

## Agency Banking and Stability of Commercial Banks in Kenya: The Moderating Role of Asset Quality

Robinah Kwamboka Manuguti<sup>1\*</sup>, Lucy Wamugo Mwangi<sup>1</sup>, Salome Musau<sup>1</sup>

<sup>1</sup>Department of Accounting and Finance, Kenyatta University, Kenya

\*Corresponding author email: robinaguti@gmail.com

Accepted: 07 May 2026 || Published: 25 May 2026

### Abstract

This study examined the effect of agency banking on the stability of commercial banks in Kenya, with a specific focus on the moderating role of asset quality. The rapid expansion of agency banking has enhanced financial inclusion and reduced operational costs, but its implications for bank stability remain unclear. The study was grounded in the Technology Acceptance Model and adopted a positivist philosophy and an explanatory research design. A census approach was employed, targeting all 39 licensed commercial banks in Kenya, using secondary panel data obtained from audited financial statements and Central Bank reports for the period 2017 to 2023. Descriptive statistics and panel regression analysis were used to analyze the data, while moderation effects were tested using interaction terms. The findings revealed that agency banking has a positive, statistically significant effect on the fragility index ( $\beta = 1.250$ ,  $p < 0.05$ ), indicating that higher levels of agency banking transactions are associated with greater bank vulnerability. Further results showed that asset quality significantly moderates this relationship, with a negative and significant interaction effect ( $\beta = -3.065$ ,  $p < 0.05$ ), implying that strong asset quality mitigates the destabilizing effects of agency banking. The study concludes that although agency banking enhances outreach and operational efficiency, it may expose banks to increased risks if not effectively managed. The study recommends strengthening credit risk management, enhancing oversight of agency banking operations, and improving regulatory frameworks to ensure that the expansion of agency banking supports financial stability.

**Keywords:** *Agency banking, stability of commercial banks, asset quality*

**How to Cite:** Manuguti, R. K., Mwangi, L. W., & Musau, S. (2026). Agency Banking and Stability of Commercial Banks in Kenya: The Moderating Role of Asset Quality. *Journal of Finance and Accounting*, 6(4), 17-26.

### 1. Introduction

Commercial banks play a critical role in economic development, with their stability forming the backbone of the financial system (Hussein, 2010). In recent years, financial technology, particularly agency banking, has transformed banking operations by expanding access to financial services and reducing operational costs (Kenya Banking System, 2022). While innovations such as ATMs and internet banking contribute to this transformation, agency banking has emerged as a key driver of financial inclusion in Kenya. However, concerns persist about whether increased adoption of agency banking enhances or undermines bank stability,

especially following global experiences such as the 2008 financial crisis, which exposed vulnerabilities in banking systems (Bai & Elyasiani, 2013; Schindler, 2017). Given that lending remains a core banking function, asset quality, often measured by non-performing loans, plays a crucial role in determining the impact of agency banking on the stability of commercial banks (Jebet & Wepukhulu, 2020).

Globally and regionally, financial technology presents both opportunities and risks to banking stability. While it improves efficiency and outreach, it also introduces operational, credit, and systemic risks that, if not properly managed, may weaken financial institutions (Prasad, 2019; Vives, 2017). In Sub-Saharan Africa, rapid digitalization has led to widespread adoption of agency and mobile banking, with about 80% of banks offering digital services, yet concerns remain about the effectiveness of regulation and financial stability (Chinoda & Kapingura, 2023; FinTech in Africa, 2023). In Kenya, although the banking sector remains relatively stable, it has experienced declining profitability, rising credit risks, and episodes of bank failures, signaling underlying fragility (Kiemo et al., 2021; Collins, 2020). These dynamics highlight the need to examine the effect of agency banking on bank stability, particularly considering the moderating role of asset quality, which may either mitigate or amplify stability risks.

