Addis Ababa University

College of Business and Economics

Department of Management

Effects of Agency Banking on Bank Performance in Ethiopia Commercial Banks

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(EMBA)

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Addis Ababa, Ethiopia

Declaration

I, Abebe Tadesse declare that this project is my original work and has not been presented for award of degree in any other university and that all sources of materials used for the project have been duly acknowledged.

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Confirmed by Advisor:

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Date_____

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Approved by the Board of Examiners

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Abstract

The paper investigates the effects of agency banking on ban k performance in Ethiopia commercial banks. The study sought to explain the significance of security, telecom infrastructure, knowledge and bank agent distance. Descriptive research and explanatory research design is conducted in order to identify the extent at which the independent variables affect the dependent variables. The study used primary data collected from nine purposively selected commercial banks in Ethiopia. Multiple regression analysis was used in establishing the significance of the relationship. The paper finds that knowledge has statistically significant contributor for bank performance at 5% level of confidence and followed by bank agent distance is also the next highest statistically significant contributor for bank performance at 5% level of confidence whereas security and telecom infrastructure increase bank performance which is statistically insignificant at 5% level of confidence. Based on the research findings, the researcher provided recommendations. In terms of contribution the four dimension of agency banking such as (security, telecom infrastructure, knowledge, and bank agent distance). However, Ethiopian Commercial banks has to give proper attention to security since in terms of contribution it is contributing positive and insignificant which very weak. So that it will affect the degree of whole contribution to bank performance.

Key Words: Agency banking, Financial Inclusion, Financial Innovation, Bank Performance.

List of Acronyms

AML-Anti Money Laundering

ANOVA- Analysis of Variance

ATM- Automotive Tellers Machine

BAD-Bank agent distance

BP-Bank Performance

CBE -Commercial bank of Ethiopia

CBK-Central bank of Kenya

CFT-Combating and Financing Terrorism

E.C - Ethiopian Calendar

E-Banking-Electronic payment

EFIA- European Fencing Industry Association

E-Payment -Electronic payment

GTP-Growth & Transformation Plan

ICT-Information & communication Technology

IT- Information Technology

KN -Knowledge

KYC- Know your Customer

MFI-Micro Finance Institution

NBE -National Bank of Ethiopia

POS - Point of Sale

SC-Security

SPSS-Statistical Package for Social Sciences

TI-Telecom Infrastructure

USA - United States of America

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CHAPTER ONE

1. INTRODUCTION

The study examines effects of agency banking services on the performance of commercial banks in Ethiopia. The variables used for this study are agency banking and under it security, telecom infrastructure, knowledge and bank agent distance as independent variable and bank performance as dependent variable. This chapters incorporates background of the study, problem statement, basic research questions, objectives of the study, research hypothesis, significance of the study, scope of the study, limitation of the study and followed by organization of the study.

1.1 Background of the Study

This research examined the effect of agency banking, which include security, telecom infrastructure, knowledge, and bank agent distance on bank performance in private commercial banks. The relationship between the dependent variables and independent variables were examined in order to answer the basic research questions and achieve the objectives of this research.

Agent banking means providing banking services to the bank customers through the engaged agents under a valid agency agreement, rather than a teller/ cashier. It is the owner of an outlet, who conducts banking transactions on behalf of the concerned bank (Ferdous, Mosharrafa & Farzana 2015).

Agency banking was first developed in Brazil in 1999. Although by 2000, only 1,600 municipalities in Brazil had bank branches, by 2010, some 170,000 agents cover all of the 5,500 municipalities, and nearly 12 million accounts have been opened at agents over three years (Kumar 2006). Globally, distribution channels such as retailers, pharmacies, fuel stations, supermarkets, malls and post offices are used for financial institutions for providing services of agent banking. In United States, agency banking is a form of organization commonly used by foreign banks to enter the US market. Using an agency bank allows a foreign bank to engage in financial activity on US soil. People in the United States who want to do business with the parent bank can do so through the agent, with representatives at the agency bank taking care of issues like currency exchange, transfers of funds, and deposits among others. In Africa, the finance sector has a pivotal

role to play in economic development. Across the continent a number of banks are championing sustainability and reengineering their operations to integrate agency banking models. However, in Africa, agency banking is a recent phenomenon well practiced in Kenya and South Africa. In South Africa, the first agency banking was opened in 2005 (Ivantury & Mas 2008).

Branchless banking has been considered an important alternative to expand the distribution of financial services to poor and remote areas, usually underserved by traditional bank branch networks (Ivatury and Mas 2008). Being a low cost channel for banks and largely adopted by the low income population for some basic financial services such as remittances, bill payments or to receive benefits from governmental aid programs. Branchless banking is experienced and widely distributed in Africa (Kenya and South Africa), Asia (Philippines and India) and Latin America (Peru, Colombia and Brazil) (Kumar et al. 2006).

Agency banking has many challenges and some of the challenges of agency banking services are problem of confidentiality with regard to customer personal information since agency employees are not bank employees, security is another challenge for customer up on making transaction at agents outlet, fraudulent transaction is also another problem if the document presented to the agent is forged and the other challenge is customer service if the agent will not acts agreed on the contract with the parent bank.

According to Ndungu (2014) agency banking model increased wide customer base, cutting costs, increased product penetration, increased market share, inclusion of the unbanked societies to formal banking channels so that additional customer will get and as a result of that additional deposit will be mobilized, easily accessibility to the society and all these things factors contribute significant for the growth and performance of commercial banks.

Ethiopia's second five-year Growth and Transformation Plan (GTP-II) envisages increasing the number of fixed line telephone subscribers from 3.1 million in 2014/15 to 10.4 million by the end of GTP-II (2019/20). The number of mobile-telephone subscribers is expected to increase from 40 million in 2014/15 to 103.6 million by the end of GTP-II (2019/20). Similarly, the number of internet subscribers will increase from 9.6 million to 56 million by the end of GTP-II (2019/20). By the end of GTP-II mobile telephone service coverage increase from 43.9% to 100% by the end of GTP-II (2019/20). Meanwhile, the number of Broadband and Narrowband internet subscribers

increase from 1.59 Million and 8 Million to 39.1 Million and 16.9 Million respectively by the end of GTP-II (2019/20). Therefore, from this we can see that there is huge potential in Ethiopia for the expansion of agency banking model because of the increasing numbers of additional mobile telephone subscribers (Ethiopian National Planning Commission (2016).

Technology enabled banks and their customers to interact remotely in a trusted way through existing local retail outlets. Agency bank is one of these remotely interacted service delivery channels. To foster financial inclusion, expanding Agency banking's outreach and increase customer base by strengthening the operation of Agent banking is important.

Agent banking is the delivery of financial services outside conventional bank branches, often using non-bank retail agents and relying on technology, such as card readers, point-of–sale (POS) terminal or mobile phones for real time transaction processing. Currently agents of the bank use POS terminals and/or smart phones as a devise to provide banking services.

Agent banking is an arrangement by which licensed institutions engage third parties to offer certain banking services on their behalf. Agency banking is branchless banking based on ICT that allows financial institutions to offer financial service outside the traditional bank premises (Mas and Siedek, 2008). It allows customers to conduct a limited type of financial transactions at third party outlets that include post offices, supermarkets, general and grocery stores, pharmacies, and gas stations etc. located in remote areas (Kanini 2011).

Every angle of life has been influenced by the increased developments in information technology. One of those sectors majorly affected is banking sector. Operations of many banks have been redefined with introduction of electronic banking with many benefit being realized like flexibility in customers' service and low cost of banking. This far, banks have been able to develop branchless banking such as ATM and agency banking. An agency bank is an organization that acts in some capacity on behalf of another bank, it, thus, cannot accept deposits or extend loans in its own name; it acts as agent for the parent bank.

Agency banking refers to a retail outlet contracted by a financial institution or a mobile network operator to process clients' transactions. Rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds, pay their bills, inquire about an account balance, or receive government benefits or a direct

deposit from their employer (CBK, 2014). Financial performance is the degree in which financial objectives are being accomplished in an organization. In other words; it's the measurement of how an organization's operations and policies are faring in monetary terms. This portrays the firm's financial stability over a given period whether across the firm or in comparison with other industries doing similar activity.

1.2 Problem Statement

The business environment has changed in Ethiopia as in other parts of the world and it has been characterized by stiff competition among commercial banks (Awash Bank Strategy document 2016). Competition amongst the commercial banks has pushed banks towards becoming more innovative. The card banking service was introduced in the late 2001 by Commercial Bank of Ethiopia (CBE) and followed by Dashen Bank which introduced card payment system in 2006 (Garadachew 2015). Following this all banks have joined the electronic banking system and start to deploy delivery channels like automatic teller machines (ATMs) and point of sale (POS) terminals for the banking transactions.

Ethiopia is the second highest populous nation in Africa with only 22% banked population compared to 34.2% Sub-Saharan African Countries (World Bank, 2014). Moreover, as per Ethiopia national financial inclusion strategy document only 22% of the population has banked in 2014 and projected to reach to 60% by 2020 (NBE 2017). Besides to that, the country may seize alarmingly increasing mobile penetration rate as opportunity to promote financial inclusion (NBE, 2017). According to the Ethiopian Central Statistical Agency (2013 census), the total number of population of Ethiopia is 86,613,986. Out of this the proportion of children below 15 years was 41.5%, between 15 to 65 years of age was 55.8% and above age of 65 years of age 2.7%. The total number of bank branches reached 2,323 for an estimated population of over 86.6 million with branch-to-population ratio of 1: 37,861.-, Commercial Bank branch (per 100,000 adults) ratio was 2.94 compared to 3.7 for Sub-Saharan (Birritu, 2015). Since majority percentage i.e. 55.8% of Ethiopian population proportion was between the ages of 15 to 65 years it is an opportunity for the growth of agency banking services and accordingly contribute significant for the performance of commercial banks.

As per the researcher's observation on Agency banking services, review of literatures on the issue and preliminary discussions made with staff of E-banking Service Department at different banks that have already commenced the services, some of the challenges faced in providing the agency banking are poor internet and mobile network connectivity, lack of skilled man power, absence of suitable legal and regulatory framework are challenges to provide and enhance the service. Moreover, the cost that involved in servicing low-value accounts, availing physical infrastructure to remote rural areas and cost (in money and time) incurred by customers in remote areas to reach bank branches are among the major concerns (Ndungu, 2014).

In many parts of the world research have been undertaken on agency banking and some of them are on adoption and growth of agency banking and contribution of agency banking on bank performance. For Examples cupola (2003) national ICT infrastructure is a major factor that supports the adoption of electronic banking, Mwangi (2011) in Kenya on evaluating the role of agency banking on the performance of commercial banks in Kenya, Sathye (1999) internet access as one of the factors affecting the adoption of Internet Banking, Anderson (2007), people remain unbanked in the U.S due to reasons which include lack of understanding about the banking system and one of the most accepted solution to this problem is the shift from the branch based banking system to the adoption of the branchless banking system and Chong (2008) also depicted that, the rapid growth of agency banking is reducing the cost and expanding the availability of such service to those in developing countries who lack access to financial services. But when we come to Ethiopian commercial banks most banks dwell more on traditional branch based banking system instead of branchless banking and as a result of that spending a lot of money for branch expansion and to cover other administrative costs ultimately that will affect bank performance.

However, few researches have been undertaken in Ethiopia on agency banking. For example, Gardachew (2010) a research done on the opportunities and challenges of E-banking in Ethiopia, Wondwossen and Tsegai (2005) have also conducted a research on challenges and opportunities of E-payments in Ethiopia, Ayana (2014) on factors affect adoption of E-banking in Ethiopian banking industry, Elfagid (2015) Challenges and prospects of mobile and agency banking in Ethiopia and Afework (2015) assessment of agency banking innovation in Ethiopia, barriers and drivers.

