The study was informed by introduction of agency banking into the banking industry and the upsurge of agent outlets in this industry. The main issue was that there had been a dramatic rise in customer numbers and value of transactions carried out by the new service. The profitability of the banking sector has also been on the rise. So, the empirical problem was whether there exists a relationship between Agent activities in terms of the value transacted and banks profitability. Most studies made have looked at the adoption of agency banking also referred to as branchless banking and its contribution to financial inclusion. This study was meant to close the huge gap on studies looking at the financial aspect of banks in terms of loans repayments, deposits, liquidity, withdrawals, and number of customers, operating costs, coverage, and operational risks among others. Questions still remain unanswered on agency banking and why commercial banks are venturing into the new model of business, what are the advantages and disadvantages.

The purpose of the study was to determine the effect of agency banking on financial performance of commercial banks in Kenya.

The research design took the form of a census that covered 100% of the banks that are licensed to operate agency banking as at December 31st 2012. The Population of the study was 44 banks licensed to operate in Kenya while the sample contained 10 banks operating agency banking as at the time of the research time frame. The study carried out used regression analysis to find the relationship between agency banking in terms of number of agents and the volume of deposit, withdrawals and loan repayment transactions undertaken through agents and the financial performance of banks as measured by return on equity. Regression analysis was carried to distinguish the relationship between the parameters to be measured and the dependent variable using statistical package for social sciences (SPSS) version 20.

The study carried out shed light on the fact that the number of agents operated by a commercial banks and the resultant volume of transactions (Deposits and withdrawals) are not directly correlated with the banks financial performance as measured by the return on equity. This is further supported by the fact that the R Square for both 2011 and 2012 are considerably low indicating a weak correlation between the predictors and the independent variables as highlighted in the regression analysis models. Predictor variables are said to be correlated if their coefficient of correlations is greater than 0.5. As shown in the final tables above for both 2011 and 2012 there coefficients are not more than 0.5 standing at 0.518 and 0.915 respectively .This attributes that other factors not put in the scope of the study highly contribute the financial performance of commercial banks operating agency banking. Key recommendations were to have greater supervision in the new service segment, banks to allow agents to perform core activities to efficiently utilize their capabilities and enhance security for the agents to ensure they can handle even greater volumes of cash and penetrate deep into the society.