THE EFFECT OF FINANCIAL INCLUSION STRATEGIES ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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OCTOBER, 2013

DECLARATION

I declare that this research project is my original work and to the best of my knowledge it has not been submitted to any other College, University or Institution for academic credit.

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This research project has been submitted for examination with our approval as the University supervisor(s).

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DEDICATION

I dedicate this project to:-

Almighty God- For the strength, health, providence and protection through it all.

My wonderful wife Mrs. Rosemary Kanorio Riungu- a remarkable woman, friend, role model and advisor. There is not a doubt in my mind that without your support- materially, emotionally and spiritually- I would not have managed to complete my Masters Degree in Finance.

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My brothers and Sisters for the material and emotional support, and my loving kids – Galvin Muema & Melvin Mwenda, and May this study inspire you to aim even higher in your quest for education and be all that you were ordained by God to be.

ABSTRACT

An economy cannot thrive on a fraction of its citizens while excluding the others. In many developing countries economic development is skewed towards a few rich people and regions while the larger population and regions are left out. Financial inclusion is key to realization of economic goal not only in Kenya but also globally. The study seeks to bridge the gap by undertaking a study on the same. The following research questions guided the study; what are the financial inclusions strategies in the banking sector in Kenya? How do financial inclusions affect the financial performance of commercial banks in Kenya? The causal study design was employed in this research. There are 43 Commercial Banks in Kenya which formed the target population for this study. Secondary data from financial statements of Commercial banks will be collected using data collection forms. The study collected secondary data for the last five years starting year 2008 to 2012. Data analysis was done using SPSS Version 20 whereby inferential statistics was applied whereby a multiple regression model was employed. The study found that financial inclusion strategies had great effects on the financial performance of commercial banks in Kenya, as it was revelaed that there was a greater varation on financial performance of commercial banks in Kenya due to changes in mobile phone banking, agency banking, micro banking, internet banking and Islamic banking, which is an indication that changes in financial performance of commercial banks in Kenya could be accounted for by mobile phone banking, agency banking, micro banking, internet banking and Islamic banking. The study found that there was a positive relationship between mobile phone banking, agency banking, micro banking, internet banking, Islamic banking and financial performance of commercial banks in Kenya.

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LIST OF ABBREVIATIONS AND ACRONYMS

AML-Anti-Money Laundering

ATMs-Automatic Teller Machines

CBK-Central Bank of Kenya

CTF-Counter-Terrorism Financing

GDP-Gross Domestic Product

KYC-Know Your Customer

ROA-Return on Assets

ROE-Return on Equity

SMS-Short Message Services

CHAPTER ONE:

INTRODUCTION

1.1 Background of the Study

Financial inclusion is defined as the ability of an individual, household, or group to access appropriate financial services or products. Without this ability people are often referred to as financially excluded. About 2.5 billion adults, just over half the world's adult population, lack bank accounts. If we are to realize the goal of extending banking and other financial services to this vast "unbanked" population, we need to consider not only such product innovations as microfinance and mobile banking but also issues of data accuracy, impact assessment, risk mitigation, technology adaptation, financial literacy, and local context, (Schoombee, 2000).

Since the 2003, increasing pressure has been brought to assist the development of the disadvantaged majority of the community living in poverty. The formal financial sector has a critically important role to play in this process. It must somehow open up traditional banking services - deposit and credit facilities - to the poor" (Schoombee, 2000).

Commercial banks traditionally do not serve low-income earners, micro-entrepreneurs and the poor (collectively referred to as the unbanked), chiefly because the high costs involved make it unattractive (Schoombee, 2004). Whether simply the consequence of material poverty, geographic isolation or as the result of being perceived as "non-creditworthy", many of the world's low-income earners (particularly in rural areas) find themselves "unbanked" and without any recourse to the benefits of credit or secure deposit-taking facilities (Sherbut, 2009).

On Savings and product development, Demand for savings services has helped transform the bottom of the pyramid into a competitive market space open to a wide range of new and dynamic players. New savings products have been developed across the financial institutions. Over the last ten years, commercial banks have been moving down market for different reasons; either to capture the unbanked or respond to the level of competitiveness in the banking industry.

On Technology utilization, Kenya has established itself as a global technology pioneer through innovations in mobile money and agent banking that is helping to further reach the poor. The growth and utilization of these technologies have fundamentally changed the way financial institutions are able to provide access to their financial services.