Previous studies conducted in developed countries like, Australia, Italy, USA and developing countries in Latin America, Asia and in Africa shows the importance of agent banking for financial performance of commercial banks. However, to the best of my knowledge there is no empirical study that has been undertaken so far on the effect of agent banking on bank performance in Ethiopia commercial banks by answering the four basic research questions raised. Hence, the purpose of this study is to fill the gap in this regard.

1.3 Basic Research questions

1. What is the effects of agency banking security on bank performance in Ethiopia Commercial Banks?
2. To what extents do agency banking telecom infrastructure have an effect on bank performance?
3. How the agency banking knowledge effect on bank performance?
4. To what extent does bank agent distance has effect on bank performance?

1.4 Objective of the Study

1.4.1 General Objectives

The main objective of the study is to measure effects of agency banking on bank performance.

1.4.2 Specific Objectives

1. To determine the effect of agency banking security on bank performance.
2. To evaluate the effect of agency banking telecom infrastructure on bank performance.
3. To examine the effect of agency banking knowledge on the bank performance.
4. To investigate the effect of bank agent distance have effects on the bank performance.

1.5 Research Hypothesis

H1:1 Security has a positive and significant effect on bank performance.

H1:2 Telecom infrastructure has a positive and significant effect on bank performance.

H1:3 Knowledge has a positive and significant effect on bank performance.

H1:4 Bank-agent distance has a positive and significant effect on bank performance.

1.6 Significance of the Study

1.6.1 Theoretical Significance

Students and researchers may also use the research findings as a reference in their subsequent effort to search for answers to their queries, thus it will add to the existing body of knowledge. Moreover, the study will be used for academicians for further study and for the government for policy formulation.

1.6.2 Practical Significance

This study is important to the government in that it will shed light on areas to be improved in an effort to provide financial inclusion to the unbanked low income and rural population. It will also benefit commercial banks by bringing factors that they deem to be critical to the acquisition of customers to their attention and have a clear understanding of factors that would be important in embracing and adopting agency banking as a product.

The study will be important for commercial banks since it dealt with agency banking on financial performance of commercial banks in Ethiopia. It will show possible way for banks how to increase their customer base, market share, deposit mobilization through agency banking. Beyond that agency banking is a tool and will contribute significant for inclusion of the unbanked societies to formal banking system.

1.7 Scope of the Study

1.7.1 Geographic scope

Considering all private and government owned banks under this study was difficult and unmanageable from broadens, time, financial and experience constraints point of view. The study was focused on agency banking services on the performance of commercial Banks in Ethiopia. It was limited to 9(nine) private commercial banks who commenced agency banking services. The study is also limited to those variable mentioned in the conceptual frame work. Therefore, this study only focused on nine private commercial banks who commenced agency banking.

1.7.2 Content Scope

In terms of content/subjective scope, in this study, the banking agency is taken as a comprehensive model consisting of the main banking agency styles typically investigated in the field. Other factors

have been excluded from this study. The kind of performance studied in this paper is bank performance such as market share, transaction cost, and financial service accessibility.

1.7.3 Methodological scope

The research design of this study is descriptive survey type done by applying quantitative approach research.

1.7.4 Temporal scope

This research focused on cross sectional survey research design. Because, the study is cross sectional survey meaning it is end by one-year time period.

1.8 Limitation of the Study

All the necessary data may not be collected due to newness of agency banking services in Ethiopia commercial banks, confidentiality of data because most financial institutions may not readily disclose information to researchers for fear of breach of secrecy and unwillingness to provide the right information by respondents in the process of collecting the relevant data. In addition, respondents delay in giving the required data, and a few respondents fail to respond to requests which may affect the quality and generalization of this study.

1.9 Organization of the Study

This research paper was organized in to Five Chapters. The first chapter addressed background of the study, problem statement, research questions, and objectives of the study, significance of the study, scope of the study, limitation of the study and organization of the study.

The second chapter deals with the review of related literature where theoretical, empirical evidences and conceptual framework have been explored from different publications in the area of agency banking on the financial performance of commercial banks.

The third chapter presents the research design and methodology which focused on the type of research, target population, sample size, sampling techniques, sources and instruments of data collection, procedures of data collection and finally method of data analysis.

The fourth chapter is about the results and discussion that was concerned with the summarization and interpretation of the research findings. Finally in chapter five, summary of findings, conclusions, recommendations and limitations of the study have been discussed.

CHAPTER TWO

2. RELATED LITERATURE REVIEW

2.1 Introduction

This chapter shares with the researcher and the readers the theories, concepts, definitions and the outcome of other studies. It also relates the study to the larger ongoing argument in the literature about the topic, it also summarize, compare and synthesize theories regarding agent banking, filling in gaps and extending prior studies.

2.2 Approved and Prohibited Activities

The activities to be conducted and not conducted by bank agents are explicitly stipulated in the contract between the party who give the contract i.e. the bank and the one who receive the contract i.e. the agent. According to Mwando (2013) the followings are approved activities and prohibited activities for bank agents. NBE (2013) directives also mentioned explicitly some of the approved and prohibited activities.

2.2.1 Agency banking approved activities

Activities that the agency can engage are determined by the contracting bank after assessment of the applying entity. According to Mwando (2013) some of the activities that has been approved to agents are cash withdrawal, bills payment, cash deposits funds transfer, balance enquiry, document collection for debit and credit cards, loan applications and account opening forms, collection of bank correspondence and mail mobile banking services. However, in our context collection of debit and credit cards, collection of bank correspondence and loan application are not allowed as per NBE Diective no. FIS-01-2012 NBE (2012). This is due to regulatory requirements some

2.2.2 Activities prohibited for agency banking services

When an agency continues to perform prohibited activities, their contract may be terminated. According to Atandi (2013) some of the activities prohibited are perform and carry out transactions when the networks and communication failure is experienced, charge customers any fees, carrying out agency banking business when agent is no longer a going concern, offer its own banking

services apart from the sponsoring bank, Anti-money laundering services, foreign exchange transactions, in-cashing and depositing of cheques, provision of cash advances and loans and subcontracting to any business to run its agency banking. The National Bank of Ethiopia (NBE) directives also support the international practices of agency banking activities NBE Directive, FIS-01-2012 NBE (2013).

2.2.3 Benefits of Banking Agents

According to Mattila (2003) the followings are benefits of banking agents for agents, for customers and for the banks. Accordingly benefits for bank agents are increased income through commission whenever they perform transactions on behalf of the bank and these commissions are mainly awarded to the bank agents when somebody deposits cash, withdraws cash, and when somebody opens a bank account through the agent. The other benefit for bank agents are when increased customer traffic hence more business to the retail outlet, bank agents usually conduct their normal businesses in addition to being bank agents. For instance a hardware shop that acts as a bank agent will continue conducting its main business (sale of hardware materials) in addition to being a bank agent. The increased traffic brought about by customers performing banking activities also translates to more people getting to know your business hence more sales Mattila (2003).

2.2.4 Benefits of agent banking to the customer

Agent banking has literally brought banks to the villages and this has come with it many advantages to the customer. According to Gichuki (2013) some of these advantages are ease of access that is with bank agents almost everywhere, you no longer need to travel long distances to visit your bank, flexible hours that is most banks close their doors by 4pm, but with bank agents, for as long as the business premise remains open, you can do your transactions. This has proven to be very convenient especially for people who are busy during the day. Here in our country context the working hour may extend from 5PM to 7PM in most banks and the other benefit is cost-effective that is transacting through bank agents has proven to be cost-effective especially to people who live in rural areas that are far away from banks.

2.2.5 Benefits to the Banks

Local banks have recorded an increase in their profits and agent banking is one of the main attributes to such huge profits. So, how does a bank benefit from its agents? According to Gichuki

(2013) these are some of the benefits for banks through agent banking services that is cutting costs, banks are finding it cheaper to set up agents as opposed to opening a branch where they will incur extra costs of staffing, rent, electricity etc. With agent banking, the agent incurs almost all the costs. Increased product penetration, Agent banking has made it possible for bank products and services to penetrate areas that at first seemed impossible. With agent banking banks have reached even the smallest of villages. Wide customer base, bank agents are paid commissions when they sign up new customers and this has led to an increase in the number of customers for banks. Banks are finding it effective to increase their customer numbers in this manner as opposed to using sales people. As a result of all the above benefits cost to the bank reduced, products and services penetrated and customer base will increase and increase market share and as a result of that bank performance will increase.

2.2.6 Problems or Challenges

Agent banking services are many problems and challenges, some of these are of course challenges that the banks need to address to avoid losing customers and maintaining the Banker. Customer relationship, the customer is still the responsibility of the Banks and the same has not been delegated to the agency. Some of the challenges that need to be addressed are: According to Ndungu (2014) the followings are challenges of agency banking for banks that is confidentiality, every year banks ensure that their staff members sign secrecy forms and maintain confidentiality for all customer information. This should be looked at as these agency employees are not bank employees. Security, most of these agencies are in areas that are what would be considered 'high Risk'. The bank needs to audit the security measures being taken by the agencies to ensure the customer can transact confidently without having to look behind their backs. Customer service to the bank customer, Service is a huge challenge for the banks as they need to train and retrain the agents so as to maintain high levels of customer service. Issues of fraud – The agency staff will be a target by fraudsters as they are aware that they will not be able to easily identify fraudulent transactions for example identification of documents for originality or if they are fake.

The bank must address the challenges that are posed by having agency banking while at the same time taking advantage of all the benefits of having this channel of banking. Agency Banking may eventually lead to financial inclusion in the countries where it has been adopted.

2.3 Theoretical Review

2.3.1 Bank-led Theory

In the most basic version of the bank-led theory of branchless banking, a licensed financial institution (typically a bank) delivers financial services through a retail agent. That is, the bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction (Lyman, Ivatury and Staschen, 2006). The bank is the ultimate provider of financial services and is the institution in which customers maintain accounts. Retail agents have face-to-face interaction with customers and perform cash in/ cash-out functions, much as a branch-based teller would take deposits and process withdrawals (Owens, 2006). In some countries, retail agents also handle all account opening procedures and, in some cases, even identify and service loan customers.

But in our context we support activities allowed for bank agents as argued by (Owns, 2006) except granting loan facilities to customers which is not allowed by National Bank of Ethiopia as per mobile and agent banking Directive No. FIS/01/2012 (NBE, 2013) to bank agents to perform such activities. Virtually any outlet that handles cash and is located near customers could potentially serve as a retail agent. Whatever the establishment, each retail agent is outfitted to communicate electronically with the bank for which it is working. The equipment may be a mobile phone or an electronic point-of-sale (POS) terminal that reads cards.

Bank-led model 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, 2006). 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 (Tomaskova, 2010). In our case, customer account opened at retail agent outlet the account is managed at the bank so that we support Tomaskov argument.

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. These retail agents may operate in hard-to reach or dangerous areas and they lack physical security systems and specially trained personnel. Banking regulation typically recognizes multiple categories of risk that bank regulators and supervisors seek to mitigate. Five of these risk categories credit risk, operational risk, legal risk, liquidity risk, and reputation risk-take on special importance when customers use retail agents rather than bank branches to access banking services. The use of retail agents also potentially raises special concerns regarding consumer protection and compliance with rules for combating money laundering and financing of terrorism (Kumar, et al. 2006). With regard to risk management policy the practice in Ethiopia in connection with agent banking services is the same with that of global practices as other counties do but we don't have credit risk in our case since the National Bank of Ethiopia couldn't allow to bank agents to grant credit facilities to customers on behalf commercial banks as per Directive No. FIS/01/2012 (NBE, 2013).

