**AGENCY BANKING AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN UGANDA: A CASE STUDY OF CENTENARY BANK**

**BY**

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**MASTERS DEGREE IN BUSINESS ADMINISTRATION**

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# DECLARATION

This research project is my original work and has not been submitted for examination in any other university.

Signed………………………………………………. Date…………………………………….

 **Kamya Moses**

# APPROVAL

This research project has been submitted for examination with my approval as the University supervisor.

Signed………………………………………………. Date…………………………………….

 **Nabutsale I. Ojambo**

# DECLARATION

I dedicate this report to Almighty God, my parents, my brothers, Sisters, my lovely wife Adelphine Ishimwe and friends who morally and financially supported me through my academics and finally to all those who encouraged and believed with me that I can make it despite ups and downs that I went through. Thank you Lord…

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# TABLE OF CONTENTS

[DECLARATION i](#_Toc94898750)

[APPROVAL ii](#_Toc94898751)

[DECLARATION iii](#_Toc94898752)

[ACKNOWLEDGEMENT iv](#_Toc94898753)

[TABLE OF CONTENTS v](#_Toc94898754)

[LIST OF TABLES xi](#_Toc94898755)

[LIST OF FIGURES xiii](#_Toc94898756)

[LIST OF ABBREVATIONS / ACRONYMS xiv](#_Toc94898757)

[ABSTRACT xv](#_Toc94898758)

[**CHAPTER ONE:**](#_Toc94898759) [**INTRODUCTION** 1](#_Toc94898760)

[Introduction 1](#_Toc94898761)

[Background to the Study 1](#_Toc94898762)

[Problem Statement 8](#_Toc94898763)

[Purpose of the Study 8](#_Toc94898764)

[Objectives of the Study 9](#_Toc94898765)

[Research Questions 9](#_Toc94898766)

[Research Hypothesis 9](#_Toc94898767)

[Scope of the Study 10](#_Toc94898768)

[Content Scope 10](#_Toc94898769)

[Geographical Scope 10](#_Toc94898770)

[Time Scope 10](#_Toc94898771)

[Significance of the Study 10](#_Toc94898772)

[Setting of the Study 12](#_Toc94898773)

[Arrangement of the Study 14](#_Toc94898774)

[**CHAPTER TWO:**](#_Toc94898775) [**STUDY LITERATURE** 15](#_Toc94898776)

[Introduction 15](#_Toc94898777)

[Literature Survey 15](#_Toc94898778)

[Theoretical Review 17](#_Toc94898779)

[Agency Theory 17](#_Toc94898780)

[Financial Intermediation Theory 19](#_Toc94898781)

[Bank-Focused Theory 20](#_Toc94898782)

[Bank Led Theory 20](#_Toc94898783)

[Agency Banking Model 22](#_Toc94898784)

[Literature Review 23](#_Toc94898785)

[Concept of Agency Banking 23](#_Toc94898786)

[Agency Banking Regulations and Procedure 25](#_Toc94898787)

[Accessibility to Financial Services 28](#_Toc94898788)

[Challenges Associated with Adoption of Agency Banking and Financial Performance 32](#_Toc94898789)

[Financial Performance in Commercial Bank 37](#_Toc94898790)

[Determinants on the Financial Performance of Commercial Banks 38](#_Toc94898791)

[Conceptual Framework 41](#_Toc94898792)

[**CHAPTER THREE:**](#_Toc94898793) [**RESEARCH METHODOLOGY** 43](#_Toc94898794)

[Introduction 43](#_Toc94898795)

[Research Design 43](#_Toc94898796)

[Research Approach 43](#_Toc94898797)

[Research strategy 43](#_Toc94898798)

[Research Duration 44](#_Toc94898799)

[Research Classification 44](#_Toc94898800)

[Study Areas 44](#_Toc94898801)

[Study Population 44](#_Toc94898802)

[Sample Size 45](#_Toc94898803)

[Sample Size Determination 45](#_Toc94898805)

[Sampling techniques 46](#_Toc94898806)

[Purposive Sampling 46](#_Toc94898807)

[Random sampling 46](#_Toc94898808)

[Census Sampling 46](#_Toc94898809)

[Data Collection Procedures 47](#_Toc94898810)

[Data Collection Methods 47](#_Toc94898811)

[Questionnaire Method 48](#_Toc94898812)

[Interview Method 48](#_Toc94898813)

[Documents Review 49](#_Toc94898814)

[Data Collection Instruments 49](#_Toc94898815)

[Self Administered Questionnaires 49](#_Toc94898816)

[Interview Guide 49](#_Toc94898817)

[Validity and Reliability of Instruments 50](#_Toc94898818)

[Validity of instruments 50](#_Toc94898819)

[Reliability of instruments 51](#_Toc94898820)

[Data Processing 51](#_Toc94898822)

[Data Analysis 52](#_Toc94898823)

[Ethical Considerations 53](#_Toc94898824)

[Limitations of the study 53](#_Toc94898825)

[Conclusion 54](#_Toc94898826)

[**CHAPTER FOUR:**](#_Toc94898827) [**DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS** 55](#_Toc94898828)

[Introduction 55](#_Toc94898829)

[Gender of the Respondents 55](#_Toc94898830)

[Age of the respondents 55](#_Toc94898832)

[Academic qualification of the respondents 56](#_Toc94898834)

[Department of Work 57](#_Toc94898836)

[Number of years working with Centenary Bank 58](#_Toc94898838)

[**CHAPTER FIVE:**](#_Toc94898840) [**AGENCY BANKING REGULATIONS AND PROCEDURES ARE COMPLIED WITH TO ENHANCE FINANCIAL PERFORMANCE OF CENTENARY BANK.** 59](#_Toc94898841)

[Introduction 59](#_Toc94898842)

[Banking agents and customers comply with agency banking regulations and procedures. 60](#_Toc94898843)

[Special requirements for bank agents 61](#_Toc94898845)

[CB obtains approval from the central bank for each outlet of its agent 62](#_Toc94898847)

[BoU vet and approve each person selected by a financial institution to act 63](#_Toc94898849)

[Agents collect and forward supporting documentation for account-opening 64](#_Toc94898851)

[Bank protects consumers of financial services to reduce financial crime 65](#_Toc94898853)

[Each transaction has to be accompanied by a system-generated receipt. 66](#_Toc94898855)

[CB has created adequate awareness about banking agency system 67](#_Toc94898857)

[CB maintains confidence in customer about the financial system. 68](#_Toc94898859)

[BoU holds Centenary Bank liable for the conduct of their agents. 69](#_Toc94898861)

[Correlations between banking regulations and financial performance 70](#_Toc94898864)

[Model Summary 71](#_Toc94898866)

[Coefficients 71](#_Toc94898868)

[Analysis of Variances (ANOVAa) 72](#_Toc94898870)

[**CHAPTER SIX:**](#_Toc94898872) [**ACCESSIBILITY TO FINANCIAL SERVICES BY THE CUSTOMERS IMPROVES FINANCIAL PERFORMANCE OF CB** 73](#_Toc94898873)

[Introduction 73](#_Toc94898874)

[Accessibility of financial service to many customers in remote areas 74](#_Toc94898875)

[Cost involved in transacting with agency banking is low compared to bank 75](#_Toc94898877)

[Agency banking has led to profitability of Centenary Bank 76](#_Toc94898879)

[Customers pay their loans through agency banking. 77](#_Toc94898881)

[Time spent in agency banking outlets is low 78](#_Toc94898883)

[Expansion of financial services in remote areas 79](#_Toc94898885)

[Reduce the cost of delivering financial services to unreached people 80](#_Toc94898887)

[Agency banking provided by CB has created customer loyalty. 81](#_Toc94898889)

[Agency banking divert customers from crowded financial institutions 82](#_Toc94898891)

[Financial Transaction System 83](#_Toc94898893)

[Testing Hypothesis 2 84](#_Toc94898895)

[Correlations 84](#_Toc94898896)

[Model Summary 85](#_Toc94898898)

[Coefficient](#_Toc94898900) 85

[Analysis of Variances (ANOVA) 86](#_Toc94898902)

[**CHAPTER SEVEN:**](#_Toc94898904) [**CHALLENGES ASSOCIATED WITH ADOPTION OF AGENCY BANKING AFFECTS FINANCIAL PERFORMANCE OF CENTENARY BANK** 87](#_Toc94898905)

[Introduction 87](#_Toc94898906)

[There is lack of improper government policies governing banking agency 88](#_Toc94898907)

[Increased cases of fraud and money laundering 89](#_Toc94898909)

[Agents are suffering with inadequate cash in business operation. 90](#_Toc94898911)

[Systems failure related risks 91](#_Toc94898913)

[Banking agents are properly trained to use banking agency systems 92](#_Toc94898915)

[Agent onboarding process is restrictive and time-consuming 93](#_Toc94898917)

[Customers do not trust some agents of Centenary Bank 94](#_Toc94898919)

[Early adopters’ transactional profile has LM implications 95](#_Toc94898921)

[Need for sustained effort to create awareness of the financial service 96](#_Toc94898923)

[Financial Performance 97](#_Toc94898925)

[Agency banking has helped Centenary Bank to maximise its profits 97](#_Toc94898926)

[Agency banking has led to improved liquidity management 98](#_Toc94898928)

[Agency banking has increased return on investment 99](#_Toc94898930)

[Agency banking has multiplied customers of Centenary Bank. 100](#_Toc94898932)

[Testing Hypothesis 3 101](#_Toc94898934)

[Correlations 101](#_Toc94898935)

[Model Summary 102](#_Toc94898937)

[Coefficients 102](#_Toc94898939)

[Analysis of Variances (ANOVA) 103](#_Toc94898941)

[MULTIPLE REGRESSION ANALYSIS 104](#_Toc94898943)

[General Correlations 104](#_Toc94898944)

[Multiple Regression Model 105](#_Toc94898946)

[**CHAPTER NINE:**](#_Toc94898948) [**HARMONIZATION TOWARDS IMPROVING AGENCY BANKING AND FINANCIAL PERFORMANCE IN COMMERCIAL BANKS** 106](#_Toc94898949)

[Introduction 106](#_Toc94898950)

[Agency Banking 106](#_Toc94898951)

[Rules and Regulation Governing Banking Agency 108](#_Toc94898952)

[Safeguards of Banking Agency 110](#_Toc94898953)

[Benefits of Agency Banking 112](#_Toc94898954)

[Financial Performance 116](#_Toc94898955)

[**CHAPTER NINE:**](#_Toc94898956) [**SUMMARY, CONCLUSIONS AND RECOMMENDATIONS** 117](#_Toc94898957)

[Introduction 117](#_Toc94898958)

[Summary of Findings 117](#_Toc94898959)

[Financial Performance 120](#_Toc94898960)

[Conclusions 121](#_Toc94898961)

[Financial Performance 122](#_Toc94898962)

[Recommendations 123](#_Toc94898963)

[Areas for the Further Research 125](#_Toc94898964)

[REFERENCES 126](#_Toc94898965)

[APPENDICES 131](#_Toc94898966)

[APPENDIX I: SELF ADMINISTERED QUESTIONNAIRE 131](#_Toc94898967)

[APPENDIX II:](#_Toc94898968) [INTERVIEW GUIDE 137](#_Toc94898969)

# LIST OF TABLES

[Table 3.1: Distribution of the study population and sampling techniques 45](#_Toc94898804)

[Table 4.1: Gender of the Respondents 55](#_Toc94898831)

[Table 4.2: Age distribution of respondents 56](#_Toc94898833)

[Table 4.3: Academic qualification of the respondents 56](#_Toc94898835)

[Table 4.4: Department of work 57](#_Toc94898837)

[Table 4.5: Number of years employed with Centenary Bank 58](#_Toc94898839)

[Table 5.1: Comply with agency banking regulations and procedures 60](#_Toc94898844)

[Table 5.2: Special requirements for bank agents 61](#_Toc94898846)

[Table 5.3: CB obtains approval from the Central Bank for each outlet 62](#_Toc94898848)

[Table 5.4: BoU vet and approve each person selected by a bank to act 63](#_Toc94898850)

[Table 5.5: Collect & forward supporting documentation for account-opening 64](#_Toc94898852)

[Table 5.6: Bank protects consumers of financial services 65](#_Toc94898854)

[Table 5.7: Transactions accompanied by a system-generated receipt 66](#_Toc94898856)

[Table 5.8: CB has created adequate awareness about banking agency 67](#_Toc94898858)

[Table 5.9: Maintains confidence in customer about the banking agency 68](#_Toc94898860)

[Testing Hypothesis 1 70](#_Toc94898863)

[Table 5.10: BoU holds Centenary Bank liable for conduct of their agents 69](#_Toc94898862)

[Table 5.11: Correlations 70](#_Toc94898865)

[Table 5.12: Model Summary 71](#_Toc94898867)

[Table 5.13: Coefficientsa 71](#_Toc94898869)

[Table 5.14: ANOVAb 72](#_Toc94898871)

[Table 6.1: Accessibility of financial service to many customers 74](#_Toc94898876)

[Table 6.2: Low cost involved in agency banking transaction than bank 75](#_Toc94898878)

[Table 6.3: Agency banking has led to profitability of Centenary Bank 76](#_Toc94898880)

[Table 6.4: Customers pay their loans through agency banking. 77](#_Toc94898882)

[Table 6.5: Time spent in agency banking outlets is low 78](#_Toc94898884)

[Table 6.6: Expansion of financial services in remote areas 79](#_Toc94898886)

[Table 6.7: Reduce the cost of delivering financial services to unreached 80](#_Toc94898888)

[Table 6.8: Agency banking provided by CB has created customer loyalty. 81](#_Toc94898890)

[Table 6.10: Financial Transaction System 83](#_Toc94898894)

[Table 6.9: Mandatory training arrangements apply to all permanent staff 82](#_Toc94898892)

[Table 6.11: Correlations between accessibility to financial services and Financial Performance 84](#_Toc94898897)

[Table 6.12: Model Summary 85](#_Toc94898899)

[Table 6.13: Coefficientsa 86](#_Toc94898901)

[Table 6.14: ANOVAa 86](#_Toc94898903)

[Table 7.1: Improper government policies governing banking agency 88](#_Toc94898908)

[Table 7.2: Increased cases of fraud and money laundering 89](#_Toc94898910)

[Table 7.3: Agents are suffering with inadequate cash 90](#_Toc94898912)

[Table 7.4: Systems failure related risks 91](#_Toc94898914)

[Table 7.5: Banking agents are properly trained to use banking agency 92](#_Toc94898916)

[Table 7.6: Agent onboarding process is restrictive and time-consuming 93](#_Toc94898918)

[Table 7.7: Customers do not trust some agents of Centenary Bank 94](#_Toc94898920)

[Table 7.8: Early adopters’ transactional profile has LM implications 95](#_Toc94898922)

[Table 7.9: sustained effort to create awareness of the financial service 96](#_Toc94898924)

[Table 7.10: Agency banking has led to profitability of Centenary Bank 97](#_Toc94898927)

[Table 7.11: Agency banking has led to improved liquidity management 98](#_Toc94898929)

[Table 7.12: Agency banking has increased return on investment 99](#_Toc94898931)

[Table 7.13: Agency banking has multiplied customers of Centenary Bank. 100](#_Toc94898933)

[Table 7.14: Correlations 101](#_Toc94898936)

[Table 7.15: Table Model Summary 102](#_Toc94898938)

[Table 7.16: Coefficients 102](#_Toc94898940)

[Table 7.17: ANOVAb 103](#_Toc94898942)

[Table 7.18: Correlations between Agency Banking and Financial Performance of Centenary Bank 104](#_Toc94898945)

[Table 7.19: Multiple Regression Model 105](#_Toc94898947)

# LIST OF FIGURES

Figure 2.1: [Conceptual Framework 41](#_Toc94898792)

# LIST OF ABBREVATIONS / ACRONYMS

ATMs Auto Teller Machines

BoU Bank of Uganda

CB Centenary Bank

CGAP  Consultative Group to Assist the Poor

CBK Central Bank of Kenya

LM Liquidity Management

MNOs Mobile Network Operator

MTN Mobile Telecommunication Network

NWSC National Water and sewerage Corporation

URA Uganda Revenue Authority

OTPs One-time password

QR Quick response

# ABSTRACT

The study was set to examine the agency banking and financial performance in commercial banks in Uganda, using Centenary Bank as a case study. The study focused on three specific objectives: To establish whether agency banking regulations and procedure are complied with; accessibility to financial services and challenges associated with adoption of agency banking affects financial performance of Centenary Bank.

The study used a target population of 110 Centenary Bank staff, agency clients and customers. A sample of 86 respondents was selected using Neumann's formula (2000). A descriptive research design was employed and both quantitative and qualitative approaches of data collection were used. Data were analyzed using descriptive statistics where the statistics proved that r2=0.802; significance level was found and the hypothesis testing proved that there is a strong and positive relationship between agency banking and financial performance of Centenary Bank.

The study findings revealed that that there is a significant and positive relationship between agency banking and financial performance of Centenary Bank. It was discovered that, Agency Banking Regulations and Procedures (r=0.889, P<0.005), Accessibility to Finance (r=0.891, P<0.005); Banking Agency Challenges (r=890, <0.005); this indicates that challenges associated with agency banking affect financial performance in the bank.

The study concluded that agency banking regulations and procedure are complied with; accessibility to financial services improve financial performance and challenges associated with adoption of agency banking affects financial performance of Centenary Bank.

The study recommends that Central Bank should consider coming with a clear agency banking regulatory policy which creates a universal platform for all banking institutions. Security measures should be highly emphasized on the agents by the parent banks in order to increase their volumes and value.

# CHAPTER ONE

# INTRODUCTION

# Introduction

This chapter presents the background to the study, problem statement, purpose of the study, objectives of the study, research questions, research hypothesis, scope of the study, significance of the study, setting of the study and arrangement of the study.

# Background to the Study

The study is about the agency banking and financial performance of commercial banks in Uganda, using a case study of Centenary Bank.

The study is significant because agency banking is known for providing convenient and friendlier service to under banked population through engaged agents under a valid agency agreement. The agency banking solutions allows banks customers to access basic banking transactions at a location convenient to them like retail outlets such as shops, post offices, pharmacies or the bank agent can travel to the customer, thus, Increasing the reach of financial services through agents enables the population to access financial services without creating additional risk and cost to the bank.

Agent banking has rapidly increased due to the low infrastructural cost incurred on it rather than setting up a bank branch. Agent banks are used by commercial banks as a means to improve on the financial performance and maintain effectiveness in the market. This has stimulated interest in studying how agency banking relates to the way financial institutions perform.

The sample study is significant because Centenary Bank, which is headquartered at Mapeera House in Kampala City, is the country’s leading commercial microfinance bank, serving close to 2M customers, employing over 2900 staff, and has an asset base of UShs. 4.7 trillion as of November 2021. Financial Inclusion is a key for the bank and currently, the bank is reaching out through 77 branches, 191 ATMs, 4,939 Agent Banking Points, and Mobile Banking.

Centenary Bank history dates back to 1983 when it started as a credit trust of the Uganda National Lay Apostolate. CB operations started in 1985 with two reasons; serving the rural poor and making a meaningful contribution to the socio-economic development of Uganda. In 1993, the bank transitioned to Centenary Rural Development Bank Limited and was licensed as a full-service commercial bank.

Agency banking refers to contracting of a retail outlet whether corporate or a small market enterprise by a financial institution or mobile network operator to process bank client’s transactions (Calleo, 2014). Sahut (2011) defines agency banking as systems that enable bank customers to access accounts and general information on bank products and services through a personal computer or an intelligent device or any other banking activity held on internet. Agency banking is different from a bank cashier or teller in that the owner conducts the transactions such as cash deposit, cash withdrawal, electronic fund transfers, and payment of bills, account balance enquiry and loan referrals. Agents operate in supermarkets, pharmacies, retails shops and convenience stores (Sahut, 2011).