1.1.1 Financial Inclusion Strategies

Financial inclusion is defined as "a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy" (Sarma, 2008). Ease of access is measured by proxies such as number of bank branches or number of ATMs per 1000 population. In the South African context, other factors that have an impact on the ease of access are transport costs to the point of access and the opportunity cost associated with travel time. Availability and usage are measured by the extent of utilisation as well as the size of bank credit and bank deposits, relative to the GDP of a country. An inclusive financial system should have as many users as possible as this gives an indication of how much the financial system has penetrated among its users

(Sarma, 2007). The various dimensions of inclusion that are encompassed in this definition, together build an inclusive financial system. As banks are the gateway to the most basic forms of financial services, banking inclusion/exclusion is often used as analogous to financial inclusion/exclusion. It has been observed that even "well-developed" financial systems have not succeeded to be "all-inclusive" and certain segments of the population remain outside the formal financial systems, (Sarma, 2008).

The Financial Services Authority, (2000) in Carbo, Gardener and Molyneux, (2007) states that financial exclusion can come about as a result of a number of factors: Access exclusion: restricted access through the process of risk assessment; Condition exclusion: where the conditions attached to financial products make them unsuitable for the needs of some people; Price exclusion: where some people cannot afford the levels at which financial services are priced; Marketing exclusion: where some people are excluded by targeted marketing and sales; and exclusion: where people decide that there is no point in applying for a financial product because they believe their application would be refused.

Financial exclusion or constrained access to finance has negative, interrelated economic and social impacts. As stated in (Jefferis, 2007), these consequences arise for a number of reasons: The lack of efficient financial service provision means that poor people are either forced to use inefficient provisions, often at high cost (for instance, with high transactions costs, excessively high interest rates on loans, or poor returns on savings) – thereby entrenching poverty – or they do not have access to certain financial products, either because of an absolute absence of suitable products or because available products are too expensive; This in turn tends to restrict the economic opportunities open to the poor.

This is most obviously the case with credit, as almost all entrepreneurship activities need capital upfront, even if in small amounts, to fund investment; The poor are vulnerable to adverse events and financial loss (due to lack of insurance and secure savings products); The absence of savings products makes it difficult to build up capital; Poverty is entrenched, as the poor are faced with the high costs of accessing financial services, and are denied entrepreneurship opportunities that might provide them with a chance to earn an income; and Economic growth is below potential, as the level of investment is reduced. Groups in society that are unable to access financial services are frequently unable to obtain other social provision and financial exclusion can often exacerbate other kinds of social exclusion (Carbo et al, 2007).

As products get more complex, they have a greater potential to meet the specific financial needs of the poor but they also become harder for clients to understand and manage. The key is to identify optimal combinations of all these dimensions by determining which factors "sell" best to clients and by understanding the literacy required for a product to succeed (both in terms of take-up and proper usage). In offering products and services that assist the poor in accomplishing their stated goals, attention must be given to more than just the pure economics of the choices being offered. The way offers are presented can have just as much to do with take-up and usage as do the terms of the products and services. Given that the presentation of choice matters, choices in product design affect how the product is used, and by whom (Karlan and Morduch, 2009).

There are many reasons to believe that the number of unbanked people will shrink significantly in years to come, with important positive implications for economic growth and poverty reduction. First, grassroots and country-level efforts, both nonprofit and for-profit, are already showing how "unbanked" doesn't have to be the status quo—and these efforts are greatly facilitated by mobile phones. Kenya is well-known for the widespread use of its mobile money system M-Pesa, which allows people to pay for goods and services through cell phones instead of with cash. Started in 2007, M-Pesa has already been used by the vast majority of Kenya's adults.

Another recent product in the banking industry is agency banking where banks are using agents to do their banking. These include kiosks, supermarkets, and chemists among others. According to business daily(2013), Agency banking has lifted deposits to near Sh2 trillion mark.Mobile banking has also made access of banking services from their locations away from the banking halls. Recently, banks have also expanded their branch network to reach vast majority of potential customer and also in response to intense completion in the banking industry. Branch expansion also plays a critical role towards financial inclusion. Also banks have recently developed credit products, micro banking products, which are tailor made to serve the lower market.

1.1.2 Financial Performance of Commercial Banks

Profitability of the banks is measured in the form of ratios which are normally reported by commercial banks in their annual reports. And it is said to be the most appropriate way of measuring profitability as one make use of time series analysis. This is because the real value of profits cannot be affected by the varying inflation rates. For one to realize how well a bank is performing it is much more useful to consider return on assets (ROA) and return on equity (ROE).

Return on assets (ROA) is the ratio of Net Income after Taxes divided by Total Assets. The ROA signifies managerial efficiency. In other words it depicts how effective and efficient the management of banks has been as they seek to transform assets into earnings. And the higher ratio indicates the higher performance of the banks. It is a useful tool for comparing profitability of one bank with other or the whole commercial banking system. Moreover, the ROE is said to measure the rate of return on the bank's shareholders equity and it is calculated by dividing banks net income after taxes by total equity capital which includes common and preferred stock, surplus, undivided profits, and capital reserves. This measure of profitability gives an indication of what the banks earns on the shareholders' investment; Many researchers have presented ROA as an appropriate measure of bank profitability. Among them are Rivard and Thomas (1997) who argued that bank profitability is best measured by ROA in the sense that, ROA cannot be distorted by high equity multiplier? However, Hassan and Bashir (2003) also claims that as ROA tend to be lower for financial intermediaries, most banks heavily utilize financial leverage to increase their ROE to competitive levels.

1.1.3 Financial Inclusion Strategies and Financial Performance

For emerging middle-income nations which are seeking to guarantee upward economic mobility for their poorest citizens, the presence of large numbers of unbanked people is particularly problematic. For governments in these states, the viability of their attempts to encourage home ownership, household savings plans and the expansion of small business as avenues for "pro-poor growth" are brought into serious question when national banks are unable to extend their financial assistance to impoverished constituencies (Sherbut, 2009). It is only since the early 1990s that Kenyan banks have given serious thought to entering this market segment, in no small way influenced by the changes in the local political landscape (Schoombee, 2004).

The failure of formal banks to serve the poor is due to a combination of high risks, high costs and low returns associated with such business (Schoombee, 2000). The factors cited in (Schoombee, 2000) as reasons why banks do not serve the poor include: High risk: credit transactions are subject to high risk because of the delay involved before debt obligations are repaid, (Hoff and Stiglitz, 1990) in (Schoombee, 2000).

Lack of collateral: the poor seldom have sufficient forms of conventional title to submit as collateral. Due to Kenya political past, conventional forms of collateral - the most common being title over fixed property – are not available in adequate numbers to the poor. Sustainability: banks run the risk that loans issued to the poor may not generate an adequate and sustainable flow of income to service the all-inclusive cost thereof (Schoombee, 2000). Banks avoid serving the poor because of the danger of small businesses generating insufficient cash flow to meet regular interest payments in times of adverse business conditions, and there not being any risk capital to act as a cushion.

High operating costs: high operating costs (e.g. salaries for highly skilled personnel, standardized procedures for transactions) relative to the size of transactions with the poor inhibit banks from serving them. In most countries, finance ministers, treasury secretaries and reserve bank chairmen express regular concern about matters such as currency stability, investor confidence and related to these, the strength of national banking systems" (Sherbut, 2009).

Profitability should not be a key strategic reason for serving the lower end of the market. The motivation should rather be about life-time potential. Entry-level products offer a means to enter banking services. While evidence from industry shows that the upward migration into other accounts has not happened in great numbers, products for the poor are a feeder stream to other bank accounts. Some products have had good uptake and are breaking-even, while others are actually making small profits.

Sherbut, (2009), highlights the need to find methods of banking the unbanked that provide essential products and services, but which do not undermine the stability of commercial financing agencies. (Weiser, 2007) outlines strategies that can be employed to achieve success in the lower income markets and these strategies range from mining and translating local market information; to creating partnerships and strategic alliances. Once financial services institutions understand that the low income market is a high volume, low margin business, it becomes possible to formulate profitable and sustainable value propositions for serving the lower segments of the market. Industry practitioners noted however, that profitability should not be a key strategic reason for serving the lower end of the market and that the motivation should rather be about life-time potential.

Mobile phone banking is where account holders are connected to the bank network hence able to access virtually all banking services using their phone. A number of commercial banks have embracing mobile banking concept. Agency banking is also a new concept where commercial banks are able to recruit agents to provide commercial banking services to account holders. The concept has gained acceptance it's envisaged that it will revolutionalize banking in a major way. Since 2003, Commercial banks in Kenya have significantly increased their networks especially in the rural areas to tap the lower end market which was previously thought to be unviable. Some commercial banks are having gone further to design products tailored to the lