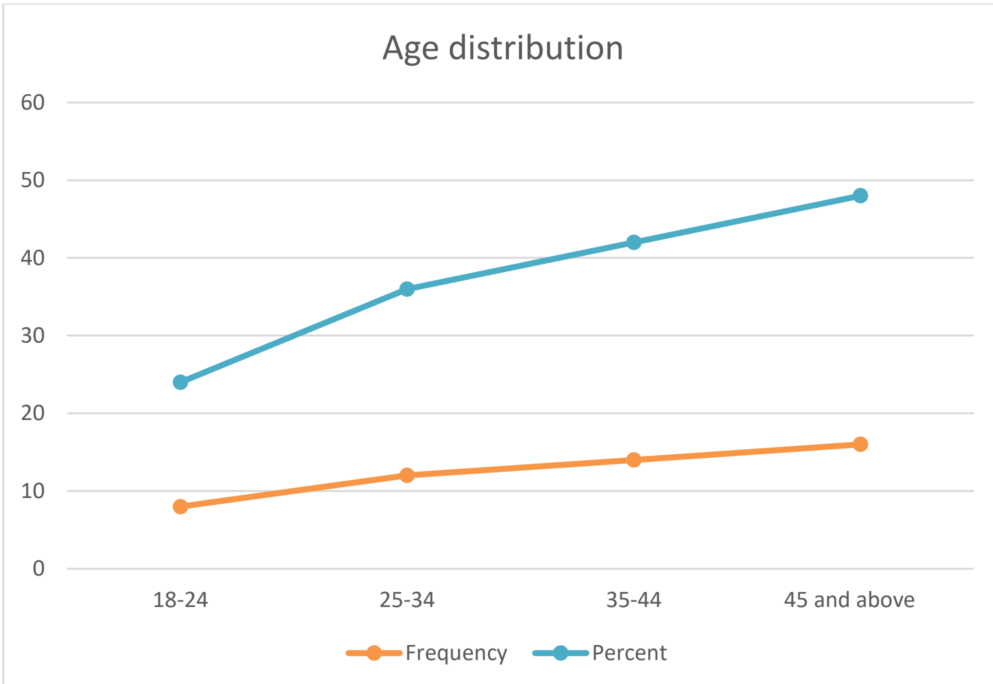
Source: Field Data 2020

From the analysis majority of the respondents (66%), were female while 34% were male. This shows that majority of the employees working in National Microfinance Bank – Arusha related functions are female.

4.2.2 Age distribution

The next attribute to be evaluated was the age distribution of respondents and the outcome was as presented in figure 4.2 below;