### **1.1 Problem Statement**

The rapid expansion of financial technology, particularly agency banking, has significantly transformed how commercial banks in Kenya deliver services, enhancing the accessibility and outreach of financial services (Otieno & Ndede, 2020; Banking Supervision Annual Report, 2021). Agency banking enables banks to extend services to previously unbanked populations at lower operational costs, thereby improving efficiency and financial inclusion. Despite these benefits, concerns remain about its implications for bank stability. Evidence from Kenya shows that the banking sector recorded a liquidity ratio of 51% in December 2023, above the statutory minimum of 20%, although this is partly supported by government securities, masking underlying vulnerabilities (Financial Stability Report, 2023). Additionally, foreign liabilities increased significantly from KSh 44.9 billion in 2019 to KSh 229.5 billion in 2023, exposing banks to exchange rate risks and contributing to rising sectoral fragility (Financial Stability Report, 2023; Wafula et al., 2022).

Empirical evidence further indicates that Kenya's banking sector has experienced recurring instability, including multiple bank failures between 1984 and 2018, largely attributed to weak risk management, poor asset quality, and macroeconomic pressures (Brownbridge, 2015; Kiemo et al., 2019). While prior studies have examined bank stability in specific contexts, such as Tier III banks (Muhoho, 2023), microfinance institutions (Kweyu, 2022), and cross-country fintech analyses (Stankevičienė & Kabulova, 2022), they provide limited insights into the effect of agency banking on the stability of commercial banks in Kenya. Moreover, most studies rely on pre-2020 data, failing to capture recent developments, such as increases in agency banking transactions and post-COVID-19 financial dynamics. This creates a critical gap in understanding how agency banking influences bank stability, particularly amid evolving financial risks, which the current study seeks to address.

## 1.2 Research Objectives

- i. To assess the effect of agency banking on the stability of commercial banks in Kenya.
- ii. To evaluate the moderating effect of asset quality on the relationship between agency banking and the stability of commercial banks in Kenya.

## 1.3 Research Hypotheses

H<sub>01</sub>: Agency Banking has no significant effect on the stability of commercial banks in Kenya.

H<sub>02</sub>: Asset quality has no significant moderating effect on the relationship between agency banking and the stability of commercial banks in Kenya.

## 2. Literature Review

### 2.1 Theoretical Review

Davis (1989) proposed the technology acceptance theory based on the proposition that the use of new technology should be perceived as effective and applicable. The Technology Acceptance Model (TAM) simulates how people embrace and use technology in the context of information systems. TAM posits that effectiveness and simplicity are two elements that impact whether potential users will accept a computer system (Essmiller, 2020). According to Lee, Kozar, and Larsen (2003), Researchers have continuously improved and developed TAM by addressing its shortcomings, incorporating external factors, integrating it with different theoretical frameworks, and applying it across various activities, environments, and systems. The extent to which someone perceives the counterparty as acting appropriately and refraining from attempting to manipulate the consumer is their perceived dependability on technology (Schnall, Higgins, Brown, Carballo & Bakken, 2015). Since then, technologies beyond computers have been incorporated into the technological adoption paradigm, including mobile apps (Hussain et al., 2019).

The theory has been criticized due to its limitations. Venkatesh, Davis, and Morris (2007) argued that an illusion was generated in information systems research by the widespread use of TAM, which led studies to duplicate previous findings, thus obstructing progress in the field. It was stated that the IS literature left blind spots in the extensive utilization of TAM. The hypothesis concentrated on what motivates people to use technology, with little clarity regarding how technology use affects performance. The TAM study unquestionably implies that performance improves with increased technology use, which is not the case in real-world scenarios (Goodhue, 2007). The theory supported the use of agency banking, as it determined whether the stability of commercial banks is enhanced or disrupted.