Agency banking is a segment of electronic banking where selected agents are allowed to provide selected financial services for the banks through contractual agreement. Agents earn revenue on commission basis according to the transactions conducted. Agency banking entail services such as cash deposits; cash withdrawals; balance enquiry; card-less deposits (via sim-banking); disbursement and repayment of loans; issuing of mini bank statements; salary payment; and forced pin change (BoU, 2017). Agency banking also play a critical role increasing accessibility of banking services to the customers such as loans and mortgages applications and credit cards since only a few transactions at the banks are needed (Purcell et al, 2013).

Agency banking is a subset of the broader domain of electronic banking. It entails a contractual agreement between the commercial banks and selected agents to offer specified financial services within the banking spectrum. Agents are remunerated on commission basis according to the transactions conducted. Agent banks are eligible to carry out transactions such as cash withdrawal; cash deposits; payment of bills; enquiry of bank balance; card-less deposits (via sim-banking); disbursement and repayment of loans; issuing of mini bank statements; salary payment; and forced pin change (CB, 2018). Financial performance measures the generation of revenues using business assets.

Agency banking offers the potential to increase and deepen financial inclusion across Uganda. Following regulations passed in July 2017, banks in Uganda can use agency banking as an extension of services traditionally offered in bank branches whereby third parties (agents) offer these services on behalf of banks to expand their presence, particularly in rural areas where brick-and-mortar branches are often expensive. For instance, estimates indicate that over 9 million Ugandans need to travel more than an hour to access a bank branch. For customers, agency banking means reduced travel time as well as greater access to and increased convenience of formal financial services.

In countries like Uganda, agent networks are concentrated in urban areas. This clearly shows how effective agency banking is perceived in Uganda. The agency banking is made for ease of congestion in banks, and transferring low-value transactions from the bank branches to the bank agents. Ignacio et al (2012) posits that financial institutions adopt agency banking in order to reduce cost of service distribution, and minimizing the banking risks.

The Agency Banking solution delivers financial inclusion for unbanked and under banked customers who live in remote locations without access to brick and mortar branches. By increasing the number of touch points providing financial access, whilst reducing transaction costs. The Agency Banking is a key part of the monetary inclusion strategy that is being implemented in Uganda that is aimed to help increase the number of customers hence translating to high transactions which will aid the overall banks performance.

Financial Performance in broader sense refers to the degree to which financial objectives being or has been accomplished and is an important aspect of finance risk management (Eshna, 2019). It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Amidu and Abor (2016) described ways of measuring financial performance. These include; profitability, cash flow, sales growth and market to book value. The portion of earnings not paid out to investors is ideally reinvested back to the company in order to provide for future earnings growth. Investors are very keen in finding out how much of the earnings is issued out to investors and how much is kept back to the company. Earnings kept from the investors are known as retained earnings, which ideally should be reinvested to provide for future earnings growth. They hope that the firms used their retained earnings to either maximize their current operations or invest it to recoup higher profits.

Financial performance gauges how a firm can efficiently utilize its assets to maximize its profits. For every organization, financial performance measure is vital for managing the performance despite the arguments on the importance non-financial and financial factors. The decision makers for businesses use financial performance to assess the success of business strategies employed by the firm. The business growth is an indicator of success if it is due to improved financial performance (Brealy, Myers & Marcus, 2007).

The measure of financial performance can be done in several ways. These include: Profitability which describe how much wealth a company is making after paying for all the expenses and other charges. The profits and the firms’ performance are directly related, implying that high profits indicate firm’s performance and converse is also true. Financial performance can also be measured using Cash flow and its value is obtained after subtracting the cash amount at the start of the financial year from amount of cash at the end of the financial year. Positive cash flows indicate a positive financial performance while a negative one indicates poor performance.

Isolation and a lack of infrastructure compound the issues facing those living in remote rural areas when it comes to accessing financial services. Agency Banking opens the door to greater financial freedom by extending business hours to customers and offering greater convenience to the rural population facing challenges due to poor infrastructure.

This study was guided by several theories such as the agency theory which was developed to explain the issues regarding risk sharing, agency problem and the association between agents and principals (Jensen & Meckling, 1976). Financial intermediary theory claims that financial intermediaries improve the efficiency of resource allocation by reducing transaction costs caused by imperfect information between the lenders and borrowers (Akerlof, 2007).

The bank-focused theory explains cost reduction of banking sector by using nonconventional service delivery channels to meet the needs of the clients. Technological innovations such as automated teller machines have improved the quality of service to both premise considers how the use of nonconventional delivery. Other related theories discussed include bank led theory which is a branchless banking service through contracted retail agents where the banks develop financial products and services and then engage the retail agent (Lyman, Ivatury and Staschen, 2016). Through its provision of services, it provides conventional branch-based services that customer’s carryout instead of queuing at the bank. This aim at reducing time spent in the bank.

According to the Centenary Bank Annual Report (2018); agency banking and financial performance is to be secured through implementing the following policy objectives.

1. To comply with agency banking policies and procedures.
2. To maintain easy access of financial services.
3. To handle all challenges associated to agency banking in a professional manner.
4. To cover a wider market coverage.
5. To ensure proper customer care services

This study examined the extent to which the above first three (3) objectives have been achieved by Centenary Bank.

# Problem Statement

Mujuni a Cente Agent reveals that despite the benefits of agency banking today, the system still facing a lot of challenges; these include policies and procedures governing agency banking, fraud, literacy levels, liquidity problems, banking technological operations and awareness were hindrances to the implementation of agency.

Agency banking has become popular among commercial banks in Uganda due to decongesting the banks in a bid to save on time spent which has been a concern among the banks as well as customers. However, most people still prefer conducting their banking services in the banking halls thus frustrating the agent banking models’ intention.

Centenary Bank recognizes the financial inclusion challenges which the country faces. These include the cost of financial services and the distance to bank branches in remote areas. Part of their approach to addressing these challenges is to promote innovation through mobile financial services and to address the delivery channel costs through increased use of agent banking (Centenary Bank, 2010a). Accordingly, this study seeks to establish the impact of agency banking on financial performance of Centenary Bank.

**Purpose of the Study**

The main purpose of the study is to examine the impact of agency banking on financial performance of commercial banks in Uganda, using Centenary Bank as a case study.

# Objectives of the Study

The study was guided by the following objectives.

1. To establish whether agency banking regulations and procedures are complied with to enhance financial performance of Centenary Bank.
2. To establish whether accessibility to financial services improves financial performance of Centenary Bank.
3. To examine whether challenges associated with adoption of agency banking affects financial performance of centenary Bank.

# Research Questions

The study was guided by the following questions.

1. How does Centenary Bank comply with agency banking regulations and procedures to enhance financial performance?
2. How does accessibility to financial services improve financial performance of Centenary Bank?
3. How does challenges associated with adoption of agency banking affects financial performance of centenary Bank?

# Research Hypothesis

The following were the hypotheses of the study:

**H0:** Agency Banking has not significantly influenced financial performance in Centenary Bank.

**H1:** Agency Banking has significantly influenced financial performance in Centenary Bank.

# Scope of the Study

The study was categorized into content, geographical and time scopes.

# Content Scope

This study focused on agency banking and financial performance of commercial banks in Uganda, using Centenary Bank as a case study. The study highlighted how the agency banking regulations and procedure are complied with to enhance financial performance, financial services accessibility by the customers improves financial performance and challenges facing agency banking services affects financial performance of Centenary Bank.

# Geographical Scope

The study was conducted at Centenary Bank Head Office, Mapeera House,
Plot 44-46 Kampala Road and Plot 2 Burton Street.

# Time Scope

The study targeted a period of three years, that’s to say, from 2018 – 2020. This is the period where the bank faces a lot of tribulations from non-compliance of agency banking policies, improper financial services accessibility and low agency banking outlets.

# Significance of the Study

The results of this study shall be useful to the following stakeholders:

Centenary Bank Management: The findings of this research would act as a strategic tool for the managers to make decisions on agency banking. From the analysis of the profits, they would be able to decide to adopt agency banking fully or stop the implementation by examination of the costs and the profits associated with the model of agency banking.

Other Organizations: The study was of great use to the telecommunication service provider’s companies MTN Uganda, and Airtel Uganda on the decision making on the continued partnership with commercial banks. The telecommunication service providers would evaluate the financial gains from the partnerships with the commercial banks. If there are little financial gains associated with the partnerships, the companies would think of terminating the contracts.

Banking and MNO’s Offering Agency Services: The study would be significant to the banking and mobile network operators that offer agency services in that it will help identify challenges that affect effective operations by their agents hence providing useful insights especially to decision makers involved in implementation of electronic services delivery strategies for their institutions. Necessary improvements identified could be undertaken to enhance agent banking usage.

Policy Makers: The regulators and policy makers in the financial services industry shall benefit from the findings of this study in that it shall help BoU come up with policies that shall effectively address problems faced by financial service agents. These may relate to regulating those aspects that threaten to adversely impact on their operations.

The study findings can help the government to know the extent to which Ugandan Banks have embraced agency banking more relevantly customers and enable them to come up with necessary policies and legislation in relation to agency banking services. The findings of this study can help other financial institutions to understand the effects of agency banking on commercial banks performance and enable them to make necessary strategies to improve on the number of customers adopting the services.

Financial Services Agents: The study would be beneficial to financial services agents in that in outlining the challenges they face, solutions for the challenges will be proposed to make their operations more effective enhancing their overall business success.

Academicians or Scholars: The study was of great use to the scholars to conduct academic research. It would act as a source of empirical literature and would act as aground in conducting further studies on agency banking.

# Setting of the Study

The study focused on agency banking and financial performance in commercial banks in Uganda, using Centenary Bank as a case study.

Centenary Bank Ltd started as an initiative of the Uganda National Lay Apostolate in 1983 as a credit Trust. The bank’s operations started in 1985 with two reasons; serving the rural poor and making a meaningful contribution to the socio-economic development of Uganda. In 1993, we transitioned to Centenary Rural Development Bank Limited and were licensed as a full-service commercial bank. In 2003, Centenary Bank Ltd was registered as a full service commercial Bank, after receiving a license from the Bank of Uganda.

Today, Centenary Bank Head Office is headquartered at Mapeera House in Kampala City, is the country’s leading commercial microfinance bank, serving close to 2M customers, employing over 2900 staff, and has an asset base of UShs. 4.7 trillion as of November 2021. Financial Inclusion is a key for the bank and currently, the bank is reaching out through 77 branches, 191 ATMs, 4,939 Agent Banking Points, and Mobile Banking.

The success as a bank is derived from its ability to always listen, understand and respond to our customer needs. The bank, therefore, is a diversified bank that offers a wide range of financial products and services, including consumer and business banking, corporate and SME banking through 77 branches and 191 ATM’s country wide as well as various electronic channels.

Vision: “To be the best provider of financial services, especially microfinance.” Mission:"To provide appropriate financial services, especially microfinance to all people, particularly in the rural areas, in a sustainable manner and in accordance with the law."

Values: Bank business model is built in such a way that while CB certainly want to grow and make a profit, the bank also realize that the best way to do this is through superior customer service, teamwork, integrity, exceptional professionalism, excellence, competence and leadership and environmental stewardship. It is these set of core values that define what the bank must do every day to best serve our clients.

# Arrangement of the Study

This study was organized into nine chapters;

Chapter one focuses on the introduction of the study which includes background to the study, statement of problems, objectives of the study, research questions, research hypothesis, scope of the study, significance of the study, setting of the study and arrangement of the study.

Chapter two contains literature survey, theoretical review, literature review and conceptual framework of the study.

Chapter three focuses on the research methodology containing the methods and instruments of data collection as well as technique of data analysis.

Chapter four presents analysis and interpretation of findings on demographic characteristics of the respondents.

Chapter five present findings on whether agency banking regulations and procedure are complied with to enhance financial performance of CB.

Chapter six presents findings on whether financial services accessibility improves financial performance of Centenary Bank.

Chapter seven presents findings on whether challenges associated with adoption of agency banking and financial performance of financial performance of Centenary Bank.

Chapter eight presents harmonization towards improving agency banking and financial performance of commercial banks in Uganda.

Chapter nine presents summary of findings, conclusions, recommendations and areas of further research.

# CHAPTER TWO

# STUDY LITERATURE

# Introduction

This chapter reviews what other people have written in relation to the topic under study. The chapter also identifies the gaps that have not been filled by other writers for purposes of addressing them during data collection. The section of this chapter also highlights the theories used to improve agency banking and financial performance of commercial banks.

# Literature Survey

Though a number of studies have been carried out, inadequate coverage has been done to deal with agency banking and financial performance of commercial banks in Uganda.

Wafula (2017) investigated the adoption of technology and the banking agency in Rural Areas of Uganda. Commercial banks were randomly selected and descriptive analysis was employed. The results showed a small percentage despite existence of agency banking services in the sector. This was contributed by insecurity, lack of confidentiality and inexperienced agents’ staff with poor customer service. From the analysis, the study concluded that enhancement of customer service, reduction of cost and banks presence in remote areas were influenced by the implementation agency banking in rural areas in Uganda. Wafula in his study did not reveal how agency banking challenges affects financial performance of Centenary Bank. Therefore, the current study filled the gap.

Ssebuyira (2015) investigated the role of consumer education of agency banking in the urban settings. The study was carried out in Buganda region specifically in Wakiso District. The results showed that agency banking education plays an important role where telecom companies have not fully embraced the technology. This however needs to be championed by banks that have agency banking in improving their values and transactions. The results further showed that 35% of the population can easily access financial services through agents. In his study did not point out how easy financial services accessibility by the customers improves financial performance of financial institution. Therefore, the current study bridged the gap.

Kiryowa (2013) had focused on embracing agency banking roles by commercial banks in Uganda. He found out that security and infrastructure cost related to agency banking have a significant role in improving their performance of financial organizations particularly in agency banking. The agency banking benefits were associated with its low transaction costs and convenience. The results showed that agency banking improved access networks and transactions efficiency beefed up making transactions easier and faster in Uganda. Kiryowa in his study did not mention how complying with agency banking regulations and procedures improves financial performance of the bank. Therefore, the current study filled the gap.

# Theoretical Review

This study based on five theories; agency theory, financial intermediation theory, bank focused theory, bank led theory and nonbank led theory to shade more light on the effect of agency banking as explained below.

# Agency Theory

This theory emerged in 2007s from Stephen Ross and Barry Mitnick from economics and institutional theory disciplines. Agency theory was developed to explain the issues regarding risk sharing, agency problem and the association between agents and principals (Jensen & Meckling, 1976). Armstrong (2001) posits that in real life, complex issues exist in agency relationships. However, Agency theory has a weakness since it supports simplistic contractual agreements between agent and principal. Issues related to political, social, cultural, and historical have been overlooked despite being key in making contractual agreements.

Agency banking has contributed significantly to reduction of expansion and staffing costs of the commercial banks. Automated teller machines (ATMs), branches and banking agents all work within operation strategies of banks in making decisions hence it is important for bank to poses clear strategic rationale while setting up bank agent (Siedek, 2018). Through agency banking, commercial banks are able to ease congestion in branches by diverting some of the customers to a complementary. In developing countries, agency banking is utilized to increase customer base by reaching to more clients especially in rural areas. Establishing branches in rural areas is uneconomical since the values of transactions are below the costs related to setting up a fully operational branch.

Banking agents have low establishment costs since they can operate on existing retail stall making it possible for low-income earners to access financial services. Siedek (2018) posits that low- income people are more comfortable in accessing financial services in banking agents compared to marble branch. Agent banking also play a critical role increasing accessibility of banking services to the customers such as loans and mortgages applications and credit cards since only a few transactions at the banks are needed (Makini et al, 2013). Agency banking business is more profitable than branch networks since agents require less paper work and less staff compared to branches (Kentur, 2013).

However, security and confidentiality challenges have been facing agent banking in maintaining strong customer relationship. Banks have to ensure their customer’s information is maintained with high confidentiality by ensuring the staff signs secrecy forms regularly. This is a challenge to the bank since the staffs at agent banks are not part of the bank staffs hence do not sign the secrecy forms. Security is another key challenge.

Majority of the agencies in urban regions are located in high populated areas posing high risks to customers while doing their transactions. The bank has to monitor the security measures put in place by the agencies to maintain customer confidentiality. Recently, the quality of service rendered in agencies has become a huge challenge. The operating hours, customer relationship and delayed transactions have characterized agencies.

According to Banker (2011) agents need to be trained properly on customer service as well as detecting fraudsters who are majorly targeting agencies. For the banks to fully reap the benefits of agency banking, they have a task force of addressing all these challenges.

Agency banking performance indicators include; deposit mobilization increase, competitive abilities and product attributes. Technology has taken the Centre stage in establishing strong interaction between the customers and local retail banks. The technological advancement in banking industry has led to virtual banks hence changing the performance indicators making it difficult for the bank management to adopt successful agent banking strategy (BoU, 2017). The management has been left with few areas to compete on which include; brand image, convenience, accessibility and product innovation.

# Financial Intermediation Theory

Akerlof (2007) developed the theory, due to asymmetrical information challenges witnessed in 2007’s. Financial intermediaries improve the efficiency of resource allocation by reducing transaction costs caused by imperfect information between the lenders and borrowers. Information asymmetry can either be “ex-ante” or “ex-post”. Riley et al (1979) defines ex-ante information asymmetry as a situation where lenders cannot detect high credit risk borrowers before granting them loans. Imperfect information entails adverse selection, credit rationing, moral hazards, screening and monitoring function of the bank. Modiglian and Miller theorem argues that clients make their own portfolio decisions and hence no need for intermediaries. Banks don’t need the intermediaries since they allocate resources efficiently. However, the need for intermediaries has grown due to pricing models and trading strategies leading to economic significance in financial intermediation.

# Bank-Focused Theory

The bank-focused theory explains cost reduction of banking sector by using nonconventional service delivery channels to meet the needs of the clients. Technological innovations such as automated teller machines have improved the quality of service to both premise considers how the use of nonconventional delivery. Agent banking model has also improved the customer confidentiality by boosting the operating efficiency (Kapoor, 2011). Banks associated with agency banking have proved to enjoy a competitive edge over the banks which have not adopted agency banking lead to better financial performance.

# Bank Led Theory

This theory was developed by Cameron in 1972 during the time of transformation of money- lenders into merchant’s banks during the origin of modern banking. Bank-led theory consists a chain of three main players; customer, bank and retail agent. The chain of events happens when the banks develops financial services which are delivered to the customer through retail agents. The bank responsibility is to open and hold the account, retail agent verifies customers’ personal details, carrying out in-person transactions, collecting loans and small deposits, and processing applications (Accenture, 2010). The bank establishes good communication system between the customer and retail agents by providing electronic technology to the agent retail. Bank led model plays a significant role in maintaining financial institutions and customer interaction by providing financial and non-financial services through retail agents. Security and poor agent staff training are main challenges facing the retail agent as well as conventional branch based banking.

Bank-led theory offers a distinct alternative to conventional branch-based banking in that customer conducts financial transactions at a whole range of retail agents instead of at bank branches or through bank employees (Lyman, Ivatury and Staschen, 2016). This model promises the potential to substantially increase the financial services outreach by using a different delivery channel (retailers/ mobile phones), a different trade partner (Chain Store) having experience and target market distinct from traditional banks, and may be significantly cheaper than the bank based alternatives. In this model customer account relationship rests with the bank (Tomášková, 2016).

Agents related risks arise from substantial outsourcing of customer contact to retail agents. From a typical banking regulator’s perspective, entrusting retail customer contact to the types of retail agents used in both the bank-led and nonbank-led models would seem riskier than these same functions in the hands of bank tellers in a conventional bank branch.