The bank lead theory is related to the study as it focus on how financial institution like bank deliver their financial services through a retail agent, where the bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction where the agent have face-to-face interaction with customers and perform cash-in/cash-out functions, much as a branch-based teller would take deposits and process withdrawals.

2.3.2 Nonbank-led Theory

In this theory customers do not deal with a bank, nor do they maintain a bank account. Instead, customers deal with a nonbank firm either a mobile network operator or prepaid card issuer and retail agents serve as the point of customer contact. Customers exchange their cash for e-money stored in a virtual e-money account on the nonbank's server, which is not linked to a bank account in the individual's name (Kumar, et al. 2006). This model is riskier as the regulatory environment in which these nonbanks operate might not give much importance to issues related to customer identification, which may lead to significant Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT) risks. Bringing in a culture of Know Your Customer (KYC) to this segment is a major challenge. Further the nonbanks are not much regulated in areas of transparent

documentation and record keeping which is a prerequisite for a safe financial system. Regulators also lack experience in the realm. For these reasons, allowing nonbank-led model to operate is an unnecessarily big leap and an unjustifiably risky proposition. However, this model becomes viable after regulators have gained sufficient experience in mitigating agent related risks using bank led model and need to think about mitigating only e-money related risks (Kapoor, 2010).

According to Hogan (1991) to mitigate the e-money risks (which are peculiar to Nonbank-led model), necessary changes in the existing regulations are required. It starts by bringing non-banks under financial regulatory net by giving these entities special status of some sort of quasi-bank/remittance agent etc. Grant of this status depends upon meeting pre-specified standards of transparency, financial strength and liquidity. There should be clear, well-defined limits on nature, type and volume of transactions that such entities can undertake. To avoid insolvency, these entities may be required to deposit their net e-banking surplus funds with scheduled banks meeting certain minimum rating criteria (State Bank of Pakistan, 2011).

The Nonbank-led Theory is found relevant to the study as it explain how agent deals with customers on behalf of the bank. According to National Bank of Ethiopia Directive No. FIS/01/2012(NBE, 2013) mode of business conduct, the non-bank led theory is not allowed, since only financial institutions that are licensed by the National Bank are allowed to engage in mobile and agent banking services. Moreover, the agency services shall be carried out only within the geographical boundary of Ethiopia and with only Ethiopian Birr. Therefore, the non-bank led agent banking business model is not allowed in Ethiopian as per the directives. In my opinion I support the NBE directives since as a beginner we have to follow the bank led model to mitigate any risk arise out of it.

2.3.3 Bank-focused Theory

The bank-focused theory emerges when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers. Examples range from use of automatic teller machines (ATMs) to internet banking or mobile phone banking to provide certain limited banking services to bank's customers. This model is additive in nature and may be seen as a modest extension of conventional branch-based banking. Although the bank-focused model offers advantages such as more control and branding visibility to the financial institutions concerned, it is not without its challenges. Customers' primary concerns are to do with the quality

of experience, security of identity and transactions, reliability and accessibility of service and extent of personalization allowed. Banks address these issues by providing a branchless banking service with an easy to use interface, made secure with the help of multi-factor authentication and other technology, capable of running uninterrupted 365 days a year (Kapoor, 2010). All commercial banks in Ethiopia have applied the bank focused theory by deploying automatic teller machines (ATMs), point of sales terminals (POS), M-Wallet and internet banking just to provide efficient and quality banking services to its customer with low cost and favorable accessibility. But in our country case the problem is telecom infrastructure is the main problem since there is no private telecom companies in our case to rely on. However, as per GTP-2 Ethio-Telecom is planning to increase the existing telecom band width capacity (GTP-2 Strategic document, 2016).Hopefully this is an opportunity for the expansion of agency banking. The bank-focused theory emerges when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers.

2.3.4 Innovation theory

The world is witnessing today profound transformations and acceleration as a result of the tremendous development of information technology and the steady growth of volume of information, which has led to the emergence of new types of transactions and activities in various fields (Joseph et al 2005). The banking sector has been one of the first sections that have adopted many electronic applications to improve performance and gain a competitive advantage strategy. In light of the extensive use of information and communication technologies, the financial services industry and banking has provided new systems and applications that maximizes the use of modern technology and are now available. Therefore it has become necessary for banks to change the concept of traditional banking service to remote banking services because of the rapid growth of electronic banking services by customers and increased competition among banks to reduce costs, raise efficiency and attract more customers. The number of banks opening branches has decreased and is attributed to affordable agent banking and lowers service charges (Makori 2003).

Most of the innovations in Ethiopia were introduced in the late 2001 by Commercial Bank of Ethiopia (CBE) followed by Dashen Bank which introduced card payment system in 2006 (Garadachew, 2010). Following this all commercial banks have joined the electronic banking system and start to deploy delivery channels like automatic teller machines (ATMs) and point of

sale (POS) terminals for the banking transactions. According to Makori (2003) the number of banks opening branches has showing decrease due to the fact that the growth of electronic banking particularly agent banking but in our case both of them i.e. the traditional banking as well as the agent or electronic banking is growing simultaneously. However, still the growth rate of digital channels is higher than that of opening bank branches.

In this study, innovation theory will be used to show how modern payment systems have transformed the technology of banking and facilitated charges in the strategy and structure of financial services organizations. Design, implementation and dissemination of payments systems and costs have come down according to bank case studies (Michael and Blood, 2010). Currently agent banking is an integral part of modern banking in many countries and the market is still growing.

2.3.5 Agency Theory

During the 1960's and early 1970's economists explored risk sharing among individuals or groups. Agency theory broadened this risk sharing idea. Agency theory is directed at the ubiquitous agency relationship in which one party (The Principal) delegates work to the other party (the agent) who performs the work. Agency theory is a theory that shows the contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources (Lambert, 2002). Jenses and Meckling (1976) were the first scholars to explicitly model the theory of agency.

Agency theory is based on the premise that agents are more informative than the principals. This information asymmetry affects the ability of the principal to effectively monitor their wealth and this is where the agents came in hand to help. It also assumes that principals and agents act rationally (Brigham & Gapenski, 1993). In the simplest agency models, the organization is reduced to these two contracting characters: the principal and the agent. The principal's roles are to supply capital, to bear risk, and to construct incentives, while the role of the agent are to make decisions on the principal's behalf and to also bear risk (Lambert, 2002).

2.4 Empirical Review

2.4.1 Security

A research study carried out by Collins (2010) found out that technical failures like equipment malfunctioning and other errors occurring during a transaction are a major issue in branchless banking. For example Consumer experience in Brazil shows that less than 5 percent of users have made a mistake and paid the wrong bill at an agent, sent money to the wrong account number, or noticed that a payment or a deposit was never processed or received. Besides to this Collins also noted that Brazilian agents must deposit the cash received from clients in a bank branch no more than every other business day. Here he noted that the seriousness of security issues in relation with conducting agency banking services. This is therefore, this is seriously affects the performance of commercial banks.

A research study made by Bold (2011) in Brazil found out 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 the agents could threaten bank branches, originally allowed agents only in municipalities that didn't have bank branches. Bold also noted that Indian regulators initially required agents to be located within 15 kilometers in urban areas due to security reasons. Another research is also done by Mwangi (2011) in Kenya on evaluating the role of agency banking on the performance of commercial banks in Kenya that is focusing on banks that offer agency banking services. The study concluded that agency banking should be given more attention on security measures by protecting data confidentiality and security. This is also another reason that affect performance of commercial banks.

2.4.2 Telecom Infrastructure

According to Scupola (2003) and Efendioghu (2004) national ICT infrastructure is a major factor that supports the adoption of electronic banking. Without an adequate development level and quality of one country ICT infrastructure, E-banking adoption and use cannot do well. There are many technological and operational challenges in employing a successful agent banking strategy. Technology should be in place to enable banks and their customers to interact remotely in a trusted way through existing local retail outlets. Agent banking requires a generally good infrastructure in terms of road network, communication and information technology (CBK 2010).

A study conducted by DeYoung (2003) that advances in information and communications technology that have revolutionized business in the world have enabled banks to increase its performance. For example the introduction of Automatic Teller Machines (ATMs), Internet banking, new intermediation technologies such as loan securitizations, credit scoring, and the introduction and expansion of financial instruments and now agency banking have immensely soared up growth in the banking sector and this is contributed significant for the growth of agency banking and ultimately for the financial performance of commercial banks. Ghazi and Khalid (2012), found that, the most important barriers for E-business growth are technological issues, such as, security risk, quality of internet and cost of implementation to be the most prominent.

Another research study also conducted by Suoranta and Mattila (2004), as technology continues to be an important element in financial service delivery, understanding the factors that influence the behavior of consumers towards using electronic banking technologies will continue to be an important area of research. According to the European Fencing Industry Association (EFIA) (2010), Microfinance Institutions (MFIs) commercial banks and other financial institutions have tended to establish their traditional branches in urban centre leaving out on areas that often do not have incentive or capacity to establish formal branches, this leaves out a significant population from accessing banking services. Accessing financial services ensures that an individual can access credit for personal development.

MFIs and banks today can take their financial services to this hard to reach and geographically dispersed areas and tap this segment of clientele through agent banking. Another research is also done by the Oxford policy management (2010), the agents make use of the mobile phone technology and internet banking technology to connect to the server of the principal institution to carry out customer transactions. This model provides significant opportunity to reduce transaction cost such as travelling by clients to seek services in established branches. According to Guatam (2008) point out that if the unbanked Africans cannot go to the bank, it is the bank that must reach out to them and this is only possible through agency banking. African banks are now moving closer to the 230 million unbanked households in Africa's rural areas through advanced satellite technologies (Guatam, 2008). Chong (2008) also depicted that, the rapid growth of agency banking is reducing the cost and expanding the availability of such service to those in developing countries who lack access to financial services (Urdapilleta, 2006). According to Sathye (1999) internet

access as one of the factors affecting the adoption of Internet Banking. Therefore, without a proper internet connection the use of electronic banking is not possible.

According to Gardachew (2010) a research done on the opportunities and challenges of E-banking in Ethiopia and thus the aim of his study was focused on analyzing the status of electronic banking in Ethiopia and investigates the main challenges and opportunities of implementing E-banking system. The study noted that opportunities offered by ICT through e-learning programs and Commitment of the governments on development of ICT infrastructures is considered as drivers of using E-commerce and E-payment systems. Wondwossen and Tsegai (2005) are also conducted a research on challenges and opportunities of E-payments in Ethiopia the aim of their studying was E-payment practices in developing countries, Africa and Ethiopia. In their study they incorporate employs interview and on site observation to investigate challenges to E-payment in Ethiopia and found out that lack of customers trust, unavailability of payment laws and regulations for E-payment, lack of skilled manpower and frequent power interruption. According to their study an adequate legal structure and IT-security framework could increase the use of e-payments, which is contradicting with the finding of the previous study.

A research study conducted by Ayana (2014) on factors affect adoption of E-banking in Ethiopian banking industry. In due course of his research the author use Survey, interviews and analyzing documents in order to identify what factors affecting adoption of E-Banking and found out that, security risk, lack of trust, lack of legal and regulatory frame work, Lack of ICT infrastructure and absence of competition between local and foreign banks as major barrier that face Ethiopian Banking industry in adoption of E-Banking and recommend that Establishing a clear set of legal framework on the use of technology in banking industry, supporting banking industry by investing on ICT infrastructure and banks needs to be focused on technological innovation competition rather than traditional way of retail bank competition. From the above study we have noted that the two researchers are using the same methodology but Wondwossen and Tsegai (2005) and Ayana (2014) findings are findings are the same and mainly focusing on IT-security risk, customer trust, lack of availability of adequate ICT- infrastructure and legal frame work for electronic banking are important for the growth and performance of electronic banking.