### 2.2 Empirical Review

Ombongi (2021) explored the influence of agency and mobile banking on the liquidity of Kenyan commercial banks. The investigation design was descriptive, and 39 commercial banks were the target population to achieve the core objectives. Secondary data was gathered from the Kenya Central Bank website between 2016 and 2020 and from respective banks. Findings showed a 95% significance level, indicating a moderately positive link between the dependent variables. The capital adequacy ratio significantly impacted liquidity; assets, mobile banking, and agency followed in that order. Mobile and agency banking increase opportunities to capitalize on commercial banks by increasing transaction value. Liquidity enhancement should be emphasized by investing in mobile and agency banking. However, the previous study

examined liquidity as the dependent variable, whereas the current study examines stability as the dependent variable.

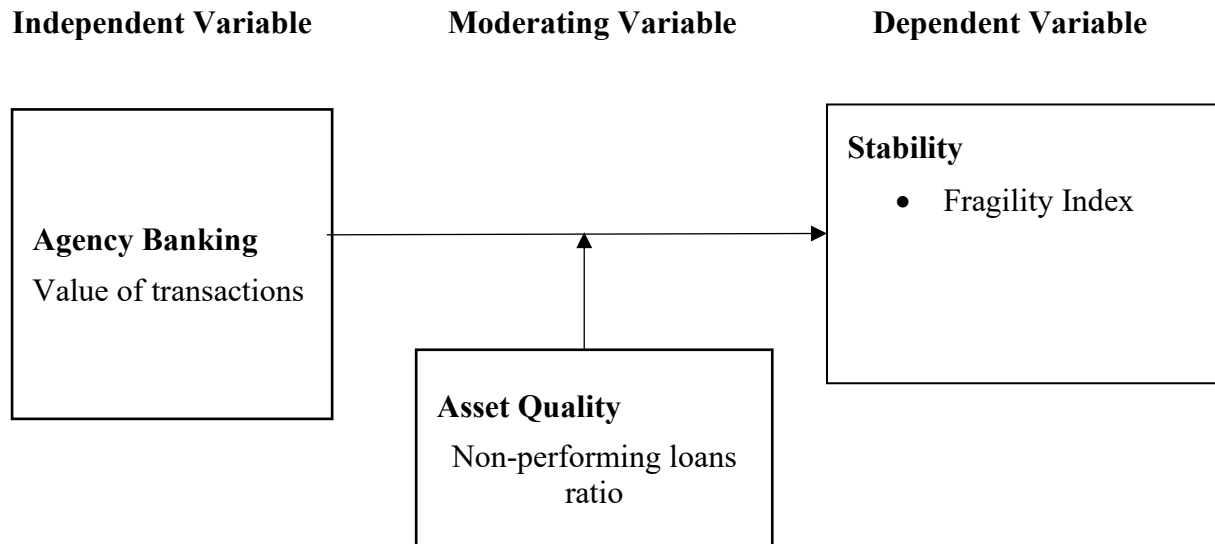
Otigo & Muturi (2020) employed a cross-sectional study design to evaluate the relationship between commercial banks' operational costs and the use of agencies in Kenya's banking industry. Eleven commercial banks adopted agency banking upon its authorization in 2010 and were operational by 2014, constituting the target population. The financial statements of 11 commercial banks from 2006 to 2014 were used to gather secondary data. The research found that minimizing operating expenses significantly impacted banks' adoption of agency banking. Accessibility for unbanked customers must be increased by commercial banks to make financial services available, reducing branch costs through agency services. The dependent variable in the previous study was operational cost. However, in the present research, the non-performing loan ratio was adopted as a moderating factor, whereas stability was the dependent variable.

Wairimu (2020) investigated how banking agency transactions affected the financial performance of Kenya's commercial banks. The research focused on 16 commercial banks that had engaged in agency banking, and the Kenya Central Bank's annual supervision reports from 2013 to 2017 served as secondary data. The quantitative data gathered were analysed employing a descriptive research design survey. Thus, it revealed that transaction value positively impacted financial performance, whereas the number of transactions had no significant effect. Commercial banks should encourage customers to do high-value and low-value transactions through agents. Gaining economies of scale through higher agency banking volume should receive greater priority to lower unit costs. Nevertheless, agency banking in the study used value and the number of transactions as proxies. In contrast, the present research used transaction value to assess stability.

Sopan and Dutta (2018) examined how asset quality affected the liquidity risk of Indian banks. The relationship between Indian banks' asset quality and liquidity risk was examined; panel data were employed in the research. Asset quality was measured using the non-performing loans ratio to total advances, whereas the liquid assets-to-total assets ratio served as a proxy for Indian banks' liquidity risk. For the analysis, data were retrieved from 45 Indian banks that are part of the State Bank of India group. The findings demonstrated that liquidity risk and asset quality have a statistically significant detrimental influence on Indian banks. Nonetheless, the nonperforming loans ratio, gauged asset quality, was the moderator variable. The target population comprised 39 Kenyan Commercial banks, and stability, as the dependent variable, was measured by the fragility Index in the present research.

### 2.3 Conceptual Framework

Figure 1 displays the link between variables



**Figure 1: Conceptual framework**

### 3. Methodology

The study adopted a positivist research philosophy and an explanatory research design. A census approach was employed, targeting all 39 licensed commercial banks, using secondary panel data collected from audited financial statements and Central Bank reports covering the period 2017 to 2023. Data analysis involved both descriptive and inferential statistics. Descriptive statistics, such as means and standard deviations, were used to summarize the data, while panel regression analyses were used to examine relationships among variables and test hypotheses. Moderation effects were assessed using interaction terms, and diagnostic tests, including autocorrelation, multicollinearity, normality, heteroscedasticity, stationarity, and the Hausman test, were conducted to validate model assumptions and ensure the robustness of the results.

### 4. Results and Discussion

#### 4.1 Descriptive statistics

The descriptive statistics included the mean, standard deviation, number of observations, and the maximum and minimum values. Table 1 displays the findings of this study's descriptive analysis.

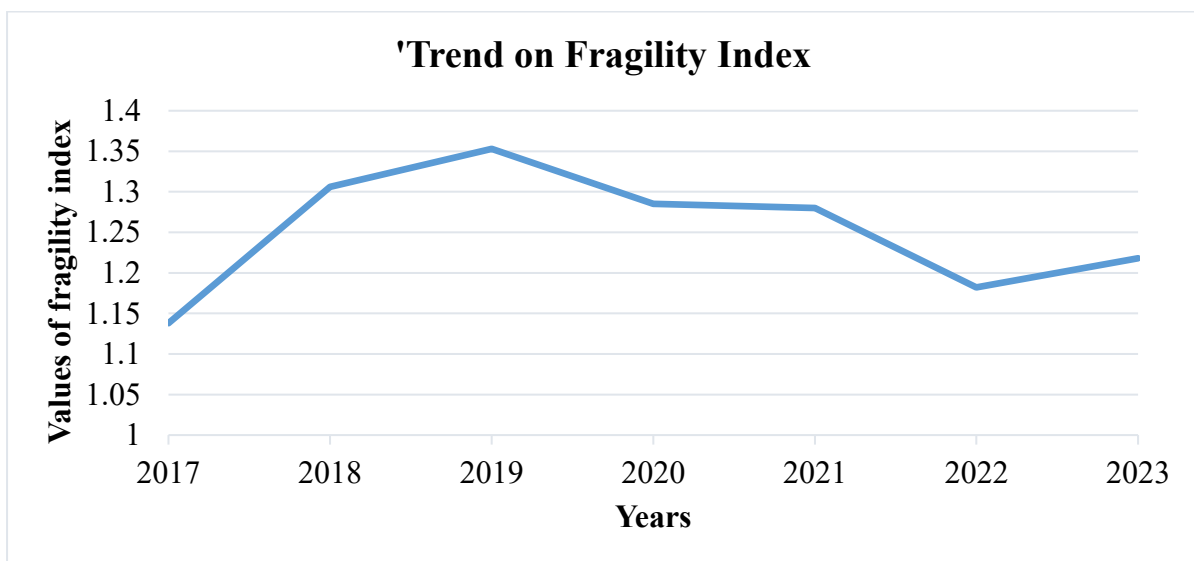
**Table 1: Descriptive statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
Financial stability	266	1.229	1.102	-0.317	4.352
Agency banking	266	10.1	0.679	8.031	11.415
Asset Quality	266	0.191	0.151	0	0.762

The results in Table 1 indicate that 38 commercial banks provided 266 observations over seven years (2017 to 2023). Kenya's commercial banks' financial stability was less variable between 2017 and 2023, with an average of 1.229 and a standard deviation of 1.102. Furthermore, the

highest financial stability fragility index was 4.352, and the lowest was -0.317. Given that 1.229 exceeds the 0.5 threshold, the commercial banks were classified as fragile. A minimum score of -0.317 indicated that during the study period, a stable position was implied in some commercial banks. Some commercial banks' deviations from the 0.5 criterion are indicated by a maximum of 4.352. The fragility index increases, exposing the commercial bank to financial collapse.

The banking agency data had a mean of 10.100 and a standard deviation of 0.679, with the highest value being 11.415 and the lowest being 8.031. The mean and standard deviation of asset quality were 0.191 and 0.151, respectively. The range of values was from 0.000 to 0.762. The results align with those of Wanjohi (2022), who found that asset quality ranges from 0.001 to 0.762. A trend line for the dependent variable was developed over seven years for the 38 commercial banks. The trend line for the fragility index is shown in Figure 2.



**Figure 2: Trend in average fragility Index**

The average fragility index for commercial banks generally shifts over the seven-year period, as shown in the study data in Figure 2. With a slight increase in the average fragility index from 2017 to 2019 and a drop from 2020 through 2022, it appears to be the most impacted. However, as evidenced by the previous several years, a minor increase was noted in 2023. Wafula & Makori (2022) state that a commercial bank's exposure to banking crises and enduring variables beyond its management's control increases with its fragility index.

## 4.2 Direct Effect Analysis

The outcomes shown in Table 2 are derived from the regression output.

**Table 2: Direct effects Coefficients**

Mode 1		Unstandardized		t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error			Lower Bound	Upper Bound
	(Constant)						
1	-	11.922	0.896	-13.3	0.000	-13.687	-10.157
	Agency banking	1.25	0.081	15.4	0.000	1.091	1.409

a. Dependent Variable: Fragility index

The stability of Kenyan commercial banks has increased by 1.250 for every unit increase in the value of agency banking transactions, indicating a positive association.

**H<sub>01</sub>: Agency banking has no significant effect on the stability of commercial banks in Kenya**

According to the findings in Table 2, agency banking ( $\beta = 1.250$ ,  $P < 0.05$ ). The significant P-value indicated that the stability of Kenyan commercial banks has a major positive influence on agency banking. Thus, the null hypothesis of no statistically significant relationship between agency banking and the stability of commercial banks in Kenya was rejected at the 0.05 significance level. A similar conclusion has been reached in numerous empirical investigations of the relationship between agency banking size and financial stability. Ombongi (2021) determined the impact of mobile and agency banking on the liquidity of commercial banks in Kenya and discovered that agency banking improved liquidity. According to Otigo & Muturi (2020), the use of agency banking significantly reduces banks' operating expenses. Wairimu (2020) examined how agency banking transactions affected commercial banks' financial performance, concluding that transaction value positively influenced it. However, the quantity of transactions showed no significant effect.

## 4.3 Moderation Effect Model

To assess the relationship between agency banking and bank stability and to determine the moderating role of asset quality, the study adopted the approach of Whisman and McClelland (2005), first introducing the moderating variable as an explanatory variable, followed by the inclusion of the interaction term. This section, therefore, presents the moderation analysis results, focusing on the direction, significance, and strength of the interaction between agency banking and asset quality in influencing the fragility index of commercial banks.

**Table 3: Moderation effect step two Coefficients**

Mode l		Unstandardized		t	Sig.	95.0% Confidence Interval for	
		Coefficients				B	
		B	Std. Error			Lower Bound	Upper Bound
1	(Constant)	-16.675	1.591	-10.481	0.000	-19.808	-13.542
	Agency	1.76	0.131	13.406	0.000	1.501	2.019
	Asset						
	quality	17.228	5.842	2.949	0.003	5.723	28.733
	AB*AQ	-3.065	0.619	-4.948	0.000	-4.285	-1.845

a. Dependent Variable: Fragility Index

Agency banking has a statistically significant positive effect on stability, with a coefficient  $\beta = 1.760$  and  $p = 0.000$  ( $<0.05$ ). This suggested that a 1-unit rise in agency banking would lead to a 1.760 increase in the fragility index, causing instability.

Combining agency banking and asset quality yielded an overall  $\beta = -3.065$ , with a significant p-value of 0.000. A one-unit rise in any of the variables would result in a decline in the fragility index and, consequently, in stability, according to the negative coefficient on agency banking. The second null hypothesis states that asset quality does not significantly moderate the relationship between financial technology adoption and the stability of Kenyan commercial banks. Based on the findings, the null hypothesis was rejected.

## 5. Conclusion

The findings indicate that agency banking has a positive, statistically significant effect on the stability of commercial banks in Kenya, as reflected by an increase in the fragility index with rising transaction values. This suggests that while agency banking enhances accessibility, expands outreach, and generates revenue for banks, it may also expose institutions to increased operational and credit-related risks that can undermine stability. Importantly, the results further reveal that asset quality significantly moderates this relationship, with the negative interaction effect indicating that strong asset quality reduces the destabilizing impact of agency banking. Therefore, although agency banking contributes to financial performance and inclusion, its effect on stability depends on effective credit risk management: poor asset quality can amplify instability, whereas improved asset quality enhances resilience.

## 6. Recommendations

Commercial banks should enhance loan appraisal, monitoring, and recovery mechanisms to maintain low levels of non-performing loans, as strong asset quality mitigates the destabilizing effects associated with increased agency banking transactions.

Banks should establish stringent controls, monitoring systems, and compliance frameworks for agents to minimize operational risks, fraud, and inefficiencies arising from expanded agency banking networks.

Regulators should develop and enforce policies governing agency banking activities, including agent accreditation, transaction limits, and risk exposure guidelines, to ensure that the expansion of agency banking supports financial stability rather than undermines it.

## References

- Bai, G., & Elyasiani, E. (2013). Bank stability and managerial compensation. *Journal of Banking & Finance*, 37(3), 799–813.
- Brownbridge, M. (2015). The causes of banking sector distress in Kenya. *Journal of African Economies*, 24(1), i163–i198.
- Central Bank of Kenya. (2021). *Banking sector supervision annual report 2021*. Central Bank of Kenya.
- Central Bank of Kenya. (2023). *Financial stability report 2023*. Central Bank of Kenya.
- Chinoda, T., & Kapingura, F. (2023). The impact of digital financial inclusion and bank competition on bank stability in sub-Saharan Africa. *Economies*, 11(1), 15.
- Collins, N. (2020). Banking sector performance and stability in Kenya. *International Journal of Economics and Finance*, 12(6), 45–56.
- Davis, F. D. (1989). Perceived usefulness, perceived ease of use, and user acceptance of information technology. *MIS Quarterly*, 13(3), 319–340. <https://doi.org/10.2307/249008>
- Essmiller, K. (2020). *Academic Library Publishing of Open Educational Resources* (Doctoral dissertation, Oklahoma State University).
- FinTech in Africa. (2023). *FinTech adoption and trends in Africa*. McKinsey & Company.
- Goodhue, L. (2007). *Comment on Benbasat and Barki's "Quo Vadis TAM" article*. *Journal of the Association for Information Systems*, 8(4), 15.
- Hussain, N., Jeong, J., Park, J., & Kim, M. (2019). *A broadband circularly polarized Fabry-Perot resonant antenna using a single-layered PRS for 5G MIMO applications*. *IEEE Access*, 7, 42897–42907.
- Hussein, K. (2010). Bank-level stability and economic development. *Journal of Banking and Finance*, 34(1), 1–15.
- Jebet, J., & Wepukhulu, J. (2020). Role of commercial banks in economic development. *International Journal of Finance and Banking Research*, 6(2), 30–38.
- Kenya Banking System. (2022). *Kenya Banking Sector Report 2022*. Central Bank of Kenya.
- Kiemo, S., Kamau, A., Rugiri, W., & Talam, C. (2021). *Macro prudential regulation and bank stability: The credit market signal* (No. 53). KBA Centre for Research on Financial Markets and Policy Working Paper Series.
- Kweyu, R. C. (2022). *Firm Characteristics and Financial Stability of Selected Microfinance Banks in Kenya* (Doctoral dissertation, Kenyatta University).
- Lee, Y., Kozar, A., & Larsen, R. (2003). *The technology acceptance model: Past, present, and future*. *Communications of the Association for Information Systems*, 12(1), 50.
- Muhoho, G. K. (2023). *Relationship between firm characteristics and the financial stability of tier-three commercial banks in Kenya*. (Doctoral dissertation, Kenyatta University)
- Ombongi, B. (2021). *The Effect of Agency and Mobile Banking on Liquidity of Commercial Banks in Kenya* (Doctoral dissertation, University of Nairobi).

- Otieno, O. S., & Ndede, D. F. (2020). Adoption of digital banking technology and financial performance of commercial banks in Kenya. *International Journal of Current Aspects in Finance, Banking and Accounting*, 2(1), 42-50.
- Otigo, B., & Muturi, J. (2020). *Adoption of Agency Banking and Operational Cost of the Commercial Banks in Kenya*. (Doctoral dissertation, Kenyatta University).
- Prasad, E. (2019). *New and evolving financial technologies implications for monetary policy and financial stability in Latin America* (No. 019449).
- Schindler, J. W. (2017). *FinTech and financial innovation: Drivers and depth*.
- Schnall, R., Higgins, T., Brown, W., Carballo, A., & Bakken, S. (2015). *Trust, perceived risk, perceived ease of use, and perceived usefulness as factors related to mHealth technology use*. *Studies in Health Technology and Informatics*, 216, 467.
- Stankevičienė, J., & Kabulova, J. (2022). Financial technology impact on the stability of financial institutions. *Technological and Economic Development of Economy*, 28(4), 1089-1114.
- Venkatesh, V., Davis, F., & Morris, G. (2007). *Dead or alive? The development, trajectory, and future of technology adoption research*. *The Development, Trajectory, and Future of Technology Adoption Research* (April 27, 2007). Venkatesh, V., Davis, FD, and Morris, MG "Dead or Alive, 267-286.
- Vives, X. (2017). The impact of FinTech on banking. *European Economy*, (2), 97-105.
- Wafula, W., Mungai, J., & Makori, D. (2022). Assessment of Financial Stability among Commercial Banks in Kenya: Evidence from the Fragility Index. *Asian Journal of Economics, Finance and Management*, 182-189
- Wairimu, T. E. (2020). *Agency Banking Transactions and Performance of Commercial Banks In Kenya* (Doctoral dissertation, Master's thesis, Kenyatta University) <http://irlibrary.ku.ac.ke/handle/123456789/21774>.
- Wanjohi, I. W. (2022). *Effect of asset quality on the financial performance of commercial banks in Kenya*. Nairobi: University of Nairobi.