# Agency Banking Model

According to Kitaka (2011) the agency banking model, a model that through which banks allow commercial outlets to act in some capacity on behalf of formal banks was launched to a somewhat lukewarm reception by a handful of banks. He argues that the model has suffered some teething problems which have sent some banks back to the drawing board. For instance, banks are facing problems converting agent outlets into outsourced banks. The banking agency selection criteria have also shown some weaknesses, and many banks are now reorganizing their agents in order to meet rising demand. Keen to take advantage of the cost saving and accessibility brought about by the agency banking model, a number of Kenyan financial institutions have embarked on an aggressive entry into the segment. But many are finding that agents lack capacity to handle large transactions of cash and under-spend on account of security fears.

Kitaka, (2011) indicates that in most agency banking models, the cost and revenue estimation is done on a per account basis for transactional accounts, commitment savings accounts, reverse commitment accounts, and time deposits. It focuses on the costs and revenues incurred by the financial agent bank associated with account opening, financial margin, and transactions for low-cost accounts. The revenue assumptions are based on a view that financial agent banks can and should charge for withdrawals and transfers through agent channels.

# Literature Review

This section reviews literature related to agency banking and financial performance outside the Ugandan context. Agency banking and financial performance have been discussed based on the practical recommendations outlined in other research works done elsewhere outside Uganda.

# Concept of Agency Banking

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. Banking agents help financial institutions to divert existing customers from crowded branches providing a “complementary”, often more convenient channel. Other financial institutions, especially in developing markets, use agents to reach an “additional” client segment or geography (Mwachofi, 2013). Reaching poor clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of a branch.

Agency banking involves the provision of financial products offered by banks at premises away from the conventional banking premises (Modupe, 2010). Agency banking is the contractual arrangement by which the licensed financial institutions use third parties to serve clients with financial products (BoU, 2018). Banks have agents situated in strategic locations where customers need fund to make purchases or diverse forms of payments. Kumar, Nair, Parsons, and Urdapilleta (2016) hold a view that agency banking is not independent from the parent bank implying it cannot offer financial products other than those offered by the parent bank. Agency banking enables the customers to get access to the financial services at their convenient places, therefore curbing barriers of financial inclusion such as cost and accessibility.

According to Ivatury (2016), agency banking is adopted by many banks and financial services regulations to enhance financial inclusion and promote financial deepening and innovativeness. Agent banking involves distribution channels of financial services, using technologies. The pioneering countries in the adoption of agency banking include; Brazil, Uganda, Kenya, India, Philippines, and South Africa.

Information technology holds the potential to fundamentally change the banks and the banking sector. The rapid growth of technology in the developing economies, especially Africa has highly contributed in the enhancement of financial innovations in the banking sector, which include Automated Teller Machines, credit cards, mobile banking, internet banking, and the recent introduction of agency banking (Bold, 2011). Technological advancement has facilitated the improvement of living standards among individuals by ensuring easy accessibility of banking services at minimal costs. In situations of increased globalization, technological changes and high market competition, firms experience performance gains and competitive advantage (Henderson & Venkatraman, 2013).

# Agency Banking Regulations and Procedure

According to a report by CGAP (2010), policymakers around the world seek to encourage the provision of financial services to the unbanked and under-banked poor, they implement regulatory frameworks that enable the spread of low-cost branchless banking while at the same time protect consumers against fraud. This is a difficult balance to strike, particularly when it comes to regulating agents, which typically play a crucial role in receiving and dispensing cash on behalf of the financial service provider (CGAP, 2010).

World Bank report (2010) indicates that branchless banking is only allowed to be undertaken by licensed deposit-taking financial institutions (bank and non-bank) or their agents. Furthermore, all customers of financial institutions (FIs) undertaking branchless banking activities must be 16 uniquely identified. In each case customer account relationship must reside with some FI and each transaction must hit the actual customer account. All FIs and their agents must comply with the Anti-Money Laundering Act (2008) as well as the international standards set by the Financial Action Task Force (World Bank, 2010).

According to World Bank (2010), it is a regulatory requirement that adequate customer due diligence, on the spirit of (KYC) be undertaken on all new accounts and on one-off cash transactions over designated thresholds. This requires identifying the customer and verifying the customer’s identity: - Financial service providers to keep detailed transaction records for at least five years; Financial institutions to report suspicious transactions promptly to the AML/CFT authority (World Bank, 2010).

Tarazi and Breloff, (2011), revealed that regulations often impose some form of “fit and proper” requirements, mandating a form of agent due diligence that requires financial institutions to verify that would-be agents have good reputations, no criminal records, and no history of financial trouble or insolvency. While fit-and-proper criteria listed in regulation often are not problematic, providers and agents have occasionally argued that compliance with particular details can impose significant cost, particularly with respect to gathering documentation (Tarazi and Breloff, 2011). Central banks regulations on agency banking hamper the growth of agency banking, these regulations slows down the penetration of the agency banking which negatively affect the performance of commercial banks. Central Bank has stringent regulations on agency banking which slow down the growth of agency banking thus affecting the performance of commercial banks

A study Conducted by Bold (2011) in Brazil found that some countries restrict the location of agents, though such restrictions are sometimes eased when regulators recognize that the regulations create obstacles to financial inclusion. For example, due to concerns that agents could threaten bank branches, Brazilian regulation originally allowed agents only in municipalities that did not have bank branches. Bold (2011) also found that Indian regulators initially required agents to be located within 15 kilometers of a “base branch” of the appointing bank in rural areas, and within 5 kilometers in urban areas. This policy, intended to ensure adequate bank supervision of its agents, limited the use of agents by banks with only a few branches. Experience has shown that overly restrictive location requirements can complicate the business case for viable agent-based banking and ultimately work against financial inclusion goals. In addition, the real-time nature of most agent services has enabled remote supervision, thereby obviating one of the central arguments for location restrictions (Tarazi and Breloff, 2011).

In order to protect consumers from operational challenges, the Guideline makes it mandatory for every contract between an institution and an agent to specify that the agent shall at all times ensure safe-keeping of all relevant records or have them shifted to the institution at regular pre-specified intervals for safe-keeping. The Guideline also provides that the Institutions shall publish an updated list of all their agents in their websites and such other publications as they may deem appropriate. In addition to the updated list, the physical location, GPS co-ordinates, postal address and telephone numbers of the entity and its working hours need to be provided by the financial institution. The publications containing the list of their agents shall be disseminated to all their branches and may also be disseminated to their agents. These security measures are intended to safeguard consumers from falling prey to unregistered agents.

# Accessibility to Financial Services

Arora and Ferrand, (2017), reveal that technology adoption especially, in banking systems has shown a great momentum and spread at an unbelievable pace across the world. Considering the importance of banking system’s high presence and affordability, there is great potential of using this in agent banking for provision of banking services to unbanked community (Arora and Ferrand, 2017. However, technology systems have associated data and network security risks which make them susceptible for conducting financial transactions. Technology risks regarding information and data security based on applicable models of agent banking have been reported thus creating uncertainty to the clients (Owens, 2016).

Owens, (2016), states that financial institutions are required to plan and act for long term development and prosperity of their agents for them to reach the targeted customers at a set population. This requires close coordination / collaboration with agents; providing those opportunities to learn more, to become more efficient and; a fair pricing mechanism for the services provided by the agents (Arora and Ferrand, 2017).

As the technology changes rapidly, banks have been greatly affected in its operation, whereby application of the technology ensures quick and effective services to the clients. However, banking agents do not change their system as frequent often leading to system failure and the consequent delays in transaction execution (Lyman, et al, (2018). This leads to customer inconvenience and trust over the security/safety of transaction lodged with agent banks. Moreover, these constant systems failure makes transactions with banking agents vulnerable to fraud.

Agency banking is receiving much attention all over the world owing to its associated benefits. According to Ivatury and Timothy (2016), agency banking offers the following benefits to the customers for enhanced service delivery; lower transaction cost (closer to client’s home), longer opening hours, shorter lines than in branches, more accessible for illiterates and the very poor who might feel intimidated in branches, to the agency: increased sales from additional foot-traffic, differentiation from other businesses, reputation from affiliation with well-known financial institution, additional revenue from commissions and incentives, finally to the financial institutions increased customer base and market share, increased coverage with low-cost solution in areas with potentially less number and volume of transactions, increased revenue from additional investment, interest, and fee income, improved indirect branch productivity by reducing congestion.

Enhanced Accessibility to Banking Services: According to Berger (2018), agent banks offer similar services as a real bank. This ranges from cash deposits and withdrawals, disbursement and repayment of loans, payment of salaries, pension, transfer of funds, and issuance of mini-bank statements, among others. Berger further argues that, the agent also facilitates new account opening, credit and debit card application, cheque book request, hence eliminating the need for the commercial bank to have branches all over. This is being replicated across the country, especially in rural areas. The Ugandan situation remains an important case study in this regard. In Uganda the Central Bank has already licensed four banks to carry out agent banking business and approved 3,809 agents. Many others are expected to be licensed in due course.

Increased Number of Branches: Central banks play a key regulatory role in any financial market. They have been at the center of the growth of Agency banking in developing countries. In Kenya, the Central Bank of Kenya (CBK) has played a pivotal role in enhancing penetration of the agency banking model. In 2009 for instance, the CBK commenced measures to open up banking channels to non-bank agents. An amendment to the Banking Act allowed banks to start using agents to deliver financial services. It was then argued that using small shops, petrol stations, pharmacies and other retail outlets as agents could have a dramatic impact on improving access to financial services, especially in rural areas. This resulted into mushrooming of many agency banks in the country (Baron 2012). This decision has been widely praised as having resulted in the deepening of the financial sector and raising overall levels of financial literacy in the country.

Interest-free overdraft: Banks usually provide their agents with an interest-free overdraft that can be used only to fund banking agent transactions. In this case, the store‘s POS authorizes transactions as long as the store‘s account balance at the bank does not go below the amount of the overdraft. The store manager can increase the volume of agent business it can handle by depositing its own funds into the same account. The overdraft is a form of credit extension strictly between the bank and the retail outlet (Lyman et al., 2018).

The studies done by National Bank of Rwanda (2014) for monetary policy and financial stability statement stated that access to finance refers to the possibility that individuals or enterprise have to access financial services including credit, deposit, payment, insurance and other risk management services. Securing access to finance for all, including the most vulnerable parts of the population and small entrepreneurs, accelerate inclusive growth. BNR, in its mandate of enhancing and maintaining a stable competitive and inclusive financial sector, has played an important role in facilitating the access to finance in Rwanda through the extension of the banking system and branchless banking solution in rural area and the use information technology.

Correspondingly, when a customer makes a withdrawal, the agent receives e-money and pays out cash and the agent’s e-money balance increases by the amount of the transaction. The agent can continue to make transactions until their e-money balance is exhausted. At this moment the agent has effectively exchanged all their e-money for physical cash, and the agent then needs to replenish their e-money account by paying in cash to their e-money account before any further cash deposits can be made by customers. Ensuring agents have either e-money or cash when customers require it, is the critical challenge of mobile banking liquidity management.

# Challenges Associated with Adoption of Agency Banking and Financial Performance

Agent banking however is not without its fair share of challenges. Mwangi and Mwangi report that the level of liquidity that bank agents maintain influences the use of agency banks in a sense that in most cases agents do not always maintain enough cash demanded by customers and this discourages repeat business.

They also highlight that lack of security, malfunctioning equipment and errors also discourage the uptake of agent banking. Network problems also deter the use of agent banks by customers as they sometimes suffer from connectivity problems. These challenges can be summarized as operational; technological; legal and reputational.

Operational challenges; these include the loss of customer assets and records, data entry errors, poor cash management by the agent resulting in the agent not being able to meet customer withdrawals, and failure by the agent to resolve or forward customer complaints to the bank.

Technical challenges; these arise where there is system or hardware failures which can cause a lack of service availability and informational loss.

 Legal challenges; these may occur when customers sue a bank as a result of actions of the agent. In order to appreciate the problems associated with agent banking, one has to keenly look at the mobile money challenges in Uganda. Most of the challenges faced by mobile money agents today without a doubt plague bank agents since both models operate similar systems. These challenges include but are not limited to fraud, personal security of agents arising from robberies that endanger their lives, lack of support from network operators, theft and poor connectivity.

Legal challenges can arise in circumstances of liability. For example the agent may become negligent by not checking the bank notes they receive for deposits and in the process accept fake notes. This may result in losses for the financial institution if the agency contract is silent on who should bear the losses. It is for this reason that most agency contracts try to induce optimal behaviour from agents by rendering them liable for all losses due to negligence on their part. The central bank however provides that a financial institution is liable for the actions or omissions of its agent relating to agent banking. However, an agent shall be liable for any acts or omissions of its outlet. This seems to limit the liability of the principal in the principal agent relationship which gives rise to the question of what liabilities shall the financial institutions bear and against whom can the consumers enforce their rights.

The use of a non-bank employee to effect transactions on behalf of the bank poses risks such as agent fraud and theft. The agent may also charge customers unauthorized fees or offer unprofessional services to customers such as requiring customers to purchase certain goods and services to obtain other services. In order to protect the consumers, the Regulations provide for due diligence in agent selection, they further provide that agents should have at their locations written notices stating that no charges or fees are levied, and that fees are not directly charged to customers. In addition, the law provides that persons who offer financial services on behalf of a financial institution should have valid agency agreements with the financial institution. In order to entrench the safeguards, the central bank makes it mandatory for the financial institutions to comply with the regulations, or face suspension or any other penalties. This mitigates the potential operational challenges that may arise.

Terrible user experiences of bank customers paint a likely scenario for agent banking. Other than unstable networks and to some extent the high interest rates, all other pain points are directly linked to the inner workings of the bank. As such they require internal strategies to resolve. Therefore banks must address key pain points such as high charges, fraudsters, unstable network and untrustworthy agents in their agency banking system. The regulations stress the need to put in place adequate and secure technological infrastructure capable of processing all transactions in real time, and also provide for a two-factor authentication and generate a standard easily identifiable copy system receipt or acknowledgement with the name of the financial institution, unique identification number of the agent who processed the transaction and a unique transaction reference number.

Agent banking means the provision of banking services by a third-party agent to customers on behalf of a licensed, prudentially-regulated financial institution, such as a bank or other deposit-taking institution. In this model, the customer has a direct contractual relationship with the bank that is offering the services of agency banking. With the introduction of agency banking various challenges have been faced during its implementation and some of the challenges are discussed as follows:

Regulators want to ensure that agents, as extensions of the banking system, are able to provide professional customer service, keep records, handle cash, and manage liquidity. Regulations often impose some form of “fit and proper’ requirements, mandating a form of agent due diligence that requires financial institutions to verify that would-be agents have good reputations, no criminal records, and no history of financial trouble or insolvency (Ignacio and Siedek, 2018).

Liquidity management is a significant concern in the agent banking money model. When customers are unable to make transactions due to agents’ lack of liquidity, the service is less useful and this can lead to a deterioration of trust and reliability in the entire system. Agents have to ensure they have sufficient e-money and hard cash so that customers can be able to make their cash deposits or withdrawal transactions. Security of handling of the cash is also a challenge since most of the agents are left with the full responsibility of ensure security in their premises.

Incentivizing the agent network is an essential component to ensuring their co-operation and ongoing commitment to delivering quality service. The operator must recognize that the cash-in/cash-out points are the face of the brand product and customers need to have a good experience at these points in order to earn their trust and continued use of the service. Banks therefore have to ensure that agents undergo basic banking training on how to handle their client and remain professional so as to retain their customers.

Commission structure is also a challenge that banks face while dealing with agents. Initially, implementing an attractive agent commission model can be costly but as the volume of transactions increases, the investment pays off. Banks have to come up with competitive commission structure that will attract the agents and at the same time earn revenues from agent banking strategy (Ignacio and Siedek, 2018).

Banks have to vet the location whereby the agents have to set up their shops. Various factors have to be analyzed before final decision can be made. Most banks will want to have agents well distributed whereby they will have large numbers of clientele. The banks will also ensure that the agents are easily accessible for quick and frequent supervision (Guideline on Agent Banking, 2010).

# Financial Performance in Commercial Bank

Bank performance is the degree of accomplishment for banking financial objectives, the banks accomplishment on customer satisfaction and retention, banks deposit, targets and new account opening, banks profit after tax and banks accessibility, flexibility and technological innovations and its applicability into the market as a competitive advantage defines a bank’s competitive edge (Aburime, 2008). This is a banks fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract. Financial perspectives, customer perspectives, internal processes, learning and growth divide the bank into tire one bank or tire two banks (Karani, 2013). The bank performance measures adopted for purposes of this study were: Transaction time, profitability, loan book and liquidity.

Financial performance measures the extent to which the firm generates revenue through efficient utilization of the available assets. Financial performance is the degree to which the financial objectives are being achieved by considering the outcome of the monetary aspects of an organizational operating processes and policies. During financial analysis, decision-makers select, evaluate, and interpret financial data, in addition to relevant information, to help appreciate the dynamics influencing performance. The results of financial analysis are helpful in evaluating concerns related to how employees are performing; whether an enterprise is operating efficiently; and probable opportunities for external investment (Drake, 2016).

# Determinants on the Financial Performance of Commercial Banks

Banks have adopted innovations because it enables business entities to become more competitive in the provision of services to drive the business entities in the better satisfaction of the customer desires in the market this will improve financial performance. The determinants of financial performance of commercial banks include corporate governance, macroeconomic: factors, liquidity, management efficiency and capital adequacy.

Corporate Governance: The performance of a business entity is normally guided by the involvement of various parties including the owners of the business entity and the managers together who are motivated by the spirit of attaining the objectives of the business entity. The objectives of the business entity can be achieved only by good business practices among the stakeholders hence the need for corporate governance which acts as a constitution for business entities (Friedman, 2007). A legal framework is therefore needed for running the company for purposes of protecting the owners from bad managers and the business from owners who may take advantage of the limited liability status. Accountability is key for the success of any business entity. Commercial banks in Kenya should always make sure that all time they practice good corporate governance practices since they normally improve the financial performance.

Macroeconomic Factors: The macroeconomic factors include exchange in fluctuation rates, inflation, interest rate changes and political factors. The significance of exchange rate fluctuations on the effect of financial performance can be as an outcome of poor international relations among the countries in the world which will adversely affect the performance. On the other hand, when good international relationships exist, there is minimal fluctuation in exchange rates hence improved financial performance for the commercial banks. Inflation is also a key factor which influences the performance of commercial banks. High inflation rates affect the financial performance negatively while low inflation rates are favorable for the commercial banks. When interest rates are high they scare away the borrowers hence the profit for banks decline.

In Uganda for example, since the interest rate capping many commercial banks have reported declined profits because the lending levels has been affected ultimately reducing the interest income. Many banks have been forced to scale down most of its operations as a result of declined profits. Political stability in a country is good for investment opportunities since it is able to attract more investment opportunities hence increased financial performance. If there is political instability, the rate of business activities slows down and the effect is felt in every sector of an economy hence poor financial performance.

Liquidity: Liquidity is the measure of how first a security can be turned into cash. Liquidity is a key factor in the determination of the profits of the commercial banks. If an entity is able to meet its obligations, then the entity is operating efficiently. Efficient management of the resources will improve the financial performance (Dang, 2010). With enough levels of liquidity, the commercial banks are guaranteed higher profits. Liquidity in the commercial banks is normally assessed from amounts of the deposits and the total assets of commercial banks the higher the customer deposit to total assets the higher the liquidity and vice versa.

Management Efficiency: Every business entity is always determined in ensuring the resources are not wasted since the same resources are meant to improve the operations of an entity (Rosen, 2013). It is the duty of the management of the commercial banks to ensure that the bank’s operational expenses are kept as minimal as possible while at the same time ensuring the profits are maximized management efficiency can be achieved by employment of the competent staff in the commercial banks. Competent staff will ensure any risks associated with any bank operations are minimal this will lead to improved financial performance. The management should put adequate control systems to monitor the operations in the commercial banks. This will ensure minimal losses among our commercial banks this will translate to improved financial performance. Management efficiency is measured by earnings growth rate.