However, research work done by Gardachew (2010) on opportunities and challenges of electronic banking in Ethiopia and find out that ICT-Infrastructure are drivers of electronic banking.

Therefore, from the above three researcher work made in Ethiopia their research finding is mainly focusing on the importance of adequate ICT-infrastructure for the growth and adoption of electronic banking.

2.4.3 Knowledge

A research study conducted by Sathye (1999) noted that low awareness of internet banking is a critical factor in causing customers not to adopt internet banking services. Thus the amount of information a customers have about electronic banking and its benefits may have a critical effect on the growth and performance of electronic banking. According to Anderson (2007), people remain unbanked in the U.S due to reasons which include lack of understanding about the banking system, expectations for having a bank account, and lack of documentation needed to open a bank account. One of the most accepted solution to this problem is the shift from the branch based banking system to the adoption of the branchless banking system.

2.4.4 Banks-agents distance

A research study conducted by CBK (2010) customers will not knowingly incur more in terms of financial cost to do a bank transaction at the agent unless the bank is not available. If the bank is near, the customer want to visit the bank branches rather than the agent's outlet due to the customer is more comfortable in the bank premises than agents because of confidentiality, reliability and satisfaction. Therefore, if agents are located near to the banks they may not have a lot of customers and as a result influences the growth and performance of agency banking. On the other hand if the agent is located far from the bank it tends to have more customers transacting because the customer will prefer to save time and transport cost to the bank. Thus the bank agents that are located far away from the bank tend to perform better than those nearby to the bank branches. Finally the physical location of the agents affects its financial performance especially those located in remote areas where the number of people in need of financial services are very low. In such places there is poor performance of agency banking and hence low growth rate.

2.5 Gap Identification

In many parts of the world research have been undertaken on agency banking and some of them are on adoption and growth of agency banking and contribution of agency banking on bank performance. For Examples cupola (2003) national ICT infrastructure is a major factor that

supports the adoption of electronic banking, Mwangi (2011) in Kenya on evaluating the role of agency banking on the performance of commercial banks in Kenya, Sathye (1999) internet access as one of the factors affecting the adoption of Internet Banking, Anderson (2007), people remain unbanked in the U.S due to reasons which include lack of understanding about the banking system and one of the most accepted solution to this problem is the shift from the branch based banking system to the adoption of the branchless banking system and Chong (2008) also depicted that, the rapid growth of agency banking is reducing the cost and expanding the availability of such service to those in developing countries who lack access to financial services. But when we come to Ethiopian commercial banks most banks dwell more on traditional branch based banking system instead of branchless banking and as a result of that spending a lot of money for branch expansion and to cover other administrative costs ultimately that will affect bank performance.

However, few researches have been undertaken in Ethiopia on agency banking. For example, Gardachew (2010) a research done on the opportunities and challenges of E-banking in Ethiopia, Wondwossen and Tsegai (2005) have also conducted a research on challenges and opportunities of E-payments in Ethiopia, Ayana (2014) on factors affect adoption of E-banking in Ethiopian banking industry, Elfagid (2015) Challenges and prospects of mobile and agency banking in Ethiopia and Afework (2015) assessment of agency banking innovation in Ethiopia.

Previous studies conducted in developed countries like, Australia, Italy, USA and developing countries in Latin America, Asia and in Africa shows the importance of agent banking for financial performance of commercial banks. However, to the best of my knowledge there is no empirical study that has been undertaken so far on the effect of agent banking on bank performance in Ethiopia commercial banks by answering the four basic research questions raised. Hence, this is therefore, the purpose of this study is to fill the gap in this regard.

2.6 Conceptual frame work

The conceptual framework is aiming to examine and explain effects of agency banking on bank performance in Ethiopia commercial banks. These factors include security, telecom infrastructure, knowledge and bank agent distance. The study will determine the effects of independent variables on the dependent variable in order to access the effect of agency banking on banks performance in Ethiopia commercial banks.

Independent Variables **Dependent Variable**

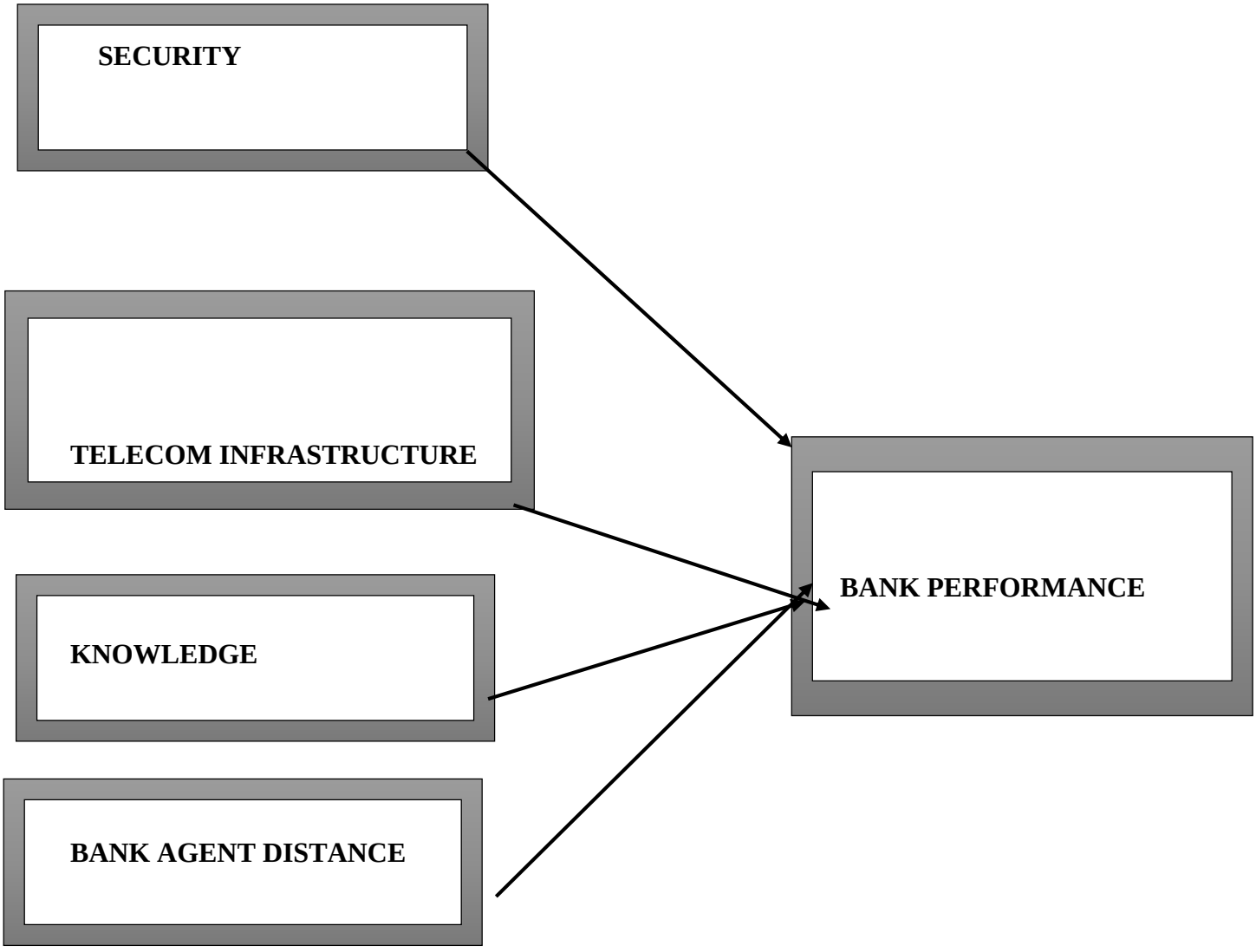

Figure 2. 1

Source: Conceptual frame work development based on (Mwando, 2013)

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

This chapter were present methodology following to internalizing the problem to be studied and the effect of agency banking on bank performance that backs in chapter one and chapter two, the methodology part were tried to describe the methods through which the objectives of the study can be answered. Accordingly, it was state about the research design and methods, data sources, population and sample size, sampling techniques, data gathering methods and instruments, validity and reliability, methods of data analysis and finally ethical consideration was taking in account. The methodological parts of this study is descriptive by applying quantitative approach and to show the causality between different variables explanatory study is applying. The data was gathered using primary and secondary sources and the sampling technique for this study is non probability sampling and the data was analyzed using descriptive statistics using tests such as correlation and regression analysis were used with cross-sectional period.

3.1 Research Design

This study adopted a descriptive survey. Descriptive survey research design is a scientific method which involved observing and describing the behavior of a subject without influencing it in any way (Bryman, 2001). The rational for the choice of descriptive survey method is the fact that the descriptive survey studies were used in order to describe and interpret trends of events as it exists at present and quantitative involves statistical models such as means, standard deviations, correlations, and regressions analysis. So that, to show the relationship between variables explanatory types of study was used. This is because the desire to know "why", to explain, is the purpose of explanatory research. It looks for causes and reasons Neuman (2006). According to Saunders, Lewis and Thornhill (2007), explanatory research is practical when the aim is to clarify ones understanding of a specific problem. And explanatory since it were enrich and support the previous theories through comparing our findings with research questions. Hence, this study want to know agency banking services on bank performance of commercial banks in Ethiopia.

3.2 Data Sources

The principal sources of data for the research was primary data. The primary sources was questionnaire and it has three parts such as demographic, training practice, and employee

performance questions. The questionnaire was collected from individual respondents from nine banks.

3.3 Target Population of the study

Any research work has conclusion inferred from set of premises. The conclusion could be about groups of people, organizations, employees in an organization, contracts between organizations, and the like. The broad class of people, objects, or events that are targeted by the conclusion is known as population or universe (Kothari, 2004).

By 2016/2017, according to NBE, there are 17 commercial banks and 1 development bank, out of which two are government owned and 16 are private commercial banks. In this study, the targeted population consists of only nine private commercial banks in Ethiopia that have commenced agent banking services. The Sample size was determined by the researcher to answer the defined research questions stated above by using purposive sampling method to draw the sample from the population. The main reason of using purposive sampling is to get appropriate respondents who have sufficient know-how and experience about agency banking.

3.4 Sampling Frame

A sampling frame is the set of people that has a chance to be selected. This study mainly focused on employees of nine commercial banks who commenced agent banking services. In this study, a sample of 156 respondents was drawn via purposive sampling. Those 156 respondents are staff member of the nine commercial banks. The selected banks and respondents (staffs) from each bank is allocated based on their respective total number of staffs on digital channels operation wing of each bank as indicated in the table 3.1.

3.5 Population size

In the Census Survey it was considered all staff members those are directly engaged in agency banking services in the nine commercial banks who commenced agency banking services (9 Vice Presidents, 9 Directors, 13 Division managers and 125 digital channels officers). Thus forming population size of 156 respondents. The number of staffs selected from each bank is indicated in the table 3.1.

Table 3.1 Population Size

Serial	Name of Bank	Position in the Bank				Total sample size
		Vice Presidents	Personal Banking Directors	Division Managers	Digital Channel Officers	
1	Awash Bank	1	1	1	17	20
2	Dashen Bank	1	1	2	17	21
3	Abay Bank	1	1	1	10	13
4	Lion International Bank bank	1	1	1	18	21
5	Oromia Intel. Bank	1	1	1	12	15
6	Cooperative Bank of Oromia	1	1	2	16	20
7	United Bank	1	1	2	12	16
8	Nib International	1	1	1	10	13
9	Wegagen Bank	1	1	2	13	17
	Total	9	9	13	125	156

Source: primary data, 2018

3.6 Sampling technique

Non-probability sampling is that sampling procedure which does not afford any basis for estimating the probability that each item in the population has of being included in the sample. Non-probability sampling is also known by different names such as deliberate sampling, purposive sampling and judgment sampling. The rationality of focusing on employees of nine commercial banks is that they are the only commercial banks commenced agent banking services. The researcher has been used purposive sampling technique for selection. Hence, in this type of sampling, items for the sample are selected deliberately by the researcher; his choice concerning the items remains supreme. In other words, under non-probability sampling the organizers of the inquiry purposively choose the particular units of the universe for constituting a sample on the basis that the small mass that they so select out of a huge one is typical or representative of the whole (Kothari, 2004).

3.7 Methods of Data Collection

Primary data was collected from the respondents through self-administered questionnaires that is to be close ended questions. In this study, closed ended questionnaires are used to develop solicit ideas related to the research objective from respondents. The researcher was used five points Likert scale questionnaire to ensure collection of data from respondents and respondents are free to give relevant information because they are assured of their anonymity (Mugenda and Mugenda, 2003).

3.8 Reliability and Validity of Instruments

3.8.1 Validity

Refers to the extent to which the concept one wishes to measure is actually being measured by a particular scale or index. According to Kothari (2004), validity aims at establishing the results which are linked with the condition. It is concerned with the extent that the scale accurately represents the construct of interest. In order to assure the validity of the measurement instrument of the study is conducted based on the literally accepted conceptual framework that clearly indicate the theoretical construct and associated with the measurements valid to evaluate the effects of agency banking (independent variables) on bank performance (dependent variable). Where possible this should be supported and consideration given to practical things. So that pre-questionnaire were distributed to check the validity of questions to further data collection process. As per the comments and the discussion with the banking experts the question prepared to primary data collection for the research objective is found valid by researcher.

3.8.2 Reliability

Aimed at the point that even if the research were repeated they would end up with similar results or the consistency or dependability of a measurement technique, and it's concerned with the consistency or stability of the score obtained from a measure or assessment overtime and across settings or conditions.

According to George and Mallery (2003), as cited in Joseph & Rosemary (2003) Cronbach's alpha is a coefficient of reliability. It is commonly used as a measure of the internal consistence or reliability of a psychometric test score for a sample of examinees. Cronbach's alpha reliability coefficient normally ranges between 0 and 1.

Table 3.2: Rule of Thumb of Cronbach's Alpha

Cronbach's Alpha	Description
>= .9	Excellent
>= .8 but < .9	Good
>= .7 but < .8	Acceptable
>= .6 but < .7	Questionable
>= .5 but < .6	Poor
<= .5	Unacceptable

Source: Zikmund, et al, 2010.

Therefore to ensure reliability and validity, this study used methods such as and self-administration questionnaire. Then the questionnaire was pre-tested based on pilot study, to guarantee a common understating of questions among respondents.

Table 3.3 Reliability Statistics Results

Variables	Cronbach's Alpha
Security	.783
Telecom infrastructure	.854
Knowledge	.754
Bank agent distance	.886
bank performance	.932

3.9 Methods of Data Analysis

The study was quantitative in nature and thus ensured that the data obtained is checked for completeness ready for analysis. A multiple regression analysis have been used to determine security, telecom infrastructure, knowledge and bank agent distance (independent variable) on bank performance (dependent variable).The collected data was analyzed and presented quantitatively and qualitatively. Quantitative data analyses techniques were used using statistical package for social science (SPSS).For the purpose of this research, the relevant descriptive parameters such as the means, standard deviations, range of scores for these variables, frequency and other necessary parameters which are relevant to answer the research Questions was analyzed. The collected data was coded, tabulated and presented according to each independent and

dependent variable. The study conducted using multiple regression analysis .The general regression equation is:

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon$

Model specification for this particular study is:-

$BP = \beta 0 + \beta 1\ (SC1) + \beta 2\ (TI2) + \beta 3\ (KN3) + \beta 4\ (BAD4) + \varepsilon$

Whereby BP = Bank Performance is measured by lower transaction cost, increase market share and financial service accessibility. The following are the components of model:-

β0= Regression Constant

SC1= Security,

TI2= Telecom Infrastructure,

KN3= Knowledge, and

BAD4= Bank agent distance, while B1, B2, B3 and B4 are coefficients of determination and ε is the error margin.

In the course of our research many respondents are willing to kindly disclose a lot of personal information so that we are required to treat both the participants and the information they provide with honesty and respect which is termed as research ethics. For the purpose of this research, the researcher would like to ethically fulfill the following criteria.

CHAPTER FOUR

4 DATA ANALYSIS, RESULTS AND DISCUSSION OF RESULTS

4.1 Introduction

This chapter has four sections, the first section describes respondents' characteristics in terms of gender, age, education and working experience. The second section presents the descriptive statistics with respect to the current practice of agency banking and bank performance in baking sector. The third section describes the relationships between the variables. Finally, the regression results concerning the contribution of agency baking and bank performance.

Response Rate

Table 4.1: Shows the Response Rate of Questionnaire

Number of Questionnaire Returned	Target Number of Respondents	Response Rate (%)
121	156	77.5

Source: primary data, 2018

A total of two hundred twenty two (156) questionnaires were distributed to the respondents of nine commercial banks staffs and out of these questionnaires a total of 121 questionnaires were successfully completed and returned. The total response rate was 77.5 %. As a result, the analysis of this research is based on the number of questionnaires collected.

4.2 Demographic Characteristics of Sample Respondents

This descriptive analysis is used to look at the data collected and to describe data captured through the questionnaire. It was used to describe the demographic factors for more clarification. It is mainly important to make some general observations about the data gathered for general or demographic questions. The researcher collected demographic information on respondents gender, age, education level, working experience and position. The sample characteristics of 121 respondents from nine commercial banks were analyzed. The findings are presented in Table 4.2.

Table 4.2 Demographic Variable of Respondents

		Frequency	**Percent**
Gender	Male	90	74.4
	Female	31	25.6
	Total	**121**	**100.0**
Age	20-25	13	10.7
	26-31	32	26.6
	32-37	24	19.8
	38-43	42	34.7
	44 and above	10	8.2
	Total	**121**	**100.0**
Education level	Degree	80	66.1
	Masters& Above	41	33.9
	Total	**121**	**100.0**
Working Experience	0-5	30	24.7
	6-10	46	38.0
	11-15	37	30.7
	Above 15 Years	8	6.6
	Total	**121**	**100.0**

Position of respondents	Vice President	7.4
	Director	17.5
	Division Manager	7.4
	Officer	67.70
	Total	**121**

Source: primary data, 2018 extracted from SPSS.

Findings indicate that majority of the respondents were male (74.4%), Female respondents were (25.6%). This shows that females were at least one third of the respondents.

As far as age of respondents is concerned, 10.7% of the respondents were in the range of 20-25 years; 26.6% of the respondents were in the range of 26-31 years; 19.8% are in the range of 32-37 years, 34.7% were in the range of 38-43 and 8.2% were above 44 years. This shows that the majority of the respondents in nine commercial banks were young. Therefore, the majority employees were within the productive age.

With regard to educational level of respondents, Master's Degree holders and above represented 66.1% of the employees; First Degree holders represented 33.8%. It can be said from the survey that, most of the nine commercial banks employees were degree holders. The lowest number of respondents were MA holders and above.

With respect to service years of respondents in the university, 24.7% of the respondents had 1-5 years of experience. 38% respondents are under 6-10 years experienced, 30.7% are 11-15 year experienced, and 6.6% are above 15 years experienced respectively. From this we can understand that, most of the respondents are 6-10 years experienced.

With respect to respondents position in the nine commercial banks, 7.4% of the respondents are placed in the vice president position, 17.5% respondents are under directing position, 7.4% are placed in the division manager, and officer are under the position of officer. From this we can understand that, most of the respondents are officers.

4.3 Descriptive Statistics

The analysis of this study was done using descriptive statistic or through using central tendency, from these the researcher used the mean scores of each variable. The main reason of using this measurement was to demonstrate the average responses of respondents for each question that was included under each dimensions of the predictor variable and to reach the grand mean of each dimension.

Finally, the interpretation is made through using the grand mean of each independent dimension for the aim of achieving partial research objectives of the study. The interpretation was made based on the following measurement scale intervals or range. Mean scores 4.51-5.00 excellent or very good, 3.51-4.50 good, 2.51-3.50 average or moderate, 1.51-2.50 fair and 1.00-1.50 is poor Reilly & Pepe (1995).

4.3.1 Commercial Bank's staffs perception towards security

Table 4.3 Mean and standard deviation for security

	N	Mean	Std. Dev.
Customers tend to bank with agents because of more convenience in terms of accessibility and security	121	2.29	1.052
Security with regard to customer's personal information is very important for the use of agency banking services	121	3.99	.713
The existing IT-security practices are strong in the Ethiopian banking system	121	2.68	.808
The more the agents accessible to clients, the more secured the customers has and hence increase bank performance	121	3.91	.695
The existing security on agency banking practices has positive impact for commercial bank performance	121	3.01	.851
Cumulative of security	**121**	**3.175**	**.4950**

Source: primary data, 2018 extracted from SPSS.

According to table 4.3, the descriptive statistical analysis shows that the range 2.51-3.50 indicates that employees perceived that the security of the commercial banks agency banking were moderately agreed. Based on the data analysis the mean score of security with the value of 3.17 imply that employee's attitude towards the agency banking and bank performance of security communication skill aspect was moderately agreed.

The higher contribution to the outcome is achieved from the given item that means security with regard to customer's personal information is very important for the use of agency banking services with the mean value of 3.99 and .713 respectively. However lower contribution is by the predictor that means the customers tend to bank with agents because of more convenience in terms of accessibility and security with the mean value of 2.29 and 1.05 respectively. The mean score of the construct shows that the employee's perception of the commercial banks security is moderately agreed.

4.3.2 Commercial Bank's staffs perception towards telecom infrastructure

Table 4.4 Mean and standard deviation for telecom infrastructure

	N	Mean	Std. Dev.
The existing IT infrastructure practices in the Ethiopian Banking industry can facilitate the growth of agency banking.	121	2.31	1.148
Infrastructure like POS machine and mobile phone has positive impact on the growth of Agency banking.	121	4.57	.643
Telecom infrastructure coverage in Ethiopia contributes significantly for the growth of agency banking.	121	3.14	.934
High quality network service accessibility has positive impact for agency banking.	121	4.17	.946
Cumulative of telecom infrastructure	**121**	**3.549**	**.5387**

Source: primary data, 2018 extracted from SPSS.

According to the above table, commercial banks telecom infrastructure with 3.54 values from the descriptive statistics indicate that employees perceive that commercial banks telecom

infrastructure being offered by the commercial banks is agreed, according to Reilly & Pepe (1995).the mean score of 3.51-4.50 is under agreed range. From the variables the higher contribution to the mean has come from the second item that means the Infrastructure like POS machine and mobile phone has positive impact on the growth of agency banking with the mean value of 4.57 and .643 respectively. However lower contribution is by the first predictor that means the existing IT infrastructure practices in the Ethiopian banking industry can facilitate the growth of agency banking with the mean value of 2.31 and 1.14 respectively. The mean score of the construct shows that the employees' perception of the commercial banks employees' telecom infrastructure was agreed.

4.3.3 Commercial Bank's staffs perception towards knowledge

Table 4.5 Mean and standard deviation for knowledge

	N	Mean	Std. Dev.
Providing adequate training for bank agents and creating awareness to customers increase the number of customers to use in agents outlets	121	4.68	.648
As a bank, knowledgeable bank professionals in agent banking contributes significantly for the expansion of agent banking services	121	4.70	.572
The current awareness level of beneficiaries of agency banking significantly contribute to the growth of commercial bank performance	121	2.13	1.048
The increasing exposure (know-how) to modern digital technologies has positively contributed for practices and growth of agency banking	121	4.22	.736
Cumulative of knowledge	**121**	**3.933**	**.4130**

Source: primary data, 2018 extracted from SPSS.

Knowledge with 3.93 values from the descriptive statistics analysis according to Reilly & Pepe (1995) indicate that employees perceive that knowledge being offered by the nine commercial banks is agreed/good. Hence the mean score that has the value from 3.51-4.50 shows agreed level of knowledge delivery.

The higher contribution of the mean has come from the third variable that means the as a bank, knowledgeable bank professionals in agent banking contributes significantly for the expansion of agent banking services with the mean value of 3.32 and 1.09 respectively. From this inference, the researcher can conclude that employees have good perception towards the knowledge aspects of the nine commercial banks.

3.3.4 Commercial Bank's staffs Perception towards Bank Agent Distance

Table 4.6 Mean and standard deviation for bank agent distance

	N	Mean	Std. Dev.
Agency banking practices are very important in Ethiopian banking industry because of more part of the societies are living in rural areas	121	4.55	.563
Agency banking is the best solution because reaching poor clients in rural areas is often prohibitively expense for financial institutions since transaction numbers and volumes do not cover the cost of a branch	121	4.57	.589
Agent banking closer to clients home, clients will still visit convenience stores for groceries ---etc.), longer opening hours and shorter lines than in branches are the most advantages for clients	121	4.64	.592
Agent banking increases area coverage and penetration with low cost solution to the unbanked community in areas with potentially less number and volume of transactions	121	4.58	.559
Existing agency banking practices reaching to remote areas to customers site increase confidence and usage of agency banking	121	4.34	.802
Cumulative of Bank Agent Distance	**121**	**4.533**	**.4142**

Source: primary data, 2018 extracted from SPSS

Based on data analysis the above table shows us the mean scores of employees perceived bank agent distance of nine commercial banks range from 3.51-4.50 indicate that employees' perceived that the bank agent distance of nine commercial banks was agreed. The mean score of bank agent distance is 4.53, which suggests that the employees find the bank agent distance of the nine commercial banks was agreed.

The higher contribution of the item to the construct is the third variable that means the agent banking closer to clients home, clients will still visit convenience stores for groceries, longer opening hours and shorter lines than in branches are the most advantages for clients with the mean value of 4.64 followed by agent banking increases area coverage and penetration with low cost solution to the unbanked community in areas with potentially less number and volume of transactions with the mean value of 4.58. Finally, this shows that the value of agent bank distance was a good indicator of the nine commercial banks agency banking.

3.3.5 Commercial Bank's staffs Perception for Bank performance

Table 4.7 Mean and standard deviation for bank performance

	N	Mean	Std. Dev.
Low transaction cost of agency banking increase the financial performance of commercial banks in Ethiopia	121	2.99	1.313
Cost involved in transacting in agency banking is low compared to banking hall	121	4.40	.690
Time spent in agency banking is low compared to the normal banking	121	4.56	.682
Low set up and running cost of agency banking make suitable than conventional bank branches	120	4.60	.586
Agency banking has led to accessibility of financial services to significant number of customers in remote areas	121	3.46	1.218
Financial services accessibility through agency banking has contributed positively to financial performance of commercial banks in Ethiopia	121	4.13	.730
Agency banking adoption in banking industry has shown a great momentum and spread at an observable pace across the country to unbanked societies which has increased the accessibility of financial service	121	3.41	1.167
Agency banking increases market share of the banks and thereby increases their financial performance	121	3.80	1.093
Market share often is associated with profitability and thus many firms seek to increase their sales relative to competitors	121	4.52	.684
Market share increases can allow commercial banks to achieve greater scale in its operations and improve profitability	121	4.56	.631
Cumulative of bank performance	**120**	**4.044**	**.3812**

Source: primary data, 2018 extracted from SPSS.

According to the above table, the commercial banks have different levels of performance as they have different perceived performance from the service delivery. Based on this idea; the researcher tried to measure the level of bank performance and the descriptive statistics analysis of bank performance shows that the bank performance is 4.04, which implies employees of the nine commercial banks were agreed by the nine commercial banks performance.

4.4 Inferential Analysis

4.4.1 Assumptions Testing in Multiple Regression

The basic assumptions should be satisfied in order to maintain data validity and robustness of the regressed result of the research under the multiple regression models. Hence, this study has conducted the assumption tests such as, multi-Collinearity, linearity, and normality.

4.2.2 Multi Collinearity

Multi Collinearity is checked using correlations between the variables in the model. Independent variables show at least some relationship with dependent variable (above 0.3 preferably). In this case all of the scales (security, telecom infrastructure, knowledge, and agent bank distance) correlate substantially with bank performance (.850, .620, .563, and .826) respectively. As it can been seen from the table results there is issue of Multi Collinearity.

Collinearity diagnostics on the variables as part of the multiple regression procedure is done using tolerance and variance inflation factor (VIF). Tolerance is an indicator of how much of the variability of the specified independent is not explained by the other independent variables in the model. If this value is very small(less than 0.10), it indicates that the multiple correlation with other variables is high, suggesting the possibility of multi Collinearity (Pallant, 2010). Furthermore, the other value given is the VIF, which is just the inverse of the tolerance value (1 divided by tolerance). According to Pallant, (2010), VIF values above 10 would be a concern, indicating multi Collinearity.

The result shows that the tolerance value for each independent variable is (0.850, 0.620, 0.563, 826) respectively. Which is not less than 0.10; therefore, multi Collinearity assumption is not violated. This is also supported by the VIF value, which is 1.176, 1.612, 1.776 and 1.210 which is well below the cut-off 10 as shown in the coefficient in the table 4.8.

Table 4.8 Test of Multicollinearity

Dimensions		Collinearity Statistics	
		Tolerance	**VIF**
1	(Constant)		
	Security	.850	1.176
	Telecom infrastructure	.620	1.612
	Knowledge	.563	1.776
	Bank agent distance	.826	1.210

Source: primary data, 2018 extracted from SPSS.

4.4.3 Test of Normality

The study used both methods of assessing normality; graphically using Normal Probability Plot (P-P) graph and numerically using Skewness and Kurtosis.Figure1, depicted that the scores are normally distributed.

Normality, linearity of residuals: one of the ways that these assumptions can be checked is by the normal probability plots of the regression standardized residuals that were requested as part of the analysis. These are presented in normal P-P Plots of regression standardized residuals graph. In normal probability plots the points will lie in reasonably straight diagonal line from bottom left to top right. This would suggest no major deviations from normality. The finding from normal P-P Plot reveals no violation of normality assumptions.

This test is the first step that must be done before the data is processed based on the models of research. One of the methods to conduct data normality test is using Skewness and kurtosis of the distribution under study. Skewness is a measure of the asymmetry of the distribution of a variable. Kurtosis is a measure of the peakedness of a distribution of a variable Kim (2013).

Table 4.9. Skewness and Kurtosis

Dimensions	N	**Skewness**		**Kurtosis**	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Security	121	-.341	.127	.358	.253
Telecom infrastructure	121	-.207	.127	-.614	.253
Knowledge	121	-.430	.127	.027	.253
Distance bank agent	121	-.838	.127	.711	.253

According to west et al. (1996), a reference of substantial departure from normality as an absolute skew value > 2 and an absolute kurtosis value > 7. Thus, based on the above table the normality of the distribution is satisfied for this data**.** Fig 4.2: Histogram.

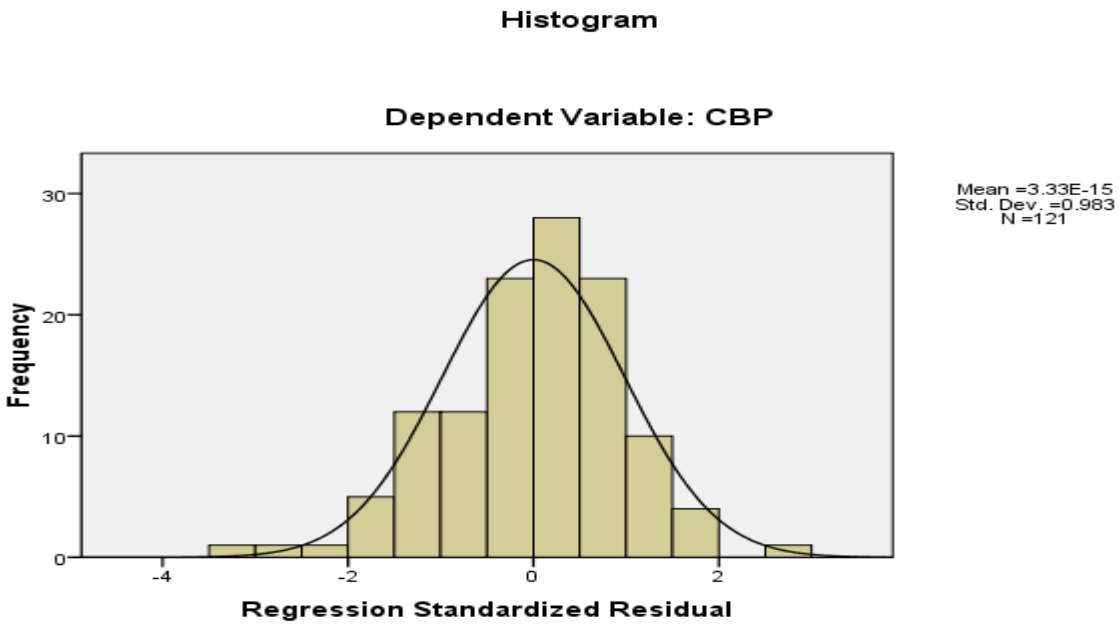

Figure 4.2

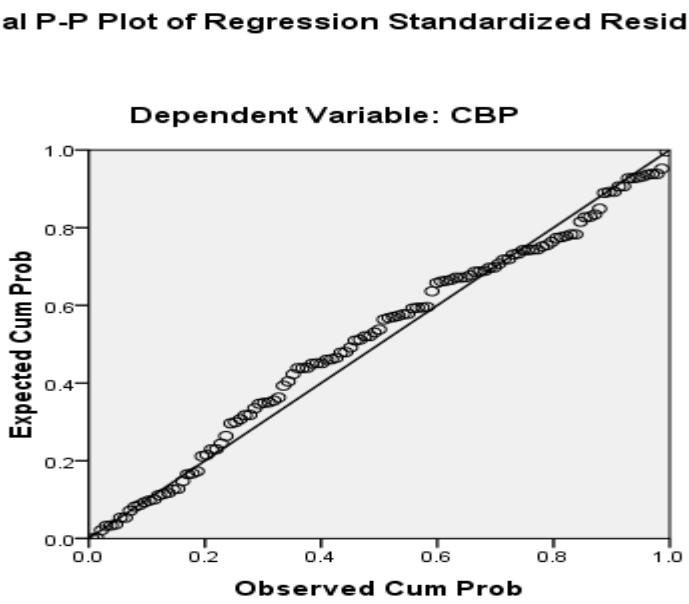

Figure 4.3

In the Normal Probability Plot it will be hoped that points will lie in a reasonably straight diagonal line from bottom left top right. This would suggest no major deviations from normality. The study applied Normal P-P Plot of regression Standardized Residual to test linearity. Since the points were symmetrically distributed around a diagonal line, linearity pattern was observed. Hence, the straight line relationship between the residuals and the predicted dependent variables scores depicted that linearity was achieved.

4.4.4 Pearson Correlation analysis

To determine the relationship between agency banking (security, telecom infrastructure, knowledge, and bank agent distance) and bank performance. Pearson correlation was computed. Table 4.8 below presents the results of Pearson correlation on the relationship between agency banking and bank performance.

Table 4.10 Correlation Analysis

		Bank performance
Security	Pearson Correlation	.223*
	Sig. (2-tailed)	.014
	N	121
Telecom Infrastructure	Pearson Correlation	.235**
	Sig. (2-tailed)	.009
	N	121
Knowledge	Pearson Correlation	.411**
	Sig. (2-tailed)	.000
	N	121
Bank Agent Distance	Pearson Correlation	.283**
	Sig. (2-tailed)	.002
	N	121

Source: primary data, 2018 extracted from SPSS.

The results in table 4.10 indicate that, there is statistically positive and significant relationship between security and bank performance (r = .223***, p < 0.01), this result is in relation with Charles (2014), society depends on computer systems. Interactions in business and with the government are often carried out over the Internet, and even social networks are moving online. telecom infrastructure and bank performance has statistical significant relationship with (r = .235**, P < 0.01), this result is in agreement with finding of Suoranta and Mattila (2004), as technology continues to be an important element in financial service delivery, understanding the

factors that influence the behavior of consumers towards using electronic banking technologies will continue to be an important. Furthermore, Sharma (2008), through cross country empirical study examined a close relationship between financial inclusion and development. Further, the study found a positive relation between financial inclusion and different socio-economic variables like income, inequality, literacy, physical infrastructures. Knowledge and bank performance has statistical significant relationship at ($r = .411^{**}$, $P < 0.01$), bank agent distance and bank performance has statistical significant relationship with ($r = .283^{**}$, $p < 0.01$).This result supported by Ndungu & Njeru (2014) and this is because the customer may trust a bank officer more than the agent in terms of confidentiality, reliability and satisfaction and also taking into consideration the transactional costs is cheaper at banks. Thus if agents are located near the banks they may not have a lot of customers thus these influences the performance and growth of agency banking.

The finding on table 4.10 above further indicates that the highest significant relationship is found between knowledge and bank performance ($r = .411^{**}$, $p < 0.01$), however the lowest statistically significant relationship is found between security and bank performance ($r = .223^{**}$, $P < 0.01$). It is in fact optimal for an informed principal to do so given their lack of skills, information, qualifications, knowledge and experience Bendor and Shotts (2001).

4.5 Multiple Regression Analysis

Multiple regression analysis was employed to examine the effect of agency banking (security, telecom infrastructure, knowledge, and agency bank distance) on bank performance on the other hand.

Table 4.11 Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.633	.449		3.634	.000		
	Security	.124	.068	.161	1.818	.072	.850	1.176
	Telecom infrastructure	.019	.074	.027	.257	.798	.620	1.612
	Knowledge	.264	.101	.286	2.623	.010	.563	1.776
	Bank agent distance	.201	.083	.218	2.420	.017	.826	1.210

Source: primary data, 2018 extracted from SPSS.

Hypothesis 1

H1:1 Security has a positive and significant effect on bank performance.

H01:1 Security has no positive and significant effect on bank performance.

The results of multiple regressions, as presented in table 4.11 above, revealed that security has a positive and insignificant effect on bank performance with a beta value (beta =.124), at 95% confidence level ($p > 0.05$). This implies that, a unit increase in would lead to increase bank performance by a factor of .124 security increases by 1 percent, bank performance will increase by 0.124.This result is in contradict with the finding of Ndubisi (2007) showed that security is an important ingredient in firm-performance and ultimately in the development of the bank. The main reason for the contradicted result comparing of the previous studies can due to the nature of the study and the target area too.

Hypothesis 2

H1:2 Telecom infrastructure has a positive and significant effect on bank performance.

H02: Telecom infrastructure have no positive and significant effect on bank performance.

The results of table 4.11 showed that the standardized coefficient beta and p-value of telecom infrastructure has positive and insignificant effect with (beta = .019, $p > 0.05$). This implies that, a unit increase in telecom infrastructure would lead to increase bank performance by 0.019. This result is supported by the previous study like Agboola (2007), adoption of ICT devices on banks, found out that technology was the main driving force of competition in the banking industry. Furthermore, they further found that the relationship is stronger in countries with higher levels of retail payment transaction equipment, like ATMs correspondence, Agency banking and POS terminals.

Hypothesis 3

H1:3 Knowledge has a positive and significant effect on bank performance.

H0:3 Knowledge has no positive and significant effect on bank performance.

The result of table 4.11 showed that the standard coefficient of beta and p-value of knowledge has positive and significant effect at (beta = .264, $p < 0.01$). This implies that, a unit increase in knowledge would lead to increase bank performance by 0.264. A study conducted by Anderson(2007) supported this is that people in the US is unbanked due to lack of understanding about the banking system and another research also conducted by Sathye (1999) low awareness of internet banking is a critical factor in causing customers not to adopt internet banking is also supported this research.

Hypothesis 4

H1:4 Bank-agent distance has a positive and significant effect on bank performance.

H0:4 Bank agent distance has no positive and significant effect on bank performance

Table 4.11 further shows that, bank agent distance have a positive and significant effect on bank performance with a beta value (beta = .201), at 99% confidence level ($p <$ **0.01).** This implies that, a unit increase in bank agent distance would lead to increase bank performance by 0.201.This result is supported by the previous study like CBK (2010), on agency banking is that physical location of the agent's affects financial performance of commercial banks where the number of

people in need of financial services are very high in remote areas this is also supported this research findings.

Table 4.12 ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.869	4	.967	8.266	.0**00**[a]
	Residual	13.574	116	.117		
	Total	17.442	120			

Source: primary data, 2018 extracted from SPSS.

From the ANOVA statics in table above, the processed data which is the population parameters, had a significance level of 0% which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%.

Table 4.13 Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.471[a]	.222	.195	.34207	.222	8.266	4	116	.000

Source: primary data, 2018 extracted from SPSS.

In overall, table 4.13 revealed that all independent variables that is security, telecom infrastructure, knowledge and bank agent distance accounted for 22.2% of the contribution/effect for bank performance (R2= 0.222). Thus, 22.2% of the variation in bank performance can be explained by the four agency banking and other factors may limit contribution of agency banking to the bank performance which accounts for about 77.8%. For further understanding this study was limited for security, telecom infrastructure, knowledge and bank agent distance and considering this other factors may limit towards for bank performance like liquidity, income, loan quality, deposits and

capital ratio and many other factors and these factors were supported by Rasiah (2010) ,Mendes and Abreu (2003) and Devinaga Rasiah (2010).

Equation One: for Regress agency banking on the bank performance

$Yi = \beta 0 + \beta 1X1 + \beta 2\ X2 + \beta\ 3X3 + \beta\ 4X4 + \beta 5X5 + \beta 6X6 + E\ldots\ldots$

$Y = 1.633 + 0.124X1 + .019X2 + 0.264X3 + 0.201X4 + E\ldots\ldots$

Table 4.14 Summary of Hypothesis Testing Results

Hypothesis	Test Result/Relation	Reason
Security has a positive and insignificant effect on bank performance.	Fail to accept	$\beta = .124,\ p > .05$
Telecom infrastructure has a positive and insignificant effect on bank performance	Fail to accept	$\beta = .019,\ p > .05$
Knowledge has a positive and significant effect on bank performance.	Fail to reject	$\beta = .264,\ p < .05$
Agency bank distance have a positive and significant effect on bank performance	Fail to reject	$\beta = .201,\ p < .05$

Source: Primary Data (2018) extracted from SPSS.

4.6 Results Discussion

The chapter carried out inferential analysis to analyze the effects of agency banking on the bank performance for commercial banks in Ethiopia. Study results indicated that the independent variables (security, telecom infrastructure, knowledge, and bank agent distance) can explain and predict bank performance of commercial banks in Ethiopia by 22.2%. The chapter also indicated that all the independent variables were significant in the model, as well the independent variables were found to be having significant positive relationship with bank performance. Results indicate that knowledge and bank agent distance had the significant effect on the bank performance.

Based on the results of Pearson correlation test, security is positively correlated with bank performance (r = 0.223*). Security has a significant role in building long-term relationship and achieving bank performance. So, the finding of this research in this aspect is in line with what Berry (2002).

The regression analysis of security dimension and bank performance indicates that 12.4% of the variance R square in bank performance has been insignificantly explained by security. This result is in contradict with the finding of Ndubisi (2007) showed that security is an important ingredient in firm-performance and ultimately in the development of the bank.

Telecom infrastructure is another element of agency banking that is taken into account to explain bank performance. Based on the correlation test result, telecom infrastructure is positively correlated with bank performance which is r= .235**. This shows that telecom infrastructure is a determinant of bank performance. According to this researcher, telecom infrastructure has a strong positive effect on the easier aspects of bank performance.

With regard to the regression analysis of telecom infrastructure dimension and bank performance, 1.9% of the variance R square in bank performance is insignificantly explained by telecom infrastructure. It is the independent variable in explaining bank performance. The result of Hunt and Morgan (1994) viewed that a telecom infrastructure wants the relationship to endure indefinitely and is willing to work at maintaining it. Therefore, the result of this research, regarding, telecom infrastructure is similar to the rest of findings that telecom infrastructure has the power to increase bank performance.

The other factor that is included in the dimension of agency banking is knowledge. It was found to have positive relationship with bank performance. The correlation coefficient between these variables is r= .411**. Therefore, commercial banks needs to understand their performance in a better way. With regard to the regression analysis of knowledge and bank performance. It is the first highest of all the independent variables in explaining bank performance. 26.4% of the variance R square in bank performance is significantly explained by knowledge.

Finally bank agent distance is another element of agency banking that is taken into account to explain bank performance. Based on the correlation test result, bank agent distance is positively correlated with bank performance which is r= .283**. This shows that bank agent distance is a

determinant of bank performance. According to this researcher, bank agent distance has a strong positive effect on bank performance.

The regression analysis result for bank agent distance and bank performance is 20.1% of the variance R square in bank performance has been significantly explained by bank agent distance. It is the second highest of all the independent variables in explaining bank performance. Therefore, the result of this research on bank agent distance dimension is similar with the above results in indicating that proper bank agent distance can increase bank performance.

CHAPTER FIVE

5. SUMMARY, CONCLUSION, AND RECOMMENDATIONS

This chapter deals with summary of the finding, conclusions and recommendations. The main purpose of the study was to evaluate the effects of agency banking on bank performance of nine commercial banks. To achieve the objective of the study, relevant literature was reviewed and quantitative data were collected through questionnaire filled by respondents. The data collected through questionnaire were presented, analyzed, interpreted and discussed using statistical package for social science (SPSS 16.0) version. Thus, based on the analysis the following findings were written, conclusions drawn, and recommendations forwarded for the practitioners of the agency banking in commercial banks and researchers who are interested to conducted in-depth study on this issues on the same organization.

5.1 Summary of Findings

Primary data was gathered by using structured questionnaire. A total of 121 structured questionnaires were distributed to nine commercial banks top management, middle management and employees through purposive sampling techniques. Quantitative descriptions were applied on the data gathered to analyze the information obtained. By undertaking a detailed analysis of the situation, the following findings were obtained.

The finding of this study indicates that most of employees were agreed with the knowledge with the cumulative of a mean values and standard deviation (3.93 and .413), agent bank distance and bank performance scored with (4.53 and .414) respectively. However, security and telecom infrastructure moderately agreed with cumulative of mean value and standard deviation of (3.175 and 3.549) with standard deviation of .495 and .5387 consecutively. The correlation result show that there is positive and significant relationship between security and bank performance, telecom infrastructure and bank performance, knowledge and bank performance, bank agent distance and bank performance. The finding further indicates that the highest relationship is found between knowledge and bank performance and the lowest relationship exists between security and bank performance.

In overall, the results revealed that all independent variables accounted for 22.2 % of the variance in bank performance (R2 = 0.222). Thus, 22.2 % of the variation in bank performance

can be explained by the four dimensions and other unexplored factors may limit bank performance which accounts for about 77.8 %. For further understanding this study was limited for security, telecom infrastructure, knowledge and bank agent distance and considering this other factors may limit towards for bank performance like liquidity, income, loan quality, deposits and capital ratio, interest rate and these factors were supported by Rasiah (2010) ,Mendes and Abreu (2003) and Devinaga Rasiah (2010).

Moreover, from the findings of this study, researcher found out that not all of the agency banking dimensions have positive effects on bank performance. Out of the four agency banking dimensions two dimensions (knowledge and bank agent distance) have positive and significant effects on bank performance. However, security and telecom infrastructure has a positive but insignificant effect on bank performance.

5.2 Conclusions

Based on the aforementioned summary of the finding the following conclusions were proposed as follows.

From the findings and summary the study concludes that the nine commercial bank agency banking knowledge has a positive and significant effect on bank performance of commercial banks in Ethiopia. So that commercial banks in Ethiopia has to aware customers through training, promotion and other medium in order to exhaust the untapped existing potential in the market through agency banking.

The study also concludes that bank agent distance has the second highest contributor for bank performance in nine commercial banks in Ethiopia. Bank agent distance has a positive and significant effect for bank performance. Commercial banks in Ethiopia has to work aggressively to touch peoples who are not access to traditional bank branches through branchless banking i.e. agency banking so that commercial banks in Ethiopia has to reach in rural area in order to address the demand of unbanked population who are not access in order to increase their performance.

From the findings and summary the study concludes that the nine commercial bank agency banking security has a positive and insignificant effect on bank performance of commercial banks in Ethiopia. However, other empirical studies don't support this result instead it is found that security has a positive and significant effect on bank performance. Thus, considering the limitation

of this study we can conclude that commercial bank has to create suitable physical and IT security system so that to enhance the customer as well as the banks confidence level thereby to boost their financial performance.

The study also concludes that the nine commercial banks telecom infrastructure through agency banking had a positive and insignificant effect on bank performance of commercial banks in Ethiopia. However, other empirical studies don't support this result instead it is found that telecom infrastructure has a positive and significant effect on bank performance. Thus, considering the limitation of this study we can conclude that commercial bank has to deploy the necessary telecom appliances and user friendly interfaces in order to increase their financial performance.

The correlation result show that there is positive and significant relationship between security and bank performance, telecom infrastructure and bank performance, knowledge and bank performance, bank agent distance and bank performance. The finding further indicates that the highest relationship is found between knowledge and bank performance and the lowest relationship exists between security and bank performance. Therefore, the agency banking dimension and bank performance has positive and significant relationship in nine commercial bank.

5.3 Recommendations

Based on the findings and conclusion of the study, the following sound recommendations are forwarded to alleviate or at least to minimize currently encountered problems in the commercial banks with related to effects of agency banking on bank performance.

Based on this study outcomes, knowledge is found as a positive and significant contributor of agency banking performance and hence commercial banks in Ethiopia have to work aggressively on training its own staffs, creating awareness of agents and customers in order to increase its performance

Furthermore, this study also reveals the importance of bank agent distance towards agency banking performance. Therefore, commercial banks in Ethiopia require to exert utmost efforts towards outreaching their products to the unbanked areas through agency banking to eventually increase their financial performance.

The study finding for security and telecom infrastructure reveals insignificant contributor to the bank performance; nonetheless, other studies justifies the significance of these two variables towards agency banking performance particularly for countries with higher level of retail payment transactions like ATM correspondence, agency banking and POS terminals.

In this dynamics and complex business environment the success of a commercial banks is mainly measured by its financial performance. The financial performance of a bank is enhanced through increased market share, lowering transaction cost as well as financial service accessibility to the unbanked people. Agency banking is one of a means to achieve this success, and hence commercial banks in Ethiopia needs to increase its agency banking networks mainly focusing on the four contributors of agency banking such as (security, telecom infrastructure, knowledge, and bank agent distance).These four dimensional paradigm can be improved through implementation of well proved physical and IT security, deployment of user friendly telecom appliances and interface.

5.4 Areas for Further Research

This study sought to establish the effect of agency banking on bank performance of commercial banks in Ethiopia. A study can also be done on the impact of agency banking on the financial performance of micro finance institution in Ethiopia.

A study can also be done by considering other variables other than this study which affects the performance of commercial banks in Ethiopia. A study can also be done on the role of National Bank of Ethiopia in supporting the adoption of agency banking.

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Appendix:

Questionnaire cover letter and Questions

Addis Ababa University

College of Business and Economics

Department of Management Executive MBA

Questionnaire to be filled by Respondents.

Dear respondent

REQUEST FOR RESEARCH DATA ON EFFECTS OF AGENCY BANKING ON BANK PERFORMANCE IN ETHIOPIA COMMERCIAL BANKS.

I am a post graduate student in the college of Business and Economics at Addis Ababa University. I am undertaking a survey on agency banking and bank performance in Ethiopia, in partial fulfillment of the requirement for the award of an Executive Masters of Business Administration (EMBA).

I therefore, kindly request for your kind assistance in completing the attached questionnaire to the best of your knowledge. The information you give will be treated with strict confidentiality and is solely for academic purposes only. Your assistance and co-operation in this regard is highly appreciated.

Thank you.

Abebe Tadesse

I. Background Information

1. What is the name of your bank----------?

2. Indicate your highest academic qualification.

Certificate [ ]

Diploma [ ]

First degree [ ]

Master's degree & above [ ]

3. What is your position in the bank?

Vice President [ ]

Personal Banking Director [ ]

Division Manager [ ]

Digital Channel Officer [ ]

4. Year of Experience in the banking sector

1) 0-5 Years 2) 6-10 Years 3) 11-15 Years 4) Above 15 Years

II. Please show your response by putting *a (√)* mark within the box as indicated by level of agreement.

No		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Factors	5	4	3	2	1
	Security on bank performance					
1	In Ethiopia, Customers tend to bank with agents because of more convenience in terms of accessibility and security					
2	Security with regard to customer's personal information is very important for the use of agency banking services in case of Ethiopian commercial banks					
3	The existing IT-security practices are strong in the Ethiopian banking system to undertake agency banking Services effectively					
4	The more the agents accessible to clients, the more secured the customers has and hence increase bank					

	performance. This issue is currently very determinant of agency banking Services in Ethiopian banking industry					
5	The existing security on agency banking practices in our country has positive impact on Ethiopian Commercial banks performance					
	Telecom infrastructure on bank performance					
6	The existing IT infrastructure practices in the Ethiopian Banking industry can facilitate the growth of agency banking					
7	Infrastructure like POS machine and mobile phone has positive impact on the growth of Agency banking in Ethiopia					
8	Telecom infrastructure coverage in Ethiopia contributes significantly for the growth of agency banking in Ethiopian commercial Banks					
9	High quality network service accessibility has positive impact for agency banking. Currently, this accessibility has been contributing on their performance					
	Knowledge on bank performance					
10	Providing adequate training for bank agents in Ethiopian commercial banks and creating awareness to customers will significantly increase the number of customers to use in agents outlets					
11	As a bank, knowledgeable bank professionals in agent banking contributes significantly for the expansion of agent banking services in Ethiopia					

12	The current awareness level of beneficiaries of agency banking in Ethiopia significantly contributing to the growth of commercial bank performance					
13	The increasing exposure (know-how) to modern digital technologies in Ethiopian society has positively contributed for practices and growth of agency banking					
	Bank agent distance on bank performance					
14	Agency banking practices are very important in Ethiopian banking industry because of more part of the societies are living in rural areas					
15	Agency banking is the best solution because reaching poor clients in rural areas of Ethiopia is often prohibitively expense for financial institutions since transaction numbers and volumes do not cover the cost of a branch					
16	Agent banking closer to clients home, (clients will still visit convenience stores, groceries, supermarkets, --- etc.), longer opening hours and shorter lines than in branches are the most advantages for clients of Ethiopian Commercial banks					
17	Agent banking increases bank service area coverage and penetration with low cost solution to the unbanked community in areas with potentially less number and volume of transactions in Ethiopia					
18	Existing agency banking practices reaching to remote areas in Ethiopia at customers site increase confidence and usage of agency banking					

	Low cost of transaction on bank performance					
19	Low transaction cost of agency banking increase the financial performance of commercial banks in Ethiopia					
20	Cost involved in transacting in agency banking is low compared to banking hall in Ethiopian Commercial banks					
21	Time spent in agency banking service is low compared to the normal banking in Ethiopian Commercial banks					
22	Low set up and running cost of agency banking in Ethiopia make suitable than conventional bank branches					
	Financial services accessibility on bank performance					
23	Agency banking has been lading to accessibility of financial services to significant number of customers in remote areas of Ethiopia					
24	Financial services accessibility through agency banking has contributing positively to financial performance of commercial banks in Ethiopia					
25	Agency banking adoption in banking industry has shown a great momentum and spread at an observable pace across the country to unbanked societies which has increased the accessibility of financial service					

	Market share on bank performance					
26	Agency banking increases market share of the banks and thereby increases their financial performance					
27	Market share often is associated with profitability and thus many firms seek to increase their sales relative to competitors					
28	Market share increases can allow commercial banks to achieve greater scale in its operations and improve profitability					

29. What are the current practice of Agency banking services in Ethiopia?

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30. As a bank what do you suggest for the future of agency banking contribution for bank Performance in Ethiopia?

Thank you,

Operational terms and definitions

Agency

Agency addresses the relationship where in a contract 'one or more persons (the principal(s)) engage another person, the agent, to perform some service on their behalf by delegating authority to make some decisions to the agent (Jensen and Meckling, 1976). Agency is a contract where by a person, the agent, agrees with another person (the principal) to represent him and perform on his behalf one or several legally binding acts (Ethiopian Civil Code art, 2199). As per the National Bank of Ethiopia Directive number FIS-01-2012(NBE,2013) issued to regulate the Mobile and Agent Banking services "agent "means a person engaged in a commercial or business activity and has been contracted by a financial institution to provide the services of the financial institution on its behalf in a manner specified in these directives; and "agent banking "means the conduct of banking business on behalf of a financial institution through an agent using various service delivery channels as permitted under these directives NBE Directive, FIS-01-2012 (NBE,2013).

Agency Banking

Agent banking means providing banking services to the bank customers through the engaged agents under a valid agency agreement, rather than a teller/ cashier. It is the owner of an outlet, who conducts banking transactions on behalf of the concerned bank (Ferdous, Mosharrafa & Farzana 2015).According to National Bank of Ethiopia directives on mobile and agent banking gives the same meaning with the above NBE Directive No. FIS-01-2012 NBE (2013)

Bank Agent

Refers to any third party acting on behalf of a bank (or other principal), whether pursuant to an agency agreement, service agreement, or other similar arrangement (Lauer, Dias, &Tarazi, 2011). National Bank of Ethiopia directives on mobile and agent banking gives the same meaning with the above NBE Diective no. FIS-01-2012, NBE (2013).

Mobile Banking/ M-Wallet Banking

It means performing banking activities which primarily consists of opening and maintaining mobile/regular accounts and accepting deposits; furthermore, it includes performing fund transfer or cash-in and cash-out services using mobile devices NBE Directive No. FIS-01-2012 (NBE, 2013).

Commercial Bank

A financial institution that provides banking and other financial services to their customers. A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans (Sundaram & Sriram, 2016).

Financial Inclusion

The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. It can also be referred to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products Jensen and Meckling (1976). The definition of financial inclusion as per Ethiopian national financial inclusion strategy is the same with the above definition (NBE, 2017)

Financial Performance

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 (Mwando, 2013).

Cost Reduction

It is defined as the process of used to save the unit cost of the product without compromising its quality by using new and improved methods Guatam and Singh (2008).