Figure 4.2: Age distribution



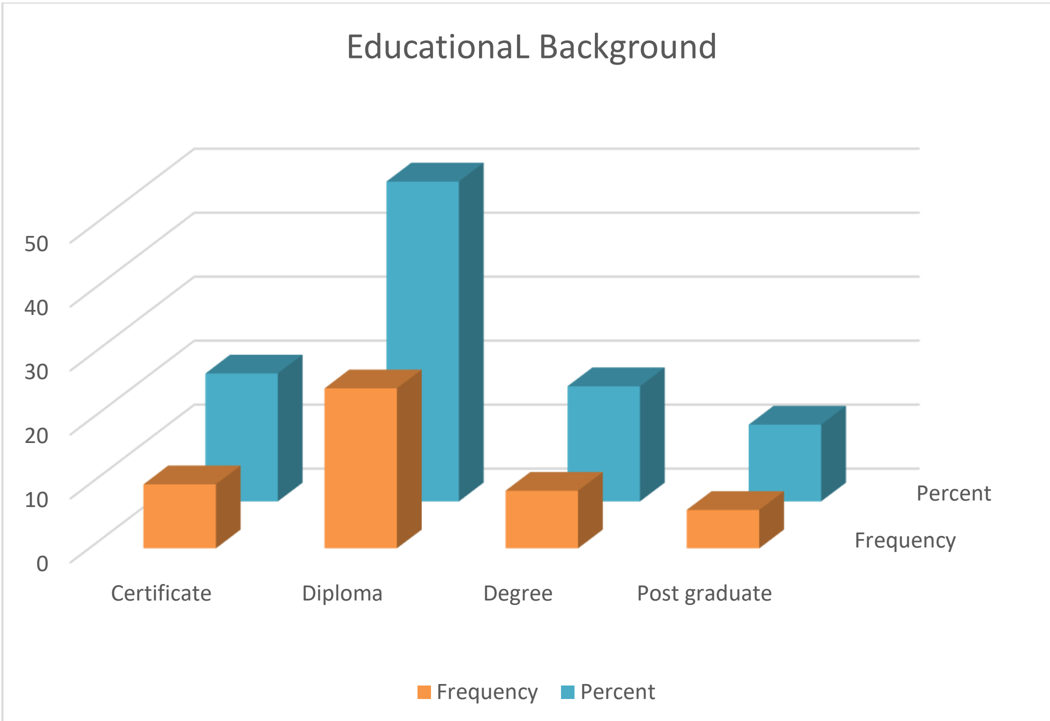
Source: Field Data 2020

It was evident from the analysis that majority of the respondents were aged 45 years and above. Twenty-eight percent (28%) were in the 35-44 years and 24% were 25 – 34 years' bracket, while those between 18 and 24 years represented only 16%. there are no effects of agency banking on performance of Commercial Banks but this information is necessary to find out the age distribution of the respondents and the findings shows that there is a fair distribution of employees in terms of age.

4.2.3 Educational Background

The respondents' feedback on the highest level of education attained is as presented in figure 4.3 below:

Figure 4.3: Educational Background



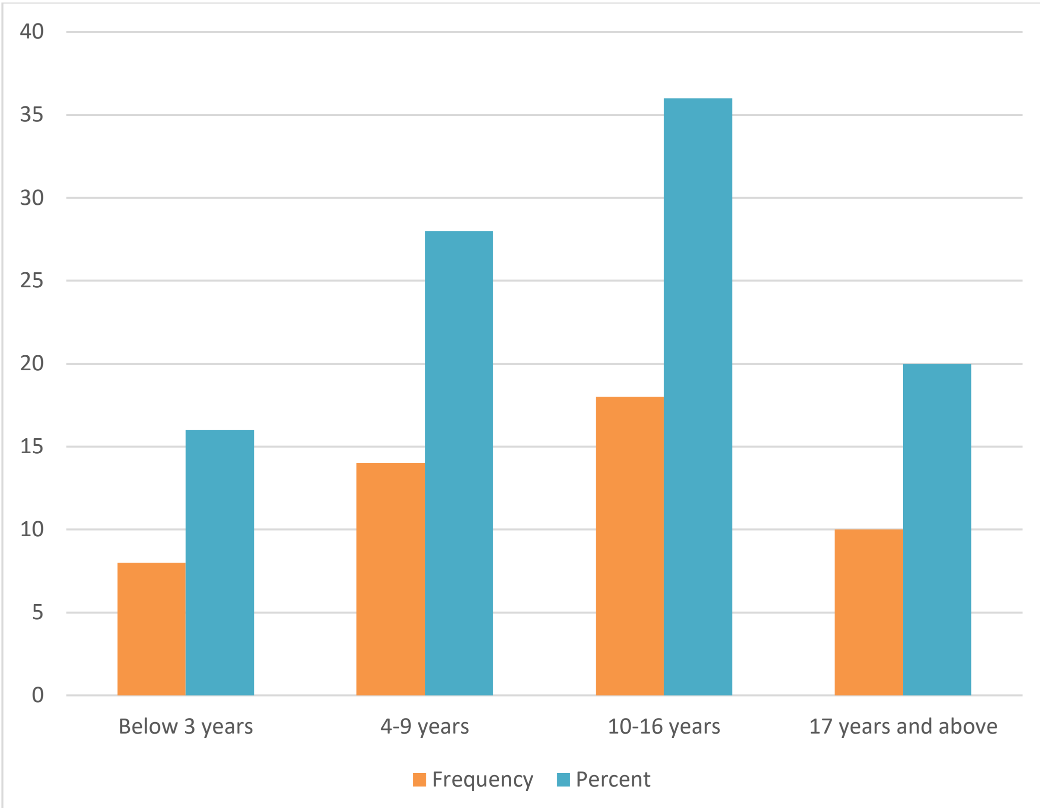
Source: Field Data 2020

Majority of the respondents (50%) are diploma holders, while 20% were certificate holders, while 18% had degree. The level of education of an individual does not necessarily affect on agency banking but the findings above is indicative of a fair distribution of skill and education qualification levels of staff.

4.2.4 Work experience

To establish the respondent, level of understanding of agency banking, they were requested to indicate the number of years they have worked and their response were as presented in Figure 4.4 below:

Figure 4.4: Work experience



Source: Field Data 2020

The results indicate that majority of the respondents (36%) had service duration of between 10-16 years; while 28% have experience of between 4-9 years only 20% of the respondents indicated that they had work for 17 years and above and 16% work for less than 3 years. It is necessary to find out the number of years they have worked for the bank. This finding of the research more confidence since a good proportion of the respondents had a good exposure on the research objectives.

4.3.2 Low Transaction Cost

The objective was to determine the effect of low transaction cost of agency banking on performance of Commercial Banks. The findings are presented in the table below;

Table 4.1: Low Transaction Cost

Statement		SD	D	N	A	SA
Costs for Agency Banking are affordable for low revenue depositors	F	0	17	7	26	0
	%	0	34	14	52	0
In contrast to bank building, the costs involved in transactions in agency banking are low	F	0	8	17	18	7
	%	0	14	34	36	16
Cost involving agency banking affects commercial banks' efficiency positively	F	0	0	7	16	27
	%	0	0	14	32	54
The time spent on agency banking is low compared to regular banking	F	0	1	18	21	10
	%	0	2	36	42	20
Agents prior experience with the banks customers is positively related to performance and survival of the bank	F	17	6	13	14	0
	%	.0	28	26	34	12

Source: Field Data 2020

Key: SD=strongly disagree D= Disagree N=Neutral A=Agree SA=strongly agree

Majority of the respondents (52%) respondents agreed that costs for Agency Banking are affordable for low revenue depositors while 34% disagreed and only 14% were not sure. Study findings unveiled (52%) agreed that in contrast to bank building, the costs involved in transactions in agency banking are low, 34% were neutral and 14% disagreed. Majority of the respondents (86%) agreed that low transaction cost involving agency banking affects commercial banks' efficiency positively though 14% of the respondents were not sure. Likewise, majority of the respondents (62%) agreed that the time spent on agency banking is low compared to regular banking though 36% were not sure about this statement and only 2% disagreed. Nevertheless, 46% of the respondents agreed that agent's prior experience with the banks customers is positively related to performance and survival of the commercial bank.

4.3.3 Financial Services Accessibility

The objective was to establish the effect of financial services accessibility of agency banking on performance of Commercial Banks.

Table 4.3: Financial Services Accessibility

Statement		SD	D	N	A	SA
Agency banking is easier to deposit	F	0	4	18	16	12
	%	0	8	36	32	24
Agency banking has led to accessibility of financial service to many customers in remote areas	F	0	3	14	24	9
	%	0	6	28	48	18
Agency banking is convenient and I can transact any time	F	3	2	5	21	19
	%	6	4	10	42	38
Agency banking help service is always reliable	F	0	16	10	7	17
	%	0	32	20	14	34
Agency banking is easy to use and I can transact any time	F	0	5	14	18	13
	%	0	10	18	36	26
Agency banking providing banking service properly	F	0	8	5	16	21
	%	0	16	10	32	42
Agency banking provide 24/7 customer services to depositors	F	0	8	2	40	0
	%	0	16	4	80	0