Capital Adequacy: The financial performance will depend on the amount of money available in the banks to support their operations. Banks with a relatively high amount of money to cater for their operations tend to perform better than those with strained resources. One of the reasons which bring about capital inadequacy is the bank-run which is brought about by the fear of customers losing their money as a result of collapsing of commercial banks. Therefore, commercial banks need to set up emergence funds to cater for bank-runs. Other risks which are faced by commercial banks include credit risk which is due to high default rates from the customers. Therefore, the commercial banks should maintain adequate levels of capital to cater for these uncertainties.

# Conceptual Framework

The framework describes the relationship between the independent and the dependent variables in a research study (Mugenda & Mugenda, 2013). In examining the effects of agency banking the following framework was of great assistance among selected commercial banks in Uganda.

 **Independent Variable Dependent Variable**

**Financial Performance**

* Profit Maximization
* Capital Adequacy
* Return on investment
* Efficiency
* Corporate Governance
* Liquidity Management

**Agency Banking**

* Compliance with agency rules and regulations
* Accessibility of financial services
* Agency Banking Challenges

**Moderating Variable**

* BoU Policies
* CB Policies
* Ethical Code of Conduct

**Figure 2.1: Conceptual Framework**

**Source: Researcher, 2021**

Financial performance is the dependent variable and was measured using liquidity, return on investment, profitability, capital adequacy, management efficiency. The independent variable is agency banking which includes; compliance with agency rules and regulations, accessibility of financial services and agency banking challenges. The study is conceptualized in a framework explaining the relationship between the independent variables and the dependent variables as shown in the schematic diagram above.

# CHAPTER THREE

# RESEARCH METHODOLOGY

# Introduction

This chapter presents a detailed description of the methodologies used in collecting relevant data to the study. It contains the research design, study population, study area, sample size, sample size determination, sampling techniques, data collection procedure, data collection methods, data collection instruments, data processing, data analysis techniques, ethical consideration and limitation of the study.

# Research Design

The research design was categorized into four namely; research approach, research strategy, research duration and research classification.

# Research Approach

This study was classified in descriptive and explanatory studies. Descriptive research design was used in order to ascertain and be able to describe various characteristics of variables in the study. Explanatory research design which was used at explaining the variables by associating it with the study and this was used because it clearly describe why and how the variables behaved the way they did.

# Research strategy

Research strategy is a general plan of how the research was done. This research was carried out in three months and research data was collected from the field that is to say from the case study, which was focused on the research topic, research objectives, and research questions. It is therefore useful where there is a need to gain a rich understanding of the context of the research and the process being enacted. It further involved interviews, questionnaires and documentary reviews (Amin, 2005).

# Research Duration

This study was a snapshot and a representation of events over a given period of time, explanatory research design was also used in the study, this helped to gather data required from the managers, and the staff at large as indicated under the research schedule and it covered a period of 2019 to 2020.

# Research Classification

The study used both quantitative and qualitative research approaches focusing on Centenary Bank staff, managing directors and customers. This was design used because it brings out clearly the detailed information on agency banking and financial performance.

# Study Areas

The study was conducted at Centenary Bank Headquarters at Mapeera House where the respondents were selected from the staff operating in this area. This study was conducted at Centenary Bank; the bank is located in the middle of Kampala.

# Study Population

The population of the study was comprised of 110 staff and customers from Centenary Bank, Headquarters. This included the members of administration, Management, Procurement, Human Resource, Accounting and Finance and Banking Agents.

# Sample Size

The targeted population of the study arising from Centenary Bank was studied, the sample size of 86 of the respondents were drawn from administration, Management, Procurement, Human Resource, Accounting and Finance and Banking Agent. The distribution of the respondents is as shown in the table 3.1 below:

#  Table 3.1: Distribution of the study population and sampling techniques

|  |  |  |  |
| --- | --- | --- | --- |
| **Category** | **Population** | **Sample Size** | **Sampling technique** |
| Administration  | 15 | 14 | Purposive sampling |
| Management | 10 | 08 | Random Sampling  |
| Procurement  | 05 | 05 | Census sampling |
| Human Resource  | 20 | 15 | Purposive sampling |
| Accounting and Finance  | 10 | 08 | Random Sampling |
| Banking Agent | 30 | 20 | Random sampling |
| Customer | 20 | 16 | Random sampling |
| **Total**  | **110** | **86** |  |

Source: Primary Data, 2021

# Sample Size Determination

The sample size of respondents is 86 as calculated using Neumann (2000) formula as follows.

 n = N

 1+ N (e2)

Where: **n =** sample size, **N =** target population

 **e =** level of significance = e = 0.05 = e2 = (0.05)2 =0.0025

 n = 110
 1 + 110(0.05)2

 n = 110
 1 + 110(0.0025)

 n = 110
 1 + 0.275

 n = 110
 1.275

 **n = 86**

# Sampling techniques

Purposive, random and census sampling techniques were used to select the sample.

# Purposive Sampling

The purposive sampling technique was characterized by the use of judgment and a deliberate effort to obtain representative samples by including typical areas or groups in the sample. In this method, the researcher handpicked subjects on the basis of business carried on. It is the most appropriate method to select a sample from the various sectors in this area. It enabled the researcher to select a sample with vital data on the topic under study that can assist in analyzing the problem further (Murphy, 2009).

# Random sampling

Random sampling as suggested by Murphy (2009) often meanschance or a haphazard method of assignment and it is applied to eliminate bias, both conscious and unconscious, that the researcher could introduce in sample selection. This method also offered every member of the population an equal chance of being selected for the assignment and it is required for inferential statistics since the researcher desires to make inferences about populations based on the behavior of samples.

# Census Sampling

A census is a study of every unit, everyone or everything in a population. It is known as a complete enumeration, which means a complete count, Joshua (2008). When a population has been identified a decision needs to be made by taking a census sample is a more suitable option. This method was used because it provides a true measure of the population (no sampling error). It also provides a benchmark data that may be obtained for future studies, and further provides detailed information about small sub-groups within the population that would have been neglected.

# Data Collection Procedures

This being an academic research, the researcher looked for a supportive letter explaining the objectives of the research signed by the Dean of School of Business Administration (SBA) before distributing the self administered questionnaires, interview guides and focus group discussions to the respondents. Respondents were asked to present their data confidentially and anonymously.

# Data Collection Methods

In this study, two types of data were used; the primary data and the secondary data. The primary data was obtained from primary sources by use of interviews, focus group discussions, and questionnaire. Secondary data was obtained from secondary sources that involved the reviewing of various internal and external documents in order to obtain the information and other sources that are necessary for the production of the final report. The researcher used questionnaire, interview and focus groups and documents review methods to collect data.

# Questionnaire Method

Questionnaires were designed in view of the research questions to solicit relevant information from the respondents in Centenary Bank. This method helped to delimit the perceptions and sentiments of the respondents that could have consequences to the subject under study. Close ended questionnaires were used in order to supplement each other. The close ended questionnaires were used to get information that is definite on agency banking and financial performance of Centenary Bank.

# Interview Method

Interview means face to face interaction between the interviewee and the interviewer. The interviews were held with those respondents such as managers identified purposely crucial to the provision of explanations to the topic under study. The interview method helped the researcher to collect additional views from respondents on agency banking and accessibility of financial services. The questions were filled on spot and the respondents were interviewed from their offices to save time. The interviews helped to supplement the answers given in the questionnaires. Interviews enabled the researcher to get more elaborate and candid responses as opposed to the questionnaires. Interviews of half an hour to one hour was conducted at the work place and the researcher rely on a note book to store the data from the interviewees.

# Documents Review

This method was done in order to get data from records of Centenary on the role of training and development on staff performance. Bank official documents such as agency banking reports, financial access reports, and websites were used. The secondary data was gathered from published books, research reports, journals. These provided information is needed in the study and writing of the final report.

# Data Collection Instruments

Data was mainly collected through the use of questionnaires and interview guide.

# Self Administered Questionnaires

A Self- Administered Questionnaire with close-ended questions using Likert scale of measurement was used to collect data from respondents. This instrument was used because it is easy to administer, and it allowed literate respondents to give their views without fear. The researcher physically delivered the questionnaires to the selected respondents and picked them after one week, this enabled the respondents to have ample time to understand and fill the questionnaires.

# Interview Guide

An interview guide was used during the interview of key informants like the administrators and managers of Centenary Bank. The questions in the interview were both open-ended and closed. The open-ended questions gave chance to more discussions, while the closed questions were asked for particular responses (Amin, 2004).

# Validity and Reliability of Instruments

The validity and reliability of the research instruments are important considerations when conducting research. Hopkins (2010) defines validity as how well a variable measures what it is supposed to measure; while reliability tells one how reproducible measures are in a retest. (Edwards and Talbot, 2014) suggest that the validity of information is based on the extent to which the methods measure what they are expected to.

# Validity of instruments

Validity is also seen as the extent to which a study is free from interference and contamination and control or variable manipulation. To ensure validity and reliability, the questionnaires were piloted on a small group of respondents before distribution to the main sample. The pilot study test whether the questions are clear and could be understood by different respondents and led to improvements in the precision of the questions and how they capture content.

Frankel and Wallen, (2010) recognize that the quality of instruments were used in any research is important because the information obtained through them is used to draw conclusions. The data collection method to be used in this study (questionnaires) was proved to reality. The pre-test reveals that the questionnaire should not take more than ten (10) minutes to complete. Confidentiality was guaranteed as questionnaires are returned anonymously.

The formula that was used to test the validity index is shown below:

$CVI=\frac{Number of items declared valid}{(Total number of items)}$ x 100

# Reliability of instruments

Joppe (2000) defines reliability as: The extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable. Embodied in this citation is the idea of replicability or repeatability of results or observations. Kirk and Miller (2016) identify three types of reliability referred to in quantitative research, which relate to: (1) the degree to which a measurement, given repeatedly, remains the same (2) the stability of a measurement over time; and (3) the similarity of measurements within a given time period.

In order to determine the reliability of the scales, the instrument was presented and the results were given in the table indicates the established CVI.

# Table 3.2: Reliability of instruments

| No. of items | Section of the questionnaire | Cronbach’s Alpha |
| --- | --- | --- |
| **1.** | Agency Regulations and Procedures |  .889 |
| **2.** | Accessibility to Finance |  .891 |
| **3.** | Banking agency challenges  |  .890 |
|  | **Average**  |  |  **.890** |

Source: Primary Data, 2021

The reliability coefficient for each of the sections above exceeds 0.88. As can be seen from table3.2, the lowest was 0.889 and the highest was 0891. The average was 0.890 or 89%. According to Chadwick, Bahr and Aibrecht (1984: 250) as cited in Ehlers (2002:27) are of the opinion that reliability was acceptable at a level of 0.6 or above, with absolute reliability of 1.0 implying that the scales on the questionnaire that were used to measure the three sections were reliable and consistent.

# Data Processing

Data processing was done through different stages. The data collected from different questionnaires and interviews were organized so that order can be created. Editing and cross checking was done so that errors can be detected and corrections made. This help to find out completeness in the questionnaires. After editing the data, coding followed. This involves assigning of symbols to answers so that data can be categorized for example by age, level of education and job title. Quantitative data was summarized and presented in frequency tables to generate descriptive statistics. These aimed at enabling quick reading and understanding of the data.

# Data Analysis

Data was analyzed using various statistical techniques. Descriptive analysis was carried out using the statistical package for social scientists (SPSS) in order to test the relationship between the agency banking and financial performance in Centenary Bank.

# Ethical Considerations

Effort was made to confine the conduct of the study to the realms of academic research ethics. In general, ethics pertaining to identification, disclosure, understanding, informed consent, voluntary participation, confidentiality, right to privacy and anonymity (secrecy) was taken care of by the study. The rights of individuals and institutions were respected. The researcher first seeks consent of all the respondents, who are assured of confidentiality of their responses. Furthermore, confidentiality of data to be provided by individuals or identifiable participants was maintained. Interaction with respondents was done politely and consciously. The participant ensured voluntary participation of the respondents and the right to withdraw partially or completely from the process.

# Limitations of the study

Longitudinal effects: The researcher also realized that the budgeted time to investigate the research problem and to measure change or stability within the sample was constrained by the due date of his assignment. The researcher knows that the topic requires an excessive amount of time to complete the literature review, apply the methodology, and gather and interpret the results. To overcome this problem however, the researcher used Saturdays and Sundays also useful in conducting the research.

Finance: The financial resources to facilitate the study were limited; however, the researcher mobilized extra resources from friends and relatives and thus adjusts the budget accordingly.

Confidentiality: Also, some respondents most especially the managerial members of Equity Bank, Juba deliberately rejected and resisted to participate in this study claiming that they may be accused of releasing confidential information to the public.

# Conclusion

This chapter provided the methods and techniques that were employed in conducting the study. The next chapters centered on presentation, analysis and interpretation of demographic characteristics of the respondents and study objective of the study.

# CHAPTER FOUR

# DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

# Introduction

This chapter presents analysis on the demographic characteristics of the respondents; these include the age group, gender of the respondents, highest level of education attained, occupation / department of work, number of years employed at secondary and position of employment by the respondents involved in the study.

# Gender of the Respondents

Table 4.1 presents that 57(66.3%) of the respondents were male and 29(33.7%) were female. This was a good sample because both sexes were considered in getting effective information on the agency banking and financial performance of Centenary Bank.

# Table 4.1: Gender of the Respondents

|  |  |  |  |
| --- | --- | --- | --- |
|   |  Frequency |  Percent | Cumulative Percent |
| Valid | Male | 57 | 66.3 | 66.3 |
|   | Female | 29 | 33.7 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

# Age of the respondents

Table 4.2 shows that 21(26.7%) of the respondents are between 21 to 30 years of age, 27(31.4%) were between 31 – 40 years, 23(26.7%) were between 41 to 50 years, 21(13.6%) and 13(15.1%) were above 51 years. This implies that the respondents were mature and able to give appropriate information on the role of agency banking on financial performance of Centenary Bank.

# Table 4.2: Age distribution of respondents

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | 21 - 30 Years | 23 | 26.7 | 26.7 |
|   | 31 - 40 Years | 27 | 31.4 | 58.1 |
|   | 41 - 50 Years | 23 | 26.7 | 84.9 |
|   | Above 51 Years | 13 | 15.1 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

# Academic qualification of the respondents

In table 4.3, results reveals that 22(25.6%) had certificates, 34(39.5%) had diplomas, 26(29.9%) has bachelors degree, 4(4.7%) had acquired masters degree. This implies that the respondents were able to read and understand the questions in the questionnaire and give appropriate answers on the role of agency banking on financial performance of Centenary Bank.

# Table 4.3: Academic qualification of the respondents

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Certificate | 22 | 25.6 | 25.6 |
|   | Diploma | 34 | 39.5 | 65.1 |
|   | Undergraduate | 26 | 30.2 | 95.3 |
|   | Masters | 4 | 4.7 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

# Department of Work

Findings in table 4.4 shows that 14(16.3%) of the respondents were from administration, 8(9.3%) were management department, 5(5.8%) were procurement department, 15(17.4%) were from human resource, 8(9.3%) were from accounting and finance department, 20(23.3%) were banking agents and 16(18.6%) were customers found on site. This was a good sample of the study because almost an equal number of major departments of levels of management were considered in providing reliable information on the banking agency and financial performance of Centenary Bank.

# Table 4.4: Department of work

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Administration | 14 | 16.3 | 16.3 |
|   | Management | 8 | 9.3 | 25.6 |
|   | Procurement | 5 | 5.8 | 31.4 |
|   | Human Resource | 15 | 17.4 | 48.8 |
|   | Accounting and Finance | 8 | 9.3 | 58.1 |
|  | Banking Agent | 20 | 23.3 | 81.4 |
|  | Customer | 16 | 18.6 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

# Number of years working with Centenary Bank

Findings from the table 4.5 below indicates that, 40(46.5%) of the respondents had spent 0 to 2 years, 26(30.2%) had worked for 2 to 4 years, 20(23.3%) had worked for 5 years and above with Centenary Bank. This implies that respondents had experience with the study and were to confer reliable information on the effect of banking agency on financial performance of Centenary Bank.

# Table 4.5: Number of years employed with Centenary Bank

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | 0 - 2 Years | 40 | 46.5 | 46.5 |
|   | 2 - 4 Years | 26 | 30.2 | 76.7 |
|   | Above 5 Years | 20 | 23.3 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

# CHAPTER FIVE

# AGENCY BANKING REGULATIONS AND PROCEDURES ARE COMPLIED WITH TO ENHANCE FINANCIAL PERFORMANCE OF CENTENARY BANK.

# Introduction

This chapter presents analysis and interpretation of findings on first objective of the study which sought to establish how agency banking regulations and procedures are complied with to enhance financial performance of Centenary Bank. In order to verify this objective descriptive statistics such as frequency tables, model summary, Pearson correlation, regressions such as analysis of variances (Anova), and coefficient were used to analyse data. Respondents were asked several questions in regard to the first objective and the results were presented, analyzed and interpreted as shown below.

Agency banking as a strategy depicts its concept from the Branchless banking model onto which the wordings are used interchangeably. Branchless banking is a distribution channel strategy used for delivering financial services without relying on bank branches (Ivatury, 2016). It represents a cheaper alternative to conventional branch based banking through the use of delivery channels like retail outlets, mobile phones, internet, automated teller machines, Point of Sale devices etc. Agency banking is a type of branchless banking where third parties are involved in performing some of the activities that are traditionally performed in banking halls by bank personnel (Onyango, 2015).

# Banking agents and customers comply with agency banking regulations and procedures.

On the question whether banking agents and customers comply with agency banking regulations and procedures, their responses were 15(17.4%) strongly disagreed, 10(11.6%) disagreed, 9(10.5%) were neutral, 33(38.4%) agreed and 19(22.1%) strongly agreed as indicated in the table 5.1.

# Table 5.1: Comply with agency banking regulations and procedures

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 15 | 17.4 | 17.4 |
|   | Disagree | 10 | 11.6 | 29.1 |
|   | Neutral | 9 | 10.5 | 39.5 |
|   | Agree | 33 | 38.4 | 77.9 |
|   | Strongly Agree | 19 | 22.1 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Field Data, 2021

Table 5.1 indicate that 52(60.5%) of the respondents were in agreement that banking agents and customers comply with agency banking regulations and procedures. This means that Centenary Bank fulfills all obligations regulating agency banking operations in the country. They further revealed that no financial institution conduct agent banking in Uganda without the prior written approval from the Central Bank. However, 9(10.5%) were neutral and 25(29.1%) of the respondents were in disagreement. This means that some bank agents fail to comply with these regulations. Therefore, an application for approval to conduct agent banking is made to the Central Bank in Form 1 specified in Schedule 1.

# Special requirements for bank agents

On the question whether there are special requirements to become an agent; their responses were 15(17.4%) strongly disagreed, 8(9.3%) disagreed, 6(7%) were neutral, 32(37.2%) agree and 25(29.1%) strongly agreed as shown in the table 5.2.

# Table 5.2: Special requirements for bank agents

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 15 | 17.4 | 17.4 |
|   | Disagree | 8 | 9.3 | 26.7 |
|   | Neutral | 6 | 7.0 | 33.7 |
|   | Agree | 32 | 37.2 | 70.9 |
|   | Strongly Agree | 25 | 29.1 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Table 5.2 indicate that 57(66.3%) of the respondents were in agreement that there are special requirements to become an agent. This means that agent has for consecutive six months prior to the making of the application operated an account in a financial institution licensed by the central bank; agent has a licensed business for at least twelve months; agent has a physical address and agent has adequate and secure premises. However, 6(7%) were neutral and 23(26.7%) of the respondents were in disagreement. This means that there are some few who fail to meet the necessary requirement by the Central Bank. Therefore, Centenary Bank should always provide all required bank agent information to BoU to enable them operate effectively.

# CB obtains approval from the central bank for each outlet of its agent

The question asked on whether Centenary Bank (CB) obtains approval from the central bank for each outlet of its agents their responses were, 10(11.6%) strongly disagreed, 6(7%) disagreed, 6(7%) were neutral, 35(40.7%) agreed and 29(33.7%) strongly agreed as indicated in table below.

# Table 5.3: CB obtains approval from the Central Bank for each outlet

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency |  Percent | Cumulative Percent |
| Valid | Strongly Disagree | 10 | 11.6 | 11.6 |
|   | Disagree | 6 | 7.0 | 18.6 |
|   | Neutral | 6 | 7.0 | 25.6 |
|   | Agree | 35 | 40.7 | 66.3 |
|   | Strongly Agree | 29 | 33.7 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Findings in table 5.3 indicate that 64(74.4%) of the respondents were in agreement that Centenary Bank (CB) obtains approval from the central bank for each outlet of its agents. This means that every agent seeking to conduct agency banking business through an agent shall apply and obtain the prior written approval of the Central Bank before commencing agent banking business. On the other hand 6(7%) were neutral on the question and 16(18.6%) of the respondents were in disagreement. Therefore, any banking agent willing to engage in agency banking shall apply for a license to do so from Bank of Uganda (BoU). This would increase financial security, thus improved financial performance.

# BoU vet and approve each person selected by a financial institution to act

On the question asked whether Bank of Uganda (BoU) vet and approve each person selected by a financial institution to act as its agent for purposes of conducting agent banking, their responses were; 16(18.6%) strongly disagreed, 13(15.1%) disagreed, 9(10.5%) were neutral, 24(27.9%) agreed and 24(27.9%) strongly agreed as revealed in the table 5.4.

# Table 5.4: BoU vet and approve each person selected by a bank to act

|  |  |  |  |
| --- | --- | --- | --- |
|   |  Frequency |  Percent | Cumulative Percent |
| Valid | Strongly Disagree | 16 | 18.6 | 18.6 |
|   | Disagree | 13 | 15.1 | 33.7 |
|   | Neutral | 9 | 10.5 | 44.2 |
|   | Agree | 24 | 27.9 | 72.1 |
|   | Strongly Agree | 24 | 27.9 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Study findings in table 5.4 present that 48(55.8%) of the respondents were in agreement that Bank of Uganda (BoU) vet and approve each person selected by a financial institution to act as its agent for purposes of conducting agent banking. They revealed that the BoU stated that a person shall not be appointed as an agent by a financial institution unless that person is a sole proprietorship; a partnership; a company; a cooperative society; a microfinance institution; or an entity approved by the Central Bank. Conversely, 9(10.5%) of the respondents were not sure and 29(33.7%) were in disagreement. this means there are some agents who affiliated to CB. BoU clearly stated that a financial institution shall not conduct agent banking with its employees, affiliates or associates.

# Agents collect and forward supporting documentation for account-opening

When respondents were asked whether agents collect and forward supporting documentation for account-opening and loan applications, their responses were 13(15.1%) strongly disagreed, 8(9.3%) disagreed, 55(64%) agreed and 10(11.6%) strongly agreed as shown in the table 5.5.

# Table 5.5: Collect and forward supporting documentation for account-opening

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 13 | 15.1 | 15.1 |
|   | Disagree | 8 | 9.3 | 24.4 |
|   | Agree | 55 | 64.0 | 88.4 |
|   | Strongly Agree | 10 | 11.6 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Findings in table 5.5 indicate that 66(75%) of the respondents were in agreement that agents collect and forward supporting documentation for account-opening and loan applications or act as a communication channel between a bank and a client, but they cannot effectively open an account without a bank’s validation or distribute bank cards and/or PIN mailers to the clients. However, 21(24.4%) of the respondents were in disagreement. therefore, the bank agent should fill Application form, proof of identification either a driving permit, valid passport or identity card, passport photos, audited accounts, registration certificate, Articles and memorandum of Association, resolution to borrow for companies, partnership deed for partnerships and minutes indicating a decision and authority to borrow for associations.

# Bank protects consumers of financial services to reduce financial crime

The question asked on whether the bank protects consumers of financial services to reduce financial crime, their responses were, 10(11.6%) strongly disagreed, 9(10.5%) disagreed, 7(8.1%) were neutral, 31(36%) agreed and 29(33.7%) strongly agreed as shown in the table.

# Table 5.6: Bank protects consumers of financial services

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 10 | 11.6 | 11.6 |
|   | Disagree | 9 | 10.5 | 22.1 |
|   | Neutral | 7 | 8.1 | 30.2 |
|   | Agree | 31 | 36.0 | 66.3 |
|   | Strongly Agree | 29 | 33.7 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Findings in table 5.6 present that 60(69.7%) of the respondents were in agreement that Centenary Bank protects consumers of financial services to reduce financial crime. This means that Centenary Bank has financial consumer protection encompasses the laws, regulations, and institutional arrangements that safeguard consumers in the financial marketplace; this has enabled the bank to improve its performance. Nonetheless, 7(8.1%) were not sure and 19(22.1%) of the respondents were in disagreement. this means that even though there is financial consumer protection, it was discovered consumers are being scammed. Therefore, CB should work together to educate consumers and businesses on legislation that is in place to help safeguard them and their money, protecting them from scams and financial crime, this would enable the bank to ensure effective financial performance.

# Each transaction has to be accompanied by a system-generated receipt.

When respondents were asked each transaction has to be accompanied by a system-generated receipt, their responses were, 14(16.3%) strongly disagreed, 15(17.4%) disagreed, 7(8.1%) were neutral, 37(43%) agreed and 13(15.1%) as revealed in the table 5.7.

# Table 5.7: Transactions accompanied by a system-generated receipt

|  |  |  |  |
| --- | --- | --- | --- |
|   |  Frequency |  Percent | Cumulative Percent |
| Valid | Strongly Disagree | 14 | 16.3 | 16.3 |
|   | Disagree | 15 | 17.4 | 33.7 |
|   | Neutral | 7 | 8.1 | 41.9 |
|   | Agree | 37 | 43.0 | 84.9 |
|   | Strongly Agree | 13 | 15.1 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Findings in table 5.7 indicate that 40(58.1%) of the respondents were in agreement that each transaction has to be accompanied by a system-generated receipt, which creates confusion as to whether SMS is permitted as proof of transaction. However, 7(8.1%) were not sure and 29(33.7%) of the respondents were in disagreement. therefore, the agent should carry out a transaction when a system generated receipt or acknowledgement of the transaction cannot be generated.

# CB has created adequate awareness about banking agency system

When respondents were asked whether Centenary Bank has created adequate awareness about banking agency financial system, their responses were, 15(17.4%) strongly disagreed, 10(11.6%) disagreed, 7(8.1%) were neutral, 30(34.9%) agreed and 24(28%) strongly agreed as presented in the table 5.8.

# Table 5.8: CB has created adequate awareness about banking agency

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 15 | 17.4 | 17.4 |
|   | Disagree | 10 | 11.6 | 29.0 |
|   | Neutral | 7 | 8.1 | 37.1 |
|   | Agree | 30 | 34.9 | 72.0 |
|   | Strongly Agree | 24 | 28.0 | 95.3 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

From table 5.8, the majority 54(62.9%) of the respondents were in agreement that Centenary Bank has created adequate awareness about banking agency financial system. This means that Centenary Bank do more advertising to sensitise the public on the availability and services or benefits of agent banking. In an interview conducted on some agents found in Kasajje, they revealed that “*alongside the need to create greater awareness of the channel itself, in rural areas the primary need is to first overcome classic misconceptions and ignorance related to the banks and their products”*. However, 7(8.1%) were not sure and 25(29%) of the respondents were in disagreement. this means that not all agents are well informed about this banking model.

# CB maintains confidence in customer about the financial system.

On the question whether the Centenary Bank efficiently maintains confidence in customer about the banking, their responses were as 9(10.5%) strongly disagreed, 9(10.5%) disagreed, 5(5.8%) were neutral, 37(43%) agreed and 26(30.2%) strongly agreed as reflected in the table 5.9.

# Table 5.9: Maintains confidence in customer about the banking agency

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 9 | 10.5 | 10.5 |
|   | Disagree | 9 | 10.5 | 20.9 |
|   | Neutral | 5 | 5.8 | 26.7 |
|   | Agree | 37 | 43.0 | 69.8 |
|   | Strongly Agree | 26 | 30.2 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Study findings in table 5.9 indicate that 63(73.2%) of the respondents in general agreed that Centenary Bank efficiently maintains confidence in customer about the banking agency. Nevertheless, 5(5.8%) were not sure and 18(20.9%) of the respondents were in disagreement. this means that Centenary Bank do not effective sensitize clients about the benefits of the banking model (banking agency). Therefore, consumer education has a role to play, ensuring that the client develops trust and confidence in the use of new financial technologies, Leapfrogging into digital financial services is risky for the uninformed and requires more than a one-off exposure to the mechanics of transacting. This enables the bank to ensure improved financial performance.

# BoU holds Centenary Bank liable for the conduct of their agents.

Respondents were asked whether Bank of Uganda holds Centenary Bank liable for the conduct of their agents. Their responses were 18(20.9%) strongly disagreed, 9(10.5%) disagreed, 7(8.1%) were neutral, 41(47.7%) agreed, 11(12.8%) strongly agreed as shown in the table 5.10.

# Table 5.10: BoU holds Centenary Bank liable for conduct of their agents

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 18 | 20.9 | 20.9 |
|   | Disagree | 9 | 10.5 | 31.4 |
|   | Neutral | 7 | 8.1 | 39.5 |
|   | Agree | 41 | 47.7 | 87.2 |
|   | Strongly Agree | 11 | 12.8 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Findings in table 5.10 above indicate that 52(60.5%) of the respondents were in agreement that Bank of Uganda holds Centenary Bank liable for the conduct of their agents. This implies that Bank of Uganda emphasise the Board of Directors of each Centenary Bank to be responsible in formulating policies, procedures and guidelines which ensure that credible agents are identified. Risks associated with agent banking are properly identified, documented and mitigated and agent activities are constantly monitored to ensure compliance with the Banking Act, this Guideline and the agency contract. However, 7(8.1%) were neutral and 27(31.4%) of the respondents were in disagreement. though, there are still some agents who up to now failed to comply with policies and procedures of banking agency.

# Testing Hypothesis 1

The hypothesis was tested to ensure whether Centenary Bank comply with agency banking regulations and procedure to enhance financial performance or not.This hypothesis has been tested using various statistical techniques such as model summary, correlations, Analysis of variance (ANOVA), and coefficients as shown below.

# Correlations between banking regulations and financial performance

Results of the correlation analysis discovered that there is a significant and positive relationship between agency banking and procedure and financial performance, the result of (r=0.889 P<0.005) indicates that banking agents and customers comply with agency banking regulations and procedures. Centenary Bank obtains approval from the central bank for each outlet of its agent.

# Table 5.11: Correlations

|  |  |  |
| --- | --- | --- |
|  | Agency Banking Regulations and Procedures | Financial Performance |
| Agency Banking Regulations and Procedures | Pearson Correlation | 1 | .889\*\* |
| Sig. (2-tailed) |  | .000 |
| N | 86 | 86 |
| Financial Performance | Pearson Correlation | .889\*\* | 1 |
| Sig. (2-tailed) | .000 |  |
| N | 86 | 86 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). |

# Model Summary

The hypothesis was tested and reflected in the model summary below. *R* square of 0.790 or 79% indicates that agency banking regulations and procedures improves financial performance. The observed value of 0.790 is positive and significant; indicating that the linear regression model does fit. The results thus show that banking agents and customers comply with agency banking regulations and procedures.

# Table 5.12: Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .889(a) | .790 | .769 | .20195 |

a Predictors: (Constant), Agency Banking Regulations and Procedures

|  |
| --- |
|  |

# Coefficients

From the coefficients table 5.13 below, Agency Banking Regulations and Procedures was used as the independent variable and Financial Performance as dependent variable. Regression analysis indicated that Agency Banking Regulations and Procedures (ß=0.889, t=59.982, P<0.00) this reveals that the bank, banking agents and customers comply with agency banking regulations and procedures; this has enabled the bank to ensure financial performance.

# Table 5.13: Coefficientsa

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | Unstandardized Coefficients | Standardized Coefficients | T |  Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | .362 | .061 |  | 4.014 | .313 |
| Agency Banking Regulations and Procedures | .880 | .016 | .889 | 59.982 | .000 |
| a. Dependent Variable: Financial Performance |

# Analysis of Variances (ANOVAa)

The analysis-of-variance (ANOVA) table 5.14 below was used to test the equivalent positive hypothesis, the F= 3597.825, p<0.005, this result indicates that the significant linear relationship between agency banking regulations and procedures and financial performance. The results indicate that Centenary Bank has created adequate awareness about banking agency financial system. Banking agents and customers comply with agency banking regulations and procedures.

# Table 5.14: ANOVAb

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Sum of Squares | Df | Mean Square | F |  Sig. |
| 1 | Regression | 146.729 | 1 | 146.729 | 3597.825 | .000a |
| Residual | 3.426 | 84 | .041 |  |  |
| Total | 150.155 | 85 |  |  |  |
| a. Predictors: (Constant), Agency Banking Regulations and Proceduresb. Dependent Variable: Staff Performance |

# CHAPTER SIX

# ACCESSIBILITY TO FINANCIAL SERVICES BY THE CUSTOMERS IMPROVES FINANCIAL PERFORMANCE OF CENTENARY BANK.

# Introduction

This chapter presents analysis and interpretation of findings on second objective of the study which sought to establish whether financial services accessibility by the customers improves financial performance of centenary bank. In order to verify this objective descriptive statistics such as frequency tables, model summary, Pearson correlation, regressions such as analysis of variances (ANOVA), and coefficient were used to analyse data. Respondents were asked several questions in regard to the second objective and the results were presented, analyzed and interpreted as shown below.

Agency banking is one in which banks provide financial services through nonbank agents, such as grocery stores, retail outlets, pharmacies, or lottery outlets. Agency banking takes customers out of the bank halls to kiosks and villages. This model allows banks to expand services into areas where they do not have sufficient capacity to establish a formal branch, which is particularly true in rural and poor areas where as a result a high percentage of people are unbanked. Agency banking is a type of branchless banking where third parties are involved in performing some of the activities that are traditionally performed in banking halls by bank personnel (Onyango, 2013).

# Accessibility of financial service to many customers in remote areas

When respondents were asked agency banking has led to accessibility of financial service to many customers in remote areas, their responses were, 9(10.5%) strongly disagreed, 11(12.8%) disagreed, 40(46.5%) agreed and 26(30.2%) strongly agreed as presented in table below.

# Table 6.1: Accessibility of financial service to many customers

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 9 | 10.5 | 10.5 |
|   | Disagree | 11 | 12.8 | 23.3 |
|   | Agree | 40 | 46.5 | 69.8 |
|   | Strongly Agree | 26 | 30.2 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

According to findings in table 6.1, the majority 66(76.7%) of the respondents in general agreed that agency banking has led to accessibility to financial service to many customers in remote areas. This means that benefits of agency banking such as no travelling to the bank, no queues, fast and simple transaction processing, lower transaction fees than branch fees, longer hours of operation than the bank and are close to where customers live and no forms are required. All these benefits have increased the financial accessibility of banking agency services provided by Centenary Bank. However, 20(23.3%) of the respondents were in disagreement. This means that there are still a lot of people in communities who failed to cope up with banking model of technologies.

# Cost involved in transacting with agency banking is low compared to bank

When respondents were asked whether cost involved in transacting with agency banking is low compared to banking halls, their responses were, 18(20.9%) strongly disagreed, 19(22.1%) disagreed, 8(9.3%) were neutral, 27(31.4%) agreed and 14(16.3%) strongly agreed as shown in table below.

# Table 6.2: Low cost involved in agency banking transaction than bank

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 18 | 20.9 | 20.9 |
|   | Disagree | 19 | 22.1 | 43.0 |
|   | Neutral | 8 | 9.3 | 52.3 |
|   | Agree | 27 | 31.4 | 83.7 |
|   | Strongly Agree | 14 | 16.3 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Result of findings in table 6.2 present that 41(47.7%) of the respondents were in agreement that cost involved in transacting with agency banking is low compared to banking halls. This means that transacting through bank agents has proven to be cost-effective especially to people who live in rural areas that are far away from banks. They further revealed that benefits of agency banking such as bringing banking services closer to the remote customers; for instance customers can apply for lines of credit, credit cards, loans and mortgages through agents hence, fewer visits required to banks, thus reducing a lot of costs. However, 8(9.3%) were neutral and 37(43%) of the respondents were in disagreement. this means that some members are viewing banking agency costs as almost the same as of bank branch.

# Agency banking has led to profitability of Centenary Bank

Agency banking offers the potential to increase and deepen financial inclusion across the country. On the question asked whether accessibility of banking service through agency banking has led to profitability of Centenary Bank, their responses were, 14(16.3%) strongly disagreed, 13(15.1%) disagreed, 6(7%) were neutral, 46(53.5%) agreed and 7(8.1%) strongly agreed as depicted in the table 6.3.

# Table 6.3: Agency banking has led to profitability of Centenary Bank

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 14 | 16.3 | 16.3 |
|   | Disagree | 13 | 15.1 | 31.4 |
|   | Neutral | 6 | 7.0 | 38.4 |
|   | Agree | 46 | 53.5 | 91.9 |
|   | Strongly Agree | 7 | 8.1 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

From the findings in table 6.3, the majority 53(61.6%) of the respondents were in agreement that accessibility of banking service through agency banking has led to profitability of Centenary Bank. This implies that agency banking allows customers of CB to access their funds on an immediate basis, enables them to check the status of their cheques, also a customer can complete its banking transaction in real-time. It helps CB make their payments on time, all these have enabled Centenary Bank to maximise its profits. However, 6(7%) were neutral and 27(31.4%) of the respondents were in disagreement. this indicates clients who have adopted agency banking are still low.

# Customers pay their loans through agency banking.

Respondent were asked whether customers pay their loans through agency banking, their responses were, 11(12.8%) strongly disagreed, 7(8.1%) disagreed, 7(8.1%) were neutral, 49(57%) agreed and 12(14%) strongly agreed as indicated in the table 6.4.

# Table 6.4: Customers pay their loans through agency banking.

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency |  Percent | Cumulative Percent |
| Valid | Strongly Disagree | 11 | 12.8 | 12.8 |
|   | Disagree | 7 | 8.1 | 20.9 |
|   | Neutral | 7 | 8.1 | 29.1 |
|   | Agree | 49 | 57.0 | 86.0 |
|   | Strongly Agree | 12 | 14.0 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Table 6.4 above indicates that the majority 61(71%) of the respondents were in agreement that customers pay their loans through agency banking. This means that customer use this services to initiate and pay loans. They further discussed that agency banking also help bank customers to deposit cash, withdraw, account opening, school fees collection, paying utilities such as UMEME, URA, NWSC, and so on. Nonetheless, 7(8.1%) were neutral on the matter and 18(20.9%) of the respondents were in disagreement. this is an implication that loan initiation process sometime fail or take too long to processed in the banking agency financial service model.

# Time spent in agency banking outlets is low

The introduction of agent banking is intended to enable institutions to provide banking services more cost effectively to customers. On the question whether time spent in agency banking outlets is low compared to the normal banking, their responses were, 13(15.1%) strongly disagreed, 13(15.1%) disagreed, 5(5.8%) were neutral, 35(40.7%) agreed and 20(23.3%) strongly agreed as distributed in the table 6.5.

# Table 6.5: Time spent in agency banking outlets is low

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 13 | 15.1 | 15.1 |
|   | Disagree | 13 | 15.1 | 30.2 |
|   | Neutral | 5 | 5.8 | 36.0 |
|   | Agree | 35 | 40.7 | 76.7 |
|   | Strongly Agree | 20 | 23.3 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Research findings in table 6.5 indicate that 55(64%) of the respondents were in agreement that time spent in agency banking outlets is low compared to the normal banking hall. This means that there is easy access to funds, enables them to check the status of their cheques on time, complete banking transaction in real-time. All these have made them prefer banking agency services than ordinary bank protocols. However, 5(5.8%) were not sure and 26(30.2%) of the respondents were in disagreement. this means that sometime banking agency technologies delay due to network faults and other sorts of interruption in the system.

# Expansion of financial services in remote areas

Respondents were asked whether Centenary Bank has expanded its financial services in remote areas with insufficient financial access. Their responses were 13(15.1%) strongly disagreed, 8(9.3%) disagreed, 37(43%) agreed and 21(24.4%) strongly agreed, their responses were as indicated in table 6.6.

# Table 6.6: Expansion of financial services in remote areas

|  |  |  |  |
| --- | --- | --- | --- |
|   |  Frequency |  Percent | Cumulative Percent |
| Valid | Strongly Disagree | 13 | 15.1 | 15.1 |
|   | Disagree | 8 | 9.3 | 24.4 |
|   | Neutral | 7 | 8.1 | 32.6 |
|   | Agree | 37 | 43.0 | 75.6 |
|   | Strongly Agree | 21 | 24.4 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Findings in table 6.6 present that 58(67.4%) of the respondents were in agreement that Centenary Bank has expanded its financial services in remote areas with insufficient financial access. This means that Centenary Bank has also regulated agency banking outlets in remote areas such as Iyolwa, Kirewa, Kisoko, Kwapa, Mella, Merikit, Molo, Mukuju, Mulanda, Nabuyoga, Nagongera, Osukuru, Paya and Petta, among others and this has eased access to finance in these areas. This has enabled Centenary to maximise its profits, thus improved financial performance. However, 7(8.1%) were not sure on the statement and 21(24.4%) of the respondents disagreed. This means that some areas are still struggling to access finance.

# Reduce the cost of delivering financial services to unreached people

When respondents were asked whether agency banking reduces the cost of delivering financial services to unreached people, their responses were, 16(18.6%) strongly disagreed, 10(11.6%) disagreed, 8(9.3%) were neutral, 22(25.6%) agreed, 30(34.9%) strongly agreed as indicated in the table 6.7.

# Table 6.7: Reduce the cost of delivering financial services to unreached

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent |  Cumulative Percent |
| Valid | Strongly Disagree | 16 | 18.6 | 11.6 |
|   | Disagree | 10 | 11.6 | 30.2 |
|   | Neutral | 8 | 9.3 | 39.5 |
|   | Agree | 22 | 25.6 | 65.1 |
|   | Strongly Agree | 30 | 34.9 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Research findings in table 6.7 indicate that the majority 52(60.5%) of the respondents were in agreement that agency banking reduces the cost of delivering financial services to unreached people in the country. This implies that agency banking provided by Centenary Bank reduce access barriers to financial services as well as deepen and broaden the range of financial services like formal savings, credit products and many others including financial literacy and advisory services. However, 8(9.3%) of the respondents were not sure on the statement and 26(30.2%) of the respondents were disagreed. Therefore agency banking should entail extend banking services to lower levels of the society through an agent and this increases financial inclusion, with a sense of improving its financial performance.

# Agency banking provided by CB has created customer loyalty.

On the question whether agency banking provided by Centenary Bank (CB) has created customer loyalty, their responses were, 12(13.9%) strongly disagreed, 19(22.1%) disagreed, 7(8.1%) were neutral, 28(32.6%) agreed and 20(23.3%) strongly agreed as presented in table the 6.8.

# Table 6.8: Agency banking provided by CB has created customer loyalty.

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 12 | 13.9 | 13.9 |
|   | Disagree | 19 | 22.1 | 36.0 |
|   | Neutral | 7 | 8.1 | 44.1 |
|   | Agree | 28 | 32.6 | 86.7 |
|   | Strongly Agree | 20 | 23.3 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Findings in table 6.8 reveals that 48(55.9%) of the respondents were in agreement that agency banking provided by Centenary Bank has created customer loyalty. Officials at Centenary Bank revealed that this is a complementary and convenient delivery channel for fostering financial inclusion. The Bank contracts trustworthy CenteAgents where customers transact and enjoy banking services right in their neighbourhood. However, 7(8.1%) of the respondents were in disagreement. This means that some customers do not praise agency banking because of associated problems with the system and these include fraud or scam; limited transactions, low pace of functionality, among others. Therefore, Centenary Bank should continue to sensitize the public on the use of agency banking and its benefits.

# Agency banking divert customers from crowded financial institutions

When respondents were asked whether Agency banking has helped Centenary Bank to divert customers from other crowded financial institutions, their responses were, 15(17.4%) strongly disagreed, 7(8.1%) disagreed, 20(23.3%) were not sure, 31(36%) agreed and 13(15.1%) strongly agreed as reflected in the table 6.9.

# Table 6.9: Mandatory training arrangements apply to all permanent staff

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 15 | 17.4 | 17.4 |
|   | Disagree | 7 | 8.1 | 25.5 |
|   | Neutral | 20 | 23.3 | 48.8 |
|   | Agree | 31 | 36.1 | 84.9 |
|   | Strongly Agree | 13 | 15.1 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Result of findings in table 6.9 present that 44(51.2) of the respondents were in agreement that agency banking has helped Centenary Bank to divert customers from other crowded financial institutions such as SACCO, Microfinance, banks. This implies that Centenary Bank has already been licensed and it is providing banking agency which has increased access to formal financial services, this has forced customers to move from other institutions. Though, 7(8.1%) were not sure and 22(25.%) of the respondents disagreed. This implies that some customers fear to access finance through agency banking due to the challenges associated with this system.

# Financial Transaction System

Respondents were asked whether Centenary Bank has an effective system that informs customers about their finance transactions. Their responses were; 21(24.4%) strongly disagreed, 14(16.3%) disagreed, 5(5.3%) were not sure, 37(43%) agreed and 9(10.5%) strongly agreed as revealed in the table 6.10.

# Table 6.10: Financial Transaction System

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 21 | 24.4 | 24.4 |
|   | Disagree | 14 | 16.3 | 40.7 |
|   | Neutral | 5 | 5.8 | 46.5 |
|   | Agree | 37 | 43.0 | 89.5 |
|   | Strongly Agree | 9 | 10.5 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Research findings in table 6.10 indicate that 46(53.5%) of the respondents were in agreement that Centenary Bank has an effective system that notifies customers about their finance transactions. This system has helped customers to know the balance on their accounts, it was also discovered that this system alerts them, if someone is tampering with his or her account. Though 5(5.8%) were not sure on the statement raised and 9(10.5%) of the respondents disagreed. This means that some clients do not notifications after making transaction with CenteAgents.

# Testing Hypothesis 2

The hypothesis was tested to ensure whether accessibility to financial services improves financial performance of Centenary Bank or not. This hypothesis has been tested using various techniques such as model summary, correlations, Analysis of variance (ANOVA), and coefficients as shown below.

# Correlations

Results of the correlation analysis discovered that there is a significant and positive relationship between accessibility to financial services and Financial Performance of Centenary Bank the result of (r=0.891 P<0.005) indicates that agency banking has led to accessibility of financial service to many customers in remote areas; accessibility of banking service through agency banking has led to profitability of commercial banks.

# Table 6.11: Correlations between accessibility to financial services and Financial Performance

|  |  |  |
| --- | --- | --- |
|  | Accessibility to financial services | Financial Performance |
| Accessibility to financial services | Pearson Correlation | 1 | .891\*\* |
| Sig. (2-tailed) |  | .000 |
| N | 86 | 86 |
| Financial Performance | Pearson Correlation | .891\*\* | 1 |
| Sig. (2-tailed) | .000 |  |
| N | 86 | 86 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). |

# Model Summary

The hypothesis was tested and reflected in the model summary below. *R* square of 0.793 or 79.3% shows that Agency banking has led to accessibility of financial service to many customers in remote areas. Cost involved in transacting in agency banking is low compared to banking halls and time spent in agency banking outlets is low compared to the normal banking.

# Table 6.12: Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .891(a) | .793 | .790 | .17951 |

 a. Predictors: (Constant), Accessibility to Financial Services

**Coefficients**

 From the coefficients table 6.13 below, financial performance was used as the dependent variable and accessibility to financial services as independent variables. Regression analysis indicated that Accessibility to financial services (ß=0.891, t=67.643, P<0.005) this reveals that agency banking has led to accessibility of financial service to many customers in remote areas; accessibility of banking service through agency banking has led to profitability of Centenary Bank.

# Table 6.13: Coefficientsa

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | .141 | .051 |  | 2.756 | .007 |
| Accessibility to Financial Services | 1.028 | .015 | .891 | 67.643 | .000 |
| a. Dependent Variable: Financial Performance |

# Analysis of Variances (ANOVA)

The analysis-of-variance (ANOVA) table 6.14 below was used to test the equivalent positive hypothesis, the F= 4575.587, p<0.005, this result indicates that the significant linear relationship between Accessibility to Financial Services and Financial Performance. The results indicate that agency banking reduces the cost of delivering financial services to unreached people; agency banking has helped Centenary Bank to divert customers from other crowded financial institutions.

# Table 6.14: ANOVAa

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Sum of Squares | Df | Mean Square | F | Sig. |
| 1 | Regression | 147.448 | 1 | 147.448 | 4575.587 | .000a |
| Residual | 2.707 | 84 | .032 |  |  |
| Total | 150.155 | 85 |  |  |  |
| a. Predictors: (Constant), Accessibility to Financial Servicesb. Dependent Variable: Financial Performance |
|  |

# CHAPTER SEVEN

# CHALLENGES ASSOCIATED WITH ADOPTION OF AGENCY BANKING AFFECTS FINANCIAL PERFORMANCE OF CENTENARY BANK

# Introduction

This chapter presents analysis and interpretation of findings on third objective of the study which sought to establish challenges associated with adoption of agency banking affects financial performance of Centenary Bank. In order to verify this objective descriptive statistics such as frequency tables, model summary, Pearson correlation, regressions such as analysis of variances (Anova), and coefficient were used to analyse data. Respondents were asked several questions in regard to the first objective and the results were presented, analyzed and interpreted as shown below.

The uptake of agent banking in Uganda has not been well appreciated by the target beneficiaries who include among others the micro and small enterprises in the rural areas in Uganda who were expected to benefit from this technologically innovative service. Challenges associated with agency banking are; reduction in operating costs, ability to reach remote areas that were previous unbanked, increase in revenues and overall financial inclusion are the main opportunities of Agency banking amidst of pervasive challenges including risk of customer data leakage, system failures, fraud, agents’ liquidity issues and security.

# There is lack of improper government policies governing banking agency

When respondents were asked whether there is lack of improper government policies governing banking agency, their responses were 23(26.7%) strongly disagreed, 13(15.1%) disagreed, 10(11.6%) were neutral, 29(33.7%) agreed and 11(12.8%) as shown in the table 7.1.

# Table 7.1: Improper government policies governing banking agency

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 23 | 26.7 | 26.7 |
|   | Disagree | 13 | 15.1 | 41.9 |
|   | Neutral | 10 | 11.6 | 53.5 |
|   | Agree | 29 | 33.7 | 87.2 |
|   | Strongly Agree | 11 | 12.8 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Findings in table 7.1 present that 40(46.5%) of the respondents were in agreement that there is lack of improper government policies governing banking agency. This means that BoU has not implemented significant policies and procedures governing banking agency financial services. However, 10(11.6%) were neutral on the statement and 36(41.9%) of the respondents were in disagreement. This means that the Central Bank of Uganda in a bid to operationalize the Financial Institutions Amendment Act, 2016 and protect consumers passed the Financial Institutions (Agent Banking) Regulations, 2017. This means that the government of Uganda has implemented adequate policies regulating this mode of financial service.

# Increased cases of fraud and money laundering

Respondents were asked whether there are increased cases of fraud and money laundering and their responses were 14(16.3%) strongly disagreed, 13(15.1%) disagreed, 7(8.1%) were neutral, 22(25.6%) agreed and 30(34.9%) strongly agreed as presented in table 7.2.

# Table 7.2: Increased cases of fraud and money laundering

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 14 | 16.3 | 16.3 |
|   | Disagree | 13 | 15.1 | 31.4 |
|   | Neutral | 7 | 8.1 | 39.5 |
|   | Agree | 22 | 25.6 | 65.1 |
|   | Strongly Agree | 30 | 34.9 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

From table 7.2, the majority 52(60.5%) of the respondents were in agreement that there are increased cases of fraud and money laundering. They revealed that cybercrime cases pegged to agent banking model are fast becoming a routine fixture in the country’s banking sector with billions of shillings lost. However, 7(8.1%) were neutral and 27(31.4%) of the respondents were in disagreement. This indicates that for the case of Centenary Bank, it regulates, supervises and disciplines bank agents in order to maintain their safety and soundness; this has helped CenteAgents to minimize fraud cases. Therefore, customers and bank agents must exercise due care whenever handling cash transactions. The bank should have robust systems / procedures, policies and guidelines in place to mitigate frauds.

# Agents are suffering with inadequate cash in business operation.

On the question whether agents are suffering with inadequate cash in business operation, their responses were 11(12.8%) strongly disagreed, 11(12.8%) disagreed, 8(9.3%) were neutral, 42(48.8%) agreed and 14(16.3%) strongly agreed as distributed in the table 7.3.

# Table 7.3: Agents are suffering with inadequate cash

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 11 | 12.8 | 12.8 |
|   | Disagree | 11 | 12.8 | 25.6 |
|   | Neutral | 8 | 9.3 | 34.9 |
|   | Agree | 42 | 48.8 | 83.7 |
|   | Strongly Agree | 14 | 16.3 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Findings in table 7.3 present that 56(65.1%) of the respondents were in agreement that agents are suffering with inadequate cash in business operation. This means that sometime agents are lack float on their systems. However, 8(9.3%) were neutral and 22(25.6%) of the respondents were in disagreement. Therefore, the bank should provide agents with adequate cash to run their operations effectively. This enables the financial institutions like Centenary Bank to ensure financial performance.

# Systems failure related risks

Respondents were asked whether systems failure relates to risks such as software or hardware malfunctioning; their responses were 14(16.3%) strongly disagreed, 19(22.1%) disagreed, 9(10.5%) were neutral, 35(40.7%) agreed and 9(10.5%) as presented in the table 7.4.

# Table 7.4: Systems failure related risks

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 14 | 16.3 | 16.3 |
|   | Disagree | 19 | 22.1 | 38.4 |
|   | Neutral | 9 | 10.5 | 48.8 |
|   | Agree | 35 | 40.7 | 89.5 |
|   | Strongly Agree | 9 | 10.5 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Research findings in table 7.4 present that the majority 44(51.2%) of the respondents were in agreement that systems failure relates to risks such as software or hardware malfunctioning, which cause interruption of services delivery or information loss. It was discovered that financial agents (CenteAgents) do not change their system as frequent often leading to system failure and the consequent delays in transaction execution. This leads to customer inconvenience and trust over the security/safety of transaction lodged with agent banks. However, 9(10.5%) were neutral and 33(38.4%) of the respondents were in disagreement. Therefore, system failure related risks should be recognized, addressed and managed by financial institution such as banking agent in a prudent manner according to the fundamental characteristics and challenges of agent banking services.

# Banking agents are properly trained to use banking agency systems

All types of financial institutions are increasingly using agents to distribute financial services. When respondents were asked whether banking agents are properly trained to use banking agency systems, their responses were 17(19.8%) strongly disagreed, 15(17.4%), 1(1.2%) was neutral, 41(47.7%) agreed and 12(14%) strongly agreed as presented in the table 7.5.

# Table 7.5: Banking agents are properly trained to use banking agency

|  |  |  |  |
| --- | --- | --- | --- |
|   |  Frequency |  Percent |  Cumulative Percent |
| Valid | Strongly Disagree | 17 | 19.8 | 19.8 |
|   | Disagree | 15 | 17.4 | 37.2 |
|   | Neutral | 1 | 1.2 | 38.4 |
|   | Agree | 41 | 47.7 | 86.0 |
|   | Strongly Agree | 12 | 14.0 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Findings in table 7.5 indicate that 32(61.7%) of the respondents were in agreement that banking agents are properly trained to use banking agency systems. This means that Centenary Bank train its agents before starting business. However, 1(1.2%) was neutral, 32(37.2%) of the respondents were in disagreement. This means that these agents require adequate training to be able to successful execute their mandate. It was discovered that Agent Network Manager (ANM) of Centenary Bank received feedback from an agent supervisor that the agents were not properly trained as most of them had to go 10 back to the supervisors to understand how to do transactions.

# Agent onboarding process is restrictive and time-consuming

When respondents were asked whether agent onboarding process is restrictive and time-consuming, their responses were 16(18.6%) strongly disagreed, 10(11.6%) disagreed, 6(7%) were neutral, 43(50%) agreed and 11(12.8%) as summarised in the table 7.6.

# Table 7.6: Agent onboarding process is restrictive and time-consuming

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 16 | 18.6 | 18.6 |
|   | Disagree | 10 | 11.6 | 30.2 |
|   | Neutral | 6 | 7.0 | 37.2 |
|   | Agree | 43 | 50.0 | 87.2 |
|   | Strongly Agree | 11 | 12.8 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Study findings in table 7.6 indicate that 54(62.8%) of the respondents were in agreement that agent onboarding process is restrictive and time-consuming. In spite of the tremendous improvements by BoU in terms of turnaround and process since the regulations came into force, the delay of two to three weeks is still a challenge for the banks when it comes to the successful onboarding of agents. However, 6(7%) were not sure and 26(30.2%) of the respondents were in disagreement. Therefore, agent banking regulations also established that the due diligence for any agent selected by a bank is submitted to BoU for approval, prior to the bank engaging in the contracting process with the candidate. Based on this situation, several partnering banks approached BoU to propose a way to improve the process.

# Customers do not trust some agents of Centenary Bank

When respondents were asked whether customers do not trust some agents of Centenary Bank, their responses were 16(18.6%) strongly disagreed, 10(11.6%) disagreed, 6(7%) were neutral, 43(50%) agreed and 11(12.8%) strongly agreed as summarised in the table 7.7.

# Table 7.7: Customers do not trust some agents of Centenary Bank

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 16 | 18.6 | 18.6 |
|   | Disagree | 10 | 11.6 | 30.2 |
|   | Neutral | 6 | 7.0 | 37.2 |
|   | Agree | 43 | 50.0 | 87.2 |
|   | Strongly Agree | 11 | 12.8 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Research findings in table 7.7 present 54(62.8%) of the respondents were in agreement that customers do not trust some agents of Centenary Bank. This indicates that some clients do not trust this banking model and its clients. There is a clear understanding that money sent to the wrong recipient as a result of putting in the wrong account is rarely recovered or it takes too much time to be recovered. However, 6(7%) were not sure and 26(30.2%) of the respondents were in disagreement. This means that CenteAgents always able to effect the transactions accurately.  In an interview conducted on Agent Manager Network, he revealed that “*to provide agency banking services, the banks need to have an advanced agency banking solution that facilitates seamless banking experience to the customer along with establishing smooth coordination among all the components of agency banking*.”

# Early adopters’ transactional profile has LM implications

When respondents were asked whether early adopters’ transactional profile has liquidity management (LM) implications, their responses were 14(16.3%) strongly disagreed, 12(14%) disagreed, 10(11.6%) were neutral, 39(45.3%) strongly agreed and 11(12.8%) as reflected in the table 7.8.

# Table 7.8: Early adopters’ transactional profile has LM implications

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 14 | 16.3 | 16.3 |
|   | Disagree | 12 | 14.0 | 30.2 |
|   | Neutral | 10 | 11.6 | 41.9 |
|   | Agree | 39 | 45.3 | 87.2 |
|   | Strongly Agree | 11 | 12.8 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Findings in table 7.8 indicate that the majority 50(58.1%) of the respondents agreed that early adopters’ transactional profile has liquidity management (LM) implications. Early adopters of the agency banking are primarily merchants and traders, parents paying trimestral school fees, and MM agents using bank agents to replenish their float levels, the amounts transacted are relatively high. At the same time, recipients of these deposits go to branches to withdraw the money, either because they do not feel secure conducting transactions in such large amounts with agents or simply because the amounts are beyond the level authorized at agent locations. However, 10(11.6%) were not sure and 26(30.2%) of the respondents disagreed. This means that not all agents are still facing liquidity management implications.

# Need for sustained effort to create awareness of the financial service

Respondents were asked whether there is a need for sustained effort to create awareness of the financial service, as well as to acquire, educate and retain clients, their responses were 22(25.6%) strongly disagreed, 16(18.6%) disagreed, 7(8.1%) were neutral, 29(33.7%) agreed and 12(14%) strongly agreed as indicated in the table 7.9.

# Table 7.9: sustained effort to create awareness of the financial service

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 12 | 13.9 | 13.9 |
|   | Disagree | 16 | 18.6 | 32.5 |
|   | Neutral | 7 | 8.1 | 40.6 |
|   | Agree | 39 | 45.3 | 85.9 |
|   | Strongly Agree | 12 | 14.1 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Result of findings in table 7.9 indicate that 51(59.4%) of the respondents agreed that there is a need for sustained effort to create awareness of the financial service, as well as to acquire, educate and retain clients. This means that customers need are fully aware of the banking agency service and understand how it benefits them. They further revealed that awareness and understanding however remain important drivers of banking agency and uptake. However, 7(8.1%) were not sure and 28(32.5%) of the respondents disagreed. This indicates that not all agents are fully aware of this financial service system works. Therefore, to ensure agent banking services get the best visibility possible in Uganda, operators need to consider a wide variety of marketing strategies and options.

# Financial Performance

This section presents findings on the dependent variable.

# Agency banking has helped Centenary Bank to maximise its profits

On the question asked whether agency banking has helped Centenary Bank to maximise its profits, their responses were, 14(16.3%) strongly disagreed, 13(15.1%) disagreed, 6(7%) were neutral, 46(53.5%) agreed and 7(8.1%) strongly agreed as depicted in the table 7.10.

# Table 7.10: Agency banking has led to profitability of Centenary Bank

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 14 | 16.3 | 16.3 |
|   | Disagree | 13 | 15.1 | 31.4 |
|   | Neutral | 6 | 7.0 | 38.4 |
|   | Agree | 46 | 53.5 | 91.9 |
|   | Strongly Agree | 7 | 8.1 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Findings in table 7.10 indicate 53(61.6%) of the respondents were in agreement that agency banking has helped Centenary Bank to maximise its profits. This implies that agency banking allows customers of CB to access their funds on an immediate basis, enables them to check the status of their cheques, also a customer can complete its banking transaction in real-time. It helps CB make their payments on time, all these have enabled Centenary Bank to maximise its profits. However, 6(7%) were neutral and 27(31.4%) of the respondents were in disagreement. This indicates clients who have adopted agency banking are still low compared to mobile money users, thus affecting financial performance of financial institutions.

# Agency banking has led to improved liquidity management

The goal of liquidity management is to ensure the business has cash available when needed.  On the question whether agency banking has led to improved liquidity management, their responses were, 13(15.1%) strongly disagreed, 12(13.9%) disagreed, 5(5.8%) were neutral, 35(40.7%) agreed and 21(24.4%) strongly agreed as distributed in the table 7.11.

# Table 7.11: Agency banking has led to improved liquidity management

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 13 | 15.1 | 15.1 |
|   | Disagree | 12 | 13.9 | 29.0 |
|   | Neutral | 5 | 5.8 | 34.8 |
|   | Agree | 35 | 40.7 | 75.6 |
|   | Strongly Agree | 21 | 24.4 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Findings in table 7.11 present that the majority 56(65.1%) of the respondents were in agreement that agency banking has led to improved liquidity management. This means that ongoing and future strategies of any business to meet its short-term or immediate cash requirements without incurring substantial losses. However, 5(5.8%) were not sure and 25(29%) of the respondents were in disagreement. Therefore, liquidity management in Centenary Bank should be a crucial activity as it affects the viability of their assets and risk management capability.

# Agency banking has increased return on investment

Respondents were asked whether agency banking has increased return on investment improve financial performance. Their responses were 13(15.1%) strongly disagreed, 11(12.8%) disagreed, 7(8.1%) agreed and 21(24.4%) strongly agreed, their responses were as indicated in the table 7.12.

# Table 7.12: Agency banking has increased return on investment

|  |  |  |  |
| --- | --- | --- | --- |
|   |  Frequency |  Percent | Cumulative Percent |
| Valid | Strongly Disagree | 13 | 15.1 | 15.1 |
|   | Disagree | 11 | 12.8 | 27.9 |
|   | Neutral | 7 | 8.1 | 36.0 |
|   | Agree | 34 | 39.5 | 75.5 |
|   | Strongly Agree | 21 | 24.5 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Result of findings in table 7.12 present that 55(64%) of the respondents were in agreement that agency banking has increased return on investment improve financial performance. This means that return on investment better measure of profitability, achieving goal congruence, performance of investment division, ROI as indicator of other performance ingredients, matching with accounting measurements. However, 7(8.1%) were not sure on the statement and 24(27.9%) of the respondents were in disagreement. Therefore, a good investment generates a high return on investment and should be able to recover in a shorter time.

# Agency banking has multiplied customers of Centenary Bank.

When respondents were asked whether agency banking has multiplied customers of Centenary Bank, their responses were, 6(7%) strongly disagreed, 2(2.3%) disagreed, 8(9.3%) were neutral, 42(48.8%) agreed and 28(32.6%) strongly agreed as indicated in table 7.13.

# Table 7.13: Agency banking has multiplied customers of Centenary Bank.

|  |  |  |  |
| --- | --- | --- | --- |
|   | Frequency | Percent |  Cumulative Percent |
| Valid | Strongly Disagree | 6 | 7.0 | 7.0 |
|   | Disagree | 2 | 2.3 | 9.3 |
|   | Neutral | 8 | 9.3 | 18.6 |
|   | Agree | 42 | 48.8 | 67.4 |
|   | Strongly Agree | 28 | 32.6 | 100.0 |
|   | Total | 86 | 100.0 |   |

Source: Primary Data, 2021

Findings in table 7.13 indicate that the majority 70(81.4%) of the respondents were in agreement that agency banking has multiplied customers of Centenary Bank. This means that today is the country's leading commercial microfinance bank, serving close to 2M customers, employing over 2900 staff, and has an asset base of UShs. 4.7 trillion as of November 2021. However, 8(9.3%) were not sure on the statement and 8(9.3%) of the respondents were in disagreement. This means that the bank has to sensitize the population about its effectiveness and the benefits of services rendered.

# Testing Hypothesis 3

The hypothesis was tested to ensure whether challenges associated with adoption of agency banking affects financial performance of Centenary Bank or not. This hypothesis has been tested using various techniques such as model summary, correlations, Analysis of variance (Anova), and coefficients as shown below.

# Correlations

Results of the correlation analysis revealed that challenges associated with adoption of agency banking; the result of (r=0.890 P<0.005) indicates that these challenges affects the financial performance of Centenary Bank. It further indicates that agents are suffering with inadequate cash in business operation and systems failure relates to risks such as software or hardware malfunctioning affect the performance of this financial service.

# Table 7.14: Correlations

|  |  |  |
| --- | --- | --- |
|  | Banking Agency Challenges | Challenges Performance |
| Banking Agency Challenges | Pearson Correlation | 1 | .890\*\* |
| Sig. (2-tailed) |  | .000 |
| N | 86 | 86 |
| Finance Performance | Pearson Correlation | .890\*\* | 1 |
| Sig. (2-tailed) | .000 |  |
| N | 86 | 86 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). |

# Model Summary

The hypothesis was tested and reflected in the model summary below. *R* square of 0.792 or 79.2% indicates that challenges associated with banking agency affects financial performance of Centenary Bank. The observed value of 890% is quite significant; indicating that the linear regression model does fit. The results thus show that effective training and development improves staff performance.

# Table 7.15: Table Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .890(a) | .792 | .790 | .18957 |

a. Predictors: (Constant), Banking Agency Challenges

# Coefficients

From the coefficients table 7.16, Banking Agency Challenges and Financial Performance of Centenary Bank. Regression result (ß=0.892, t=63.985, P<0.005) indicates that challenges associated with banking agency financial service affect financial performance of Centenary Bank.

# Table 7.16: Coefficients

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | .284 | .052 |  | 5.457 | .000 |
| Banking Agency Challenges | .868 | .015 | .890 | 63.985 | .000 |
| a. Dependent Variable: Financial Performance |

# Analysis of Variances (ANOVA)

The analysis-of-variance (ANOVA) was used to test the equivalent positive hypothesis, the F= 4094.100, p<0.005, this result indicates that the significant linear relationship between Banking Agency Challenges and Financial Performance of Centenary Bank, thus Agents are suffering with inadequate cash in business operation, customers do not trust some agents of Centenary Bank and early adopters’ transactional profile has liquidity management implications.

# Table 7.17: ANOVAb

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 147.136 | 1 | 147.136 | 4094.100 | .000a |
| Residual | 3.019 | 84 | .036 |  |  |
| Total | 150.155 | 85 |  |  |  |
| a. Predictors: (Constant), Banking Agency Challengesb. Dependent Variable: Financial Performance |

**MULTIPLE REGRESSION ANALYSIS**

The hypothesis was tested to discern whether there is a relationship between Agency Banking and Financial Performance of Centenary Bank or not. The hypothesis was tested with a multiple regression analysis.

# General Correlations

Results of the correlation analysis in table 7.18 revealed that there is a significant and positive relationship between agency banking and financial performance of Centenary Bank. It was discovered that, Agency Banking Regulations and Procedures (r=0.889, P<0.005), Accessibility to Finance (r=0.891, P<0.005); Banking Agency Challenges (r=890, <0.005); this indicates that challenges associated with agency banking affect financial performance.

# Table 7.18: Correlations between Agency Banking and Financial Performance of Centenary Bank

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Agency Banking Regulations and Procedures  | Accessibility to Finance | Banking Agency Challenges | Financial Performance |
| Agency Banking Regulations and Procedures  | Pearson Correlation | 1 | .882\*\* | .875\*\* | .889\*\* |
| Sig. (2-tailed) |  | .000 | .000 | .000 |
| N | 86 | 86 | 86 | 86 |
| Accessibility to Finance | Pearson Correlation | .882\*\* | 1 | .891\*\* | .891\*\* |
| Sig. (2-tailed) | .000 |  | .000 | .000 |
| N | 86 | 86 | 86 | 86 |
| Banking Agency Challenges | Pearson Correlation | .875\*\* | .891\*\* | 1 | .890\*\* |
| Sig. (2-tailed) | .000 | .000 |  | .000 |
| N | 86 | 86 | 86 | 86 |
| Financial Performance | Pearson Correlation | .889\*\* | .891\*\* | .890\*\* | 1 |
| Sig. (2-tailed) | .000 | .000 | .000 |  |
| N | 86 | 86 | 86 | 86 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). |

# Multiple Regression Model

The multiple regression model with all the three independents variables produced R² = 0.891, F=3164.278, p<.0.005.

From the data in the table 7.19 the established regression equation was

Y = 0.075 + 0.409 X1 + 0.190 X2 + 0.398X3

From the above regression equation it was revealed that holding Agency Banking Regulations and Procedures, Accessibility to Finance and Banking Agency Challenges to share to a constant zero, financial performance would be at 0.075. A unit increase in central banks regulation would lead to increase in financial performance by a factor of 0.409, a unit increase in Accessibility to Finance lead to increase in financial performance by a factor of 0.190 and a unit increase in Banking Agency Challenges would affect financial performance.

# Table 7.19: Multiple Regression Model

| Model | Unstandardized Coefficients | Standardized Coefficients | T | Sig. |
| --- | --- | --- | --- | --- |
| B | Std. Error | Beta |
| 1 | (Constant) | .075 | .040 |  | 1.887 | .063 |
| Agency Banking Regulations and Procedures  | .409 | .054 | .412 | 7.505 | .000 |
| Accessibility to Finance | .190 | .093 | .183 | 2.031 | .000 |
| Banking Agency Challenges | .398 | .074 | .407 | 5.391 | .000 |
| R=.896a, R Square=.802, Adjusted R Square=. 799, F= 3164.278 |
| a. Dependent Variable: Financial Performance |

# CHAPTER NINE

# HARMONIZATION TOWARDS IMPROVING AGENCY BANKING AND FINANCIAL PERFORMANCE IN COMMERCIAL BANKS

# Introduction

This chapter presents harmonization towards improving agency banking and financial performance of commercial banks in Uganda.

# Agency Banking

According to Section 3(a) of the Financial Institutions Act as amended in 2016, agent banking means the conduct by a person of financial institution business on behalf of a financial institution as may be approved by the Central Bank.

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 more (UN Capital Development Fund Journal, 2018). Agency banking is gaining popularity due to various reasons like product availability, risk management, improvement in financial inclusion, and many.

Agent banking is hinged on the Agency Principal relationship. Agency is a fiduciary relationship created by express or implied contract or by law, in which one party (the agent) may act on behalf of another party (the principal) and bind that other party by words or actions.

This relationship is legally recognized in Uganda under the Contracts Act, 2010. An agent is defined under the Contracts Act as a person employed by a principal to do acts for the principal or to represent the principal in dealing with a third party; and the principal is defined as a person who employs an agent to do any act for him or her or to represent him or her in dealing with a third person. Therefore, an agency relationship exists when one or more persons (principals) engage another person (agent) to perform some service on behalf of the principal, which involves delegating some decision-making authority to the agent.

Under the agent banking model, a financial institution contracts a third party, usually a retail outlet to perform some functions on its behalf, these include: cash deposit and cash withdrawal, payment services including bill payments, money transfers, facilitating disbursement and repayment of loans, receipt and forwarding of documents in relation to loans and leases, payment of retirement and social benefits, account balance enquiry, provision of account statements and any other permitted products. The principal usually offers remuneration in this case in the form of commissions which are based on the volume and value of transactions the agent would have executed.

The agent banking model also borrows from the marketing theory of distribution channels (more (UN Capital Development Fund Journal, 2019). A distribution channel is a means by which businesses get their products to their consumers. Therefore, agent banking represents a distribution channel which makes it possible for financial institutions to bring their services closer to the people.

# Rules and Regulation Governing Banking Agency

Agency banking offers the potential to increase and deepen financial inclusion across Uganda. Following regulations passed in July 2017, banks in Uganda can use agency banking, an extension of services traditionally offered in bank branches whereby third parties (agents) offer these services on behalf of banks to expand their presence, particularly in rural areas where brick-and-mortar branches are often expensive. For instance, estimates indicate that over 9 million Ugandans need to travel more than an hour to access a bank branch. For customers, agency banking means reduced travel time as well as greater access to and increased convenience of formal financial services.

In order to truly appreciate the agent banking legal regime in Uganda, it is imperative to juxtapose it with another jurisdiction specifically Uganda which has had agent banking in force since 2010. Pursuant to Section 33(4) of the Banking Act, the Central Bank of Uganda issued guidelines to be adhered to by institutions in order to maintain a stable and efficient banking and financial system. The Guideline is intended to; increase financial services outreach and to promote financial inclusion to the unbanked and under-banked population without risking the safety and soundness of the banking system; and encourage institutions to use agents in the provision of banking services so as to reduce the cost of financial services and to foster financial inclusion, reach and depth more (UN Capital Development Fund Journal, 2019).

In order to protect consumers from operational challenges, the Guideline makes it mandatory for every contract between an institution and an agent to specify that the agent shall at all times ensure safe-keeping of all relevant records or have them shifted to the institution at regular pre-specified intervals for safe-keeping (UN Capital Development Fund Journal, 2019). The Guideline also provides that the Institutions shall publish an updated list of all their agents in their websites and such other publications as they may deem appropriate. In addition to the updated list, the physical location, GPS co-ordinates, postal address and telephone numbers of the entity and its working hours need to be provided by the financial institution. The publications containing the list of their agents shall be disseminated to all their branches and may also be disseminated to their agents. These security measures are intended to safeguard consumers from falling prey to unregistered agents.

It is imperative to note that the Guideline provides that the financial Institutions shall pay special attention to credit risk, operational risk, legal risk, liquidity risk, reputation risk and compliance with rules for combating money laundering and financing of terrorism. Therefore, the Guideline encourages banks to put in place appropriate product and operations manuals, accounting procedures and systems for designing necessary forms/stationary to be used by the agents more (UN Capital Development Fund Journal, 2019).

# Safeguards of Banking Agency

Operational safeguards: The use of a non-bank employee to effect transactions on behalf of the bank poses risks such as agent fraud and theft. The agent may also charge customers unauthorized fees or offer unprofessional services to customers such as requiring customers to purchase certain goods and services to obtain other services.

In order to protect the consumers, the Regulations provide for due diligence in agent selection, they further provide that agents should have at their locations written notices stating that no charges or fees are levied, and that fees are not directly charged to customers (UN Capital Development Fund Journal, 2019). In addition, the law provides that persons who offer financial services on behalf of a financial institution should have valid agency agreements with the financial institution. In order to entrench the safeguards, the central bank makes it mandatory for the financial institutions to comply with the regulations, or face suspension or any other penalties. This mitigates the potential operational challenges that may arise.

Technical safeguards: Terrible user experiences of bank customers paint a likely scenario for agent banking. Other than unstable networks and to some extent the high interest rates, all other pain points are directly linked to the inner workings of the bank (UN Capital Development Fund Journal, 2019). As such they require internal strategies to resolve. Therefore banks must address key pain points such as high charges, fraudsters, unstable network and untrustworthy agents in their agency banking system. The regulations stress the need to put in place adequate and secure technological infrastructure capable of processing all transactions in real time, and also provide for a two-factor authentication and generate a standard easily identifiable copy system receipt or acknowledgement with the name of the financial institution, unique identification number of the agent who processed the transaction and a unique transaction reference number.

The Guideline provides for the minimum technical requirements for the operating systems of the agent to ensure that agent banking transactions are carried out with devices which are technically compliant. Institutions are required to ensure that such equipment are inter alia able to transmit transaction information in code, carry out electronic transactions on real time basis, allow handling under different user profiles for administration, maintenance and operation, reverse incomplete transactions due to error, system failure, power outage or other defects and process or generate durable transactional documents or receipts.

In addition, the Guideline mandates the financial Institutions to monitor the safety, security and efficiency of the equipment being used to prevent any tampering or manipulation by any person. With regard to technical safeguards, both the Ugandan and Kenyan legal regime provide similar protective measures as they both provide for the minimum technical safeguards like the transmission of transaction information in code and carrying out of electronic transactions on real time basis (UN Capital Development Fund Journal, 2019). However, the Ugandan system goes further to mandate financial Institutions to monitor the safety, security and efficiency of the equipment being used to prevent any tampering or manipulation by any person.

Legal safeguards: Legal challenges can arise in circumstances of liability. For example the agent may become negligent by not checking the bank notes they receive for deposits and in the process accept fake notes. This may result in losses for the financial institution if the agency contract is silent on who should bear the losses. It is for this reason that most agency contracts try to induce optimal behaviour from agents by rendering them liable for all losses due to negligence on their part. The central bank however provides that a financial institution is liable for the actions or omissions of its agent relating to agent banking. However, an agent shall be liable for any acts or omissions of its outlet more (UN Capital Development Fund Journal, 2019). This seems to limit the liability of the principal in the principal agent relationship which gives rise to the question of what liabilities shall the financial institutions bear and against whom can the consumers enforce their rights.

# Benefits of Agency Banking

Banks are facing a tough time conducting their operations across the world due to the coronavirus pandemic’s impact. As per Statista, the banking sector’s revenue is going to decrease to 489 billion dollars (approx.) in 2021. In this critical situation, the agency banking solution comes to rescuing traditional banks and financial institutions. It offers multiple facilities like easy deposits and withdrawal of money, loan management, fund transfers, account inquiries, etc. It also allows the banks to conduct their operations in rural areas where every banking business cannot reach.

A robust agency banking solution helps the banks extend their services and maximize their market share. It can also promote local development and economic growth by allowing individuals and startups to access essential financial services.

Financial institutions are still hesitating in adopting the agency banking model, despite the implementation of easy regulatory setup in every country. An agency banking solution is a cost-effective strategy that allows them to reach out to the unbanked population across the globe. Here are some benefits which an agency banking solution offers to the banks and financial institutions:

**Branchless banking:** Agency Banking is also known as branchless banking. It offers multiple benefits like risk management, product availability, improved financial inclusion, and a wider customer base to the financial institutions across the world. It allows the traditional banks to go branchless by extending their branches’ network via authorized agents in the rural populations.

**Real-time transactions:** With an efficient agency banking solution, a customer can complete its banking transaction in real-time. It allows the customers to access their funds on an immediate basis. It helps the institutions to make their payments on time. It also enables customers to check the status of their cheques.

**Personalized services:** Consumers now expect a higher personalization in their digital payment transactions. This has forced the companies to provide better banking facilities to their customers. An efficient agency banking solution offers a higher personalization of services to the business owners. This customization of service includes personalized offers, financial advice, and notifications.

**Easy onboarding of customers:** Customers want speed and comfort while doing banking transactions from their smartphones. Lengthy, paperwork, and heavy banking processes create a tiresome banking experience for the customers. This will make the customer seek a robust digital alternative that gives them the speed and ease they want. At this time, an efficient agency banking solution can be a savior for them. It offers multiple features like speedy onboarding process, the clear introduction of the product, and demonstration of the new customers’ features. Selfie-based onboarding and video-call based onboarding are some new features that banks can use for easy onboarding of the customers.

**Hassle free loan procedures:** Agency banking solutions make the loan process a seamless experience for the customers. Now the customers can apply for the loan by just uploading their bank statement and IT Return. The data-driven platform then fetches the credit-related information at the back end and runs a financial check on the applicant’s overall banking transactions. It will then generate a letter if the lending criteria have fulfilled successfully. In this way, an agency banking solution allows a self-service mode for its users.

**Effective management of agent network:** Generally, agency banking managers have to engage physically with their agents to manage them. Sometimes, it becomes crucial for banks to manage such a huge interaction with many agents. Banks can use agency banking solutions to decrease the cost of operating the agent network. An agency banking solution uses chatbots and messengers to help the banks decrease physical interaction between the agents and their managers.

Banks offer real-time guidance and support to their agents at any time by using the agency banking solution. This enhances their customer experience, and also, they be able to strengthen their agency network.

**Supports contactless payments:** A robust agency banking solution helps banks and financial institutions conduct its operations using contactless payment solutions like QR codes, financial service technologies, etc. for avoiding human touch. The financial institutions dependent on biometric verification need to be careful in the times of pandemic. Sometimes, after cleaning and sanitizing the devices properly, there is still some issue remains with it. Banks can solve this issue by using OTPs. They can also share the digital receipt via an email or SMS to its customer instead of a printed one.

# Financial Performance

Financial performance is the degree to which the financial objectives are being achieved by considering the outcome of the monetary aspects of an organizational operating processes and policies. During financial analysis, decision-makers select, evaluate, and interpret financial data, in addition to relevant information, to help appreciate the dynamics influencing performance. The results of financial analysis are helpful in evaluating concerns related to how employees are performing; whether an enterprise is operating efficiently; and probable opportunities for external investment (Drake, 2016).

Financial performance can also be measured by the strength of the balance sheet. This is the company’s resources relative to its obligations at a specific point in time. More assets and fewer liabilities results in a stronger balance sheet. A strong balance sheet is highly preferred. Several ratios can be calculated from the balance to measure the performance of financial institution for example; Return on Assets, Return on Investments, Return on Equity, etc (Brealy, Myers & Marcus, 2007).

# CHAPTER NINE

# SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

# Introduction

This chapter presents the summary of findings basing on the study objectives; it also presents the conclusions made to improve banking agency and financial performance in commercial banks in Uganda, focusing on Centenary Bank.

# Summary of Findings

The study focused on the banking agency and financial performance in commercial banks in Uganda, focusing on Centenary Bank. A descriptive and explanatory research designs were used and both qualitative and quantitative techniques were used. The findings from the study were as follows:

**Findings on agency banking regulations and procedure are complied with to enhance financial performance of Centenary Bank.**

The study indicated that 60.5% of the respondents states that banking agents and customers comply with agency banking regulations and procedures, 66.3% argues that there are special requirements to become an agent; 74.4% in general states that Centenary Bank (CB) obtains approval from the central bank for each outlet of its agents; 55.8% discloses that Bank of Uganda (BoU) vet and approve each person selected by a financial institution to act as its agent for purposes of conducting agent banking; 75% generally revealed that agents collect and forward supporting documentation for account-opening and loan applications; 69.7% affirms that Centenary Bank protects consumers of financial services to reduce financial crime.

Further the findings indicated that 58.1% of the respondents revealed that each transaction has to be accompanied by a system-generated receipt, which creates confusion as to whether SMS is permitted as proof of transaction; 62.9% states that Centenary Bank has created adequate awareness about banking agency financial system; 73.2% in general agreed that Centenary Bank efficiently maintains confidence in customer about the banking agency and 60.5% had similar opinions that Bank of Uganda holds Centenary Bank liable for the conduct of their agents.

Results of the correlation analysis discovered that there is a significant and positive relationship between agency banking and procedure and financial performance, the result of (r=0.889 P<0.005) indicates that banking agents and customers comply with agency banking regulations and procedures. Centenary Bank obtains approval from the central bank for each outlet of its agent.

**Findings on accessibility to financial services by the customers improves financial performance of Centenary Bank.**

Study findings on this objective revealed that 76.7% in common agreed that agency banking has led to accessibility to financial service to many customers in remote areas; 47.7% states that cost involved in transacting with agency banking is low compared to banking halls; 61.6% revealed that accessibility of banking service through agency banking has led to profitability of Centenary Bank; 71% in common agreed that customers pay their loans through agency banking. This means that customer use this services to initiate and pay loans.

Research findings on second objective of the study indicated that 64% of the respondents believe that time spent in agency banking outlets is low compared to the normal banking hall, 67.4% clearly states that Centenary Bank has expanded its financial services in remote areas with insufficient financial access; 60.5% states that agency banking reduces the cost of delivering financial services to unreached people in the country; 55.9% discloses that agency banking provided by Centenary Bank has created customer loyalty. 51.2% argues that agency banking has helped Centenary Bank to divert customers from other crowded financial institutions and 53.5% shows that Centenary Bank has an effective system that notifies customers about their finance transactions.

Results of the correlation analysis discovered that there is a significant and positive relationship between accessibility to financial services and Financial Performance of Centenary Bank the result of (r=0.891 P<0.005) indicates that agency banking has led to accessibility of financial service to many customers in remote areas; accessibility of banking service through agency banking has led to profitability of commercial banks.

**Findings on challenges associated with adoption of agency banking affects financial performance of centenary Bank.**

Findings on third objective presented that 46.5% agreed that there is lack of improper government policies governing banking agency; 60.5% states that here are increased cases of fraud and money laundering; 65.1% reveals that agents are suffering with inadequate cash in business operation; 51.2% avows that systems failure relates to risks such as software or hardware malfunctioning, which cause interruption of services delivery or information loss and 61.7% shows that banking agents are properly trained to use banking agency systems.

The study findings further indicated that 62.8% agreed that agent onboarding process is restrictive and time-consuming; 62.8% shows that customers do not trust some agents of Centenary Bank; 58.1% agreed that early adopters’ transactional profile has liquidity management (LM) implications and 59.4% said that there is a need for sustained effort to create awareness of the financial service, as well as to acquire, educate and retain clients.

# Financial Performance

Findings on dependent variable indicated that 61.6% had similar opinions that agency banking has helped Centenary Bank to maximise its profits; 65.1% said that agency banking has led to improved liquidity management; 64% in common agreed that agency banking has increased return on investment improve financial performance and 81.4% shows that agency banking has multiplied customers of Centenary Bank.

Results of the correlation analysis revealed that challenges associated with adoption of agency banking; the result of (r=0.890 P<0.005) indicates that these challenges affects the financial performance of Centenary Bank. It further indicates that agents are suffering with inadequate cash in business operation and systems failure relates to risks such as software or hardware malfunctioning affect the performance of this financial service.

# Conclusions

Conclusion were drawn from the above findings

**Agency banking regulations and procedure are complied with to enhance financial performance of Centenary Bank.**

The study concluded that banking agents and customers comply with agency banking regulations and procedures, there are special requirements to become an agent; Centenary Bank (CB) obtains approval from the central bank for each outlet of its agents; Bank of Uganda (BoU) vet and approve each person selected by a financial institution to act as its agent for purposes of conducting agent banking; agents collect and forward supporting documentation for account-opening and loan applications; Centenary Bank protects consumers of financial services to reduce financial crime; each transaction has to be accompanied by a system-generated receipt, which creates confusion as to whether SMS is permitted as proof of transaction; Centenary Bank has created adequate awareness about banking agency financial system; Centenary Bank efficiently maintains confidence in customer about the banking agency and Bank of Uganda holds Centenary Bank liable for the conduct of their agents.

**Accessibility to financial services by the customers improves financial performance of Centenary Bank.**

The study also concluded that agency banking has led to accessibility to financial service to many customers in remote areas; cost involved in transacting with agency banking is low compared to banking halls; accessibility of banking service through agency banking has led to profitability of Centenary Bank; customers pay their loans through agency banking. This means that customer use this services to initiate and pay loans; time spent in agency banking outlets is low compared to the normal banking hall, Centenary Bank has expanded its financial services in remote areas with insufficient financial access; agency banking reduces the cost of delivering financial services to unreached people in the country; agency banking provided by Centenary Bank has created customer loyalty. Agency banking has helped Centenary Bank to divert customers from other crowded financial institutions and Centenary Bank has an effective system that notifies customers about their finance transactions.

**Challenges associated with adoption of agency banking affects financial performance of centenary Bank.**

Conclusion on third objective of the study presented that there is lack of improper government policies governing banking agency; there are increased cases of fraud and money laundering; agents are suffering with inadequate cash in business operation; systems failure relates to risks such as software or hardware malfunctioning, which cause interruption of services delivery or information loss and banking agents are properly trained to use banking agency systems.

# Financial Performance

Lastly the study concluded on the dependent variable. Agency banking has helped Centenary Bank to maximise its profits; agency banking has led to improved liquidity management; agency banking has increased return on investment improve financial performance and agency banking has multiplied customers of Centenary Bank.

# Recommendations

From the study findings and conclusions, the study makes following recommendations:

The study recommends that commercial banks should adopt agency banking as a cost saving strategy, and also as a way of increasing their geographical coverage as opposed to branch expansion for positive returns on financial performance. The government through the Central Bank of Uganda should review the policies around agency banking in order to make them more effective in addressing the opportunities and risks associated with agency banking. In order to promote adoption and utilization of agency banking channels, the government should consider increasing the number of services offered by agency banking such as accounts opening.

The study recommends that Central Bank should consider coming with a clear agency banking regulatory policy which creates a universal platform for all banking institutions. This should enhance fair market completion and thus barring financial institutions from customer exploitation. The study recommends that the financial institutions should continue offering low transaction rates within their local agency points. This should lure customers to adopt this as a culture thus ensuring the future sustainability of the agency banking system.

The study recommends that the banking institutions should considered intensifying the agency banking network which will ensure services accessibility by customers and thus improving financial performance.

The study recommends that commercial banks to enhance and deploy more resources for use by agency banking agents to reduce administration cost, operation costs and increase income and improve asset quality, improving bank financial performance. Banking through agency banking should emerge as a strategic resource for achieving higher efficiency, control of operations and reduction of cost by replacing paper based and labor intensive methods with automated processes thus leading to higher productivity and profitability.

The study also recommends that commercial banks should integrate the use of agency banking for exploring and finding new customers, enhancing speedy communication, collecting and managing information, generating a wide range of product ideas from a wider range of resources, access documents and share technical information this can be done by the Central Bank of Uganda.

The study recommended to policy makers that in order to help banks improve their operations, they need to heighten awareness to the public through regular open day forums, media and exhibitions on the need and uses of agency banking, develop strategies that should capture new customers and increase transactions.

Adequate capital maintenance enables any financial institution to be stable and avoid running into distress and therefore the BoU should require the maintenance of higher floatation costs to by the agent banks. This creates more confidence on the customers in transacting through the agents. This should increase the transactions though agents and hence improved profitability.

Security measures should be highly emphasized on the agents by the parent banks in order to increase their volumes and value. The government should ensure greater improvement in areas that may be deemed insecure and increase the operations of the agent banks

Finally the study recommends that banking institutions should consider coming up with lock in strategies for the already captured market. This will award more power to the bank in controlling the prices and services it offers to its customers.

# Areas for the Further Research

The study sought to determine the contributions of agency banking on financial performance of commercial banks in Uganda, focusing on Centenary Bank. The study recommends that a study should be done compliance of agency banking regulations on financial performance of y commercial banks in Uganda.

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# APPENDICES

# APPENDIX I: SELF ADMINISTERED QUESTIONNAIRE

Dear respondent,

I am a student of Nkumba University pursing a Master’s Degree in Business Administration. I am carrying out an academic research on the agency banking and financial performance, using a case of Centenary Bank. This questionnaire has been designed purposely for data collection. You have been identified as the potential person who can provide useful and reliable data for this study. The researcher will ensure privacy and confidentiality for the data or information obtained by respondents. Your participation will be highly appreciated.

**SECTION A: BIO DATA INFORMATION OF RESPONDENT**

Please tick the right response appropriately

**1. Gender of the Respondents**

 Male Female

1. **Age bracket (in years)**

21-30 yrs 31-40 yrs 41-50 yrs above 51 yrs

**3. Academic qualification**

Certificate

Diploma level

Under graduate degree

Masters

Others ………………………………………………………………

**4. Department of work**

Administration

Management

Procurement

Human Resource

Accounting and Finance

Banking Agent

Customer

**5. How long have you been in Centenary Bank?**

 0-2 years

 3-5 years

 Above 6 years

For each of the following statements in section B C D and E below, indicate your level of agreement by ticking one of the given statements using the following 5 points Likert scale (1-5). With the following key, **1**: Strongly disagree; **2**: Disagree; **3**: Not sure; **4:** – Agree; **5**: Strongly Agree

**SECTION B: AGENCY BANKING REGULATIONS AND PROCEDURES ARE COMPLIED WITH TO ENHANCE FINANCIAL PERFORMANCE OF CENTENARY BANK.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement**  | **1** | **2** | **3** | **4** | **5** |
| **1.** | Banking agents and customers comply with agency banking regulations and procedures.  |  |  |  |  |  |
| **2.** | There are special requirements to become an agent. |  |  |  |  |  |
| **3.** | Centenary Bank obtains approval from the central bank for each outlet of its agent. |  |  |  |  |  |
| **4.** | BoU vet and approve each person selected by a financial institution to act as its agent for purposes of conducting agent banking. |  |  |  |  |  |
| **5.** | Agents can collect and forward supporting documentation for account-opening and loan applications. |  |  |  |  |  |
| **6.** | The bank protects consumers of financial services to reduce financial crime. |  |  |  |  |  |
| **7.** | Each transaction has to be accompanied by a system-generated receipt. |  |  |  |  |  |
| **8.** | Centenary Bank has created adequate awareness about banking agency financial system. |  |  |  |  |  |
| **9.** | Centenary Bank efficiently maintains confidence in customer about the financial system. |  |  |  |  |  |
| **10.** | Bank of Uganda holds Centenary Bank liable for the conduct of their agents. |  |  |  |  |  |

**SECTION C: ACCESSIBILITY TO FINANCIAL SERVICES BY THE CUSTOMERS IMPROVES FINANCIAL PERFORMANCE OF CENTENARY BANK.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement**  | **1** | **2** | **3** | **4** | **5** |
| **1.** | Agency banking has led to accessibility of financial service to many customers in remote areas. |  |  |  |  |  |
| **2.** | Cost involved in transacting in agency banking is low compared to banking halls. |  |  |  |  |  |
| **3.** | Accessibility of banking service through agency banking has led to profitability of commercial banks. |  |  |  |  |  |
| **4.** | Customers pay their loans through agency banking. |  |  |  |  |  |
| **5.** | Time spent in agency banking outlets is low compared to the normal banking. |  |  |  |  |  |
| **6.** | Centenary Bank has expanded its financial services in remote areas with insufficient financial access. |  |  |  |  |  |
| **7.** | Agency banking reduces the cost of delivering financial services to unreached people. |  |  |  |  |  |
| **8.** | Agency banking provided by CB has created customer loyalty. |  |  |  |  |  |
| **9** | Agency banking has helped Centenary Bank to divert customers from other crowded financial institutions. |  |  |  |  |  |
| **10.** | Centenary Bank has an effective system that informs customers about their finance transactions. |  |  |  |  |  |

**SECTION D: CHALLENGES ASSOCIATED WITH ADOPTION OF AGENCY BANKING AFFECTS FINANCIAL PERFORMANCE OF CENTENARY BANK.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement**  | **1** | **2** | **3** | **4** | **5** |
| **1.** | There is lack of improper government policies governing banking agency.  |  |  |  |  |  |
| **2.** | There are increased cases of fraud and money laundering. |  |  |  |  |  |
| **3.** | Agents are suffering with inadequate cash in business operation. |  |  |  |  |  |
| **4.** | Systems failure relates to risks such as software or hardware malfunctioning. |  |  |  |  |  |
| **5.** | Banking agents are properly trained to use banking agency systems. |  |  |  |  |  |
| **6.** | Agent onboarding process is restrictive and time-consuming. |  |  |  |  |  |
| **7.** | Customers do not trust some agents of Centenary Bank. |  |  |  |  |  |
| **8.** | Early adopters’ transactional profile has liquidity management implications. |  |  |  |  |  |
| **9.** | There is a need for sustained effort to create awareness of the financial; service, as well as to acquire, educate and retain clients. |  |  |  |  |  |
| **10** | Improper liquidity management is crucial challenge for the agent banking model. |  |  |  |  |  |

**FINANCIAL PERFORMANCE**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement**  | **1** | **2** | **3** | **4** | **5** |
| **1.** | Agency banking has helped Centenary Bank to maximise its profits. |  |  |  |  |  |
| **2.** | Agency banking has led to improved liquidity management.  |  |  |  |  |  |
| **3.** | Agency banking has increased return on investment. |  |  |  |  |  |
| **4.** | Agency banking has multiplied customers of Centenary Bank. |  |  |  |  |  |

# APPENDIX II

# INTERVIEW GUIDE

1. Does Centenary Bank have created adequate awareness about banking agency financial system?
2. How does Central Bank regulation on agency banking affect the financial performance of Centenary Bank?
3. Does low transaction cost of agency banking affect the financial performance of Centenary Bank?
4. What are the effects of increased customers’ transactions as a result of agency banking on the financial performance of Centenary Bank?