Source: Field Data 2020

Key: SD=strongly disagree D= Disagree N=Neutral A=Agree SA=strongly agree

The findings unveiled that, majority of the respondents (56%) asserted that agency banking is easier to deposit while 36% were neutral and 7% disagreed. The study found that, majority of the respondents (66%) indicated that the agency banking has led to accessibility of financial service to many customers in remote areas. 28% were not sure about this statement and 6% disagreed. About 80% respondents agreed that, Agency banking is convenient and I can transact any time and 48% agency banking help service is always reliable. Study findings revealed that, majority of the respondents 52% agreed that agency banking is convenient and I can transact any time though 18% were neutral and 10% disagreed to this statement. 74% proclaimed that agency banking providing banking service properly. Study findings unveiled that majority of the respondents (80%) agreed that agency banking provide 24/7 customer services to depositors

4.3.4 Level of Deposits Volume

The objective was to examine the level of deposits volume of agency banking on performance of Commercial Banks.

Table 4.3: Level of Deposits Volume

Statement		SD	D	N	A	SA
Agency banking is safe and reliable for depositors	F	12	12	16	26	34
	%	12	12	16	26	34
Agency banking offer convenience to depositors	F	13	12	13	25	37
	%	13	12	13	25	37
Agency banking is an easy way to simplify deposits	F	13	15	19	29	24
	%	13	15	19	29	24
Agency banking protect consumers of financial services and reduce financial crime	F	20	15	10	26	29
	%	20	15	10	26	29

Source: Field Data 2020

Key: SD=strongly disagree D= Disagree N=Neutral A=Agree SA=strongly agree

The results from Table 4.2 reveal that agency banking is safe and reliable for depositors. This was indicated by 60% of the entire population who stated that agency banking is safe and reliable for depositors. The study findings also uncovered that agency banking offer convenience to depositors by 63% while 53% of the respondents agreed that agency banking is an easy way to simplify deposits, 19% were neutral, 15 disagreed and 13% strongly disagreed. Hence 54% of the respondents agreed that agency banking protect consumers of financial services and reduce financial crime, 20% strongly disagreed, 15% disagreed and only 10% were neutral.

4.4 Correlation Analysis

Correlation method was used to test relationship between variables, the relationship of both independent variable and dependent variable were tested in order to assess whether the study objectives were achieved and the relations are stated below are met.

Table 4.4: Correlations

Correlations					
		LTC	FSA	LDV	CBP
LTC	Pearson Correlation	1	.728**	.379**	.411**
	Sig. (2-tailed)		.000	.007	.003
	N	50	50	50	50
FSA	Pearson Correlation	.728**	1	.674**	.677**
	Sig. (2-tailed)	.000		.000	.000
	N	50	50	50	50
LDV	Pearson Correlation	.379**	.674**	1	.661**
	Sig. (2-tailed)	.007	.000		.000
	N	50	50	50	50
CBP	Pearson Correlation	**.411****	**.677****	**.661****	**1**
	Sig. (2-tailed)	.003	.000	.000	
	N	50	50	50	50
****. Correlation is significant at the 0.01 level (2-tailed).**					

Source: Field Data 2020

Findings shown in Table 4.4 indicate that low transaction cost has significant relationship with Commercial Banks performance with a coefficient of 0.411. Also, financial services accessibility has a significant relationship with Commercial Banks performance with a coefficient of 0.677. Level of deposits volume also has a significant relationship Commercial Banks performance with a coefficient of 0.661. The correlations are significant at the 0.01 level. The above results imply that all independent variables have a positive significant relationship with Commercial Banks performance.

4.5 Regression Analysis

Coefficient of determination (r^2) in the model summary explains 53.9% of the independent variables. This means that independent variables under low transaction cost, financial services accessibility and level of deposits volume, explain only 53.9% of the factors affecting Commercial Banks performance. The coefficient of determination is very significant because only 46.1% of variations are brought about by characteristics not captured in the independent variables.

Table 4.5: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.734[a]	.539	.509	1.65867
a. Predictors: (Constant), LDV, LTC, FSA				

Source: Field Data 2020

Table 4.6 is a summary of the analysis of the model. The significant (p-value) at 5% level of significance and 95% of confidence level was 0.000. As is illustrated in the table, thus the model is statistically significant and the assumption which states that at 5% level of significance and 95% confidence level, the significance value (P-value) in the ANOVA should be P, 0.000-0.05 was held.

Table 4.6: ANOVA

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	147.945	3	49.315	17.925	.000[b]
	Residual	126.555	46	2.751		
	Total	274.500	49			
a. Dependent Variable: CBP						
b. Predictors: (Constant), LDV, LTC, FSA						

Source: Field Data 2020

Table 4.11 explains the overall relationship between the independent variables and the dependent variable and the significance of each relationship. The table depicts that low transaction cost, financial services accessibility and level of deposits volume are prominent in Commercial Banks Performance.

Table 4.7: Coefficients[a]

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	10.613	3.472		3.057	.004
	LTC	-.165	.277	-.089	-.595	.554
	FSA	.403	.151	.501	2.670	.010
	LDV	.361	.140	.357	2.573	.013
a. Dependent Variable: CBP						

Source: Field Data 2020

Using the results above, we have the regression equation as:

Y = 10.613 – 0.165X1 + 0.403X2 + 0.361X3+ 3.472α

Whereby Y = Commercial Banks Performance

X1 = Low Transaction Cost

X2 = Financial Services Accessibility

X3 = Level of Deposits Volume

According to the regression equation established, taking all factors into account with constant at zero, outcomes will be 10.613. The data analysed also show that Commercial Banks Performance is greatly contributed by low transaction cost, financial services accessibility and level of deposits volume. Taking all other independent variables at zero, Low Transaction Cost decreases Commercial Banks Performance by 0.165. Financial Services Accessibility will result in 0.403 increase in Commercial Banks Performance and Level of Deposits Volume will result in a 0.361 increase in Commercial Banks Performance.

4.6. Discussion of Findings

The banking business environment has changed and innovative technology has remained a key strategy for the banking sector to remain competitive. Commercial banks are big beneficiaries of the rapid growth of agency outlets (Aburime 2018; Bold2 017). They have helped cut costs on expansion and staffing but it is important that the banks have clear strategic rationale for each agent it sets up. Findings of this study unveiled that costs for agency banking are affordable for low revenue depositors.

Agent banking has seen dramatic expansion in very many countries all over the world including Tanzania. With agency banking, low-income people no longer need to use scarce time and financial resources to travel to distant bank branches. Study findings unveiled that in contrast to bank building, the costs involved in transactions in agency banking are low. This corresponds with Lotto (2016) that agency banking costs are reported to be lower compared to those of traditional banking services.

The adoption of agency banking is mainly geared towards improving market share by attracting and retaining their customers, improving their financial performance and creating a variety of services to customers. Finding of this study indicated that cost involving agency banking affects commercial banks' efficiency positively. This corresponds with finding of Lym, (2017) that agency banking transactions cost far less to process than transactions at an Automated Teller Machine or branch.

Majority of the respondents agreed that the time spent on agency banking is low compared to regular banking and agent's prior experience with the banks customers is positively related to performance and survival of the bank. This supports findings of Lotto, (2016) that greater geographical coverage brought about by agency banking is a stronger promoter of financial inclusion because services follow people closer to where they leave and hence reduce the travelling costs and other hassles involved like time wasted in long queues at bank branches.

The banking business environment has changed and innovative technology has remained a key strategy for the banking sector to remain competitive. Banks are fast developing branchless banking such as ATM, internet and mobile banking among others. Agency banking model requires commercial banks to rely on the existing infrastructure such as supermarkets, hotels and petrol stations to reach out to customers Bushs & Mathisen, (2018). The findings unveiled that, agency banking is reliable, easier to deposit and has led to accessibility of financial service to many customers in remote areas hence its convenient and customers can transact any time. These findings match with findings of Mage, (2019) that agency banking is among the latest inventions that have improved the banking services by increasing accessibility and convenience to customers.

Technological advancement has not only affected the way of living but has had an effect on the way people do their banking. Ben (2017) stated that with advanced technology, agency banking is able to banking services that facilitates seamless banking experience to the customer along with establishing smooth coordination among all the components of agency banking. Respondents of this study indicated that agency banking providing banking service properly. Normally, banks operate from 9:00 a.m. to 3:00 p.m. during a Banking Day and 9:00 a.m. to 12:00 p.m. on Saturday while provide no service on Sundays. Study findings unveiled that agency banking provide 24/7 customer services to depositors. Of course, with agency banking, as long agent is up, customer can get all services he or she wants.

Banking agents are usually equipped with a combination of point-of-sale (POS)card reader, mobile phone, barcode scanner to scan bills for bill payment transactions, Personal Identification Number (PIN) pads, and sometimes personal computers (PCs) that connect with the bank's server using a personal dial-up or other data connection. Banking agents provide a human touch to the formal banking system. Clients find comfort in interacting with someone they know. That's precisely the reason why users trust agents more than the formal branches. With such comfort and convenience, clients feel safe to perform all the financial operations that they need according to Kweka, (2018). The results of this study revealed that agency banking is safe, reliable simple hence offer convenience to depositors

Findings from the study support that agency banking protects consumers of financial services and reduce financial crime. This is in line with Ogetange, (2016) who postulated that agency banking has reduced financial crime due to infrastructure and security which resulted into financial performance of commercial banks to a very great extent.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusion and recommendations of the study on the the effect of agency banking on performance of Commercial Banks, a case of National Microfinance Bank – Arusha. It presents a summary of major findings according to specific objectives, conclusions and finally recommendations, specifying recommendations for action and for further studies.

5.2 Summary of Findings

5.2.1 Low Transaction Cost

Majority of the respondents (52%) respondents agreed that costs for Agency Banking are affordable for low revenue depositors while 34% disagreed and only 14% were not sure. Study findings unveiled (52%) agreed that in contrast to bank building, the costs involved in transactions in agency banking are low, 34% were neutral and 14% disagreed. Majority of the respondents (86%) agreed that cost involving agency banking affects commercial banks' efficiency positively though 14% of the respondents were not sure. Likewise, majority of the respondents (62%) agreed that The time spent on agency banking is low compared to regular banking though 36% were not sure about this statement and only 2% disagreed. Nevertheless, 46% of the respondents agreed that agents prior experience with the banks customers is positively related to performance and survival of the bank. Nevertheless, all banks offering agency banking services should limit operational costs on bank agents in order to avoid the increase in cost of services to customers.

5.2.2 Financial Services Accessibility

The findings unveiled that, majority of the respondents (56%) asserted that agency banking is easier to deposit while 36% were neutral and 7% disagreed. The study found that, majority of the respondents (66%) indicated that the agency banking has led to accessibility of financial service to many customers in remote areas. 28% were not sure about this statement and 6% disagreed.

About 80% respondents agreed that, Agency banking is convenient and I can transact any time and 48% agency banking help service is always reliable. Study findings revealed that, majority of the respondents 52% agreed that agency banking is convenient and I can transact any time though 18% were neutral and 10% disagreed to this statement. 74% proclaimed that agency banking providing banking service properly. Study findings unveiled that majority of the respondents (80%) agreed that agency banking provide 24/7 customer services to depositors. As a branchless banking model, agency banking is able to deliver wide range of financial services to customers without reliance on bank branches.

5.2.3 Level of Deposits Volume

Results revealed that agency banking is safe and reliable. This was indicated by 60% of the entire population who stated that agency banking is safe and reliable. The study findings also uncovered that agency banking offer convenience to depositors by 63%. 53% of the respondents agreed that agency banking is an easy way to simplify deposits, 19% were neutral, 15 disagreed and 13% strongly disagreed. Hence 54% of the respondents agreed that agency banking protect consumers of financial services and reduce financial crime, 20% strongly disagreed, 15% disagreed and only 10% were neutral. Deposit taking has increased among commercial banks since the emergence of agency banking.

5.3 Conclusion

Conclusions were drawn on the basis of research objectives. The major intention of this study was to investigate the effect of agency banking on performance of Commercial Banks using National Microfinance Bank – Arusha as a case study. The study concluded that there is significant relationship between low transaction cost and Commercial Banks performance; there is significant relationship between financial services accessibility and Commercial Banks performance and significant relationship between Level of deposits volume and Commercial Banks performance. Also, findings from this study indicated that low transaction cost, financial services accessibility and level of deposits volume, explain more than 50% of the factors affecting Commercial Banks performance. It is clear from the findings that agency banking is continuously improving leading to significant increased financial performance in those banks that have rolled up the service due to its convenience and efficiency in operation.

5.4 Bank Regulators (Policy makers)

Findings of this study will be important to the management of commercial banks in Tanzania because the information gathered will help in strengthening the effective and efficient running of agency banking. The commercial banks will be enlightened on importance of agency banking as a measure of improving financial performance. To the bank agents, they will be enlightened on benefits of being agents which will lead to growth and expansion of agent outlets leading better financial performance and business growth. Also, through the findings of this study general public will gain a clearer perceptual understanding that an agent of a bank is as good as the bank itself or even better due to the added benefits.

5.5 Critical Evaluation of the Study

Despite of the confidentiality issues and time constraints, this study was completed successfully. Findings of this study were able to reveal that agency banking has positive impact on performance of Commercial Banks. If the researcher had to carry out same report he would dedicate his efforts on assessing the challenges facing banks in implementation of agency banking.

5.6 Recommendations

Based on the findings of this study, the following recommendations were made;

i. This study recommends commercial banks should fully embrace agency banking since it observed that 86% of correspondents agreed that through low transaction cost are transacting through Agency banking the fact that increase bank deposit and performance in general, but also adoption of improved technology for information security volume of to make it more reliable to the customers.

ii. It recommended that NMB Bank should increase bond to Agents because it seen that 80% of correspondents agreed that agency banking and facilitates financial services however the bank advised to increase other services rather than money transfer within the same bank and include international money transfer such as money gram and western union only to improve bank performance through agency banking and reduce bank operations costs and increase another new commission line to Bank's Agents.

iii. The study recommended that in NMB Bank, Agency banking should be given more attention on security measures since a huge deposit is being transacting through Agents and it observed in the study about 63% of correspondents agreed that agency banking facilitates increase of deposit volume to the bank so the banks should find better ways of screening their agents to ensure that the large cash transactions handling is effectively carried out on their behalf.

iv. The researcher recommends that regulator closely monitors the banking sector and strictly enforces compliance with the agent banking guidelines while the banks continuously ensure careful vetting however currently it is performing well by NMB.

v. Nevertheless, efforts have to be made to increase the number of outlets providing bank agency services so as to achieve a greater geographical coverage.

vi. Lastly, financial education should be provided to help customers understanding the operations of agents and assure the security of their money is more valuable.

5.7 Areas for Future Research

This study has investigated the effect of agency banking on performance of Commercial Banks and only a single data collection instrument was employed that is questionnaire instrument. Hence, future research through interviews could be undertaken to triangulate. Given that Commercial Banks are pervasive in all economies this will call for a careful selection of samples that can help provide a representative picture of agency banking. Also, replication of this research on different banks and in different countries would provide data for comparison the fact that will increase more knowledge on Agency banking worldwide and increase the performance of Banks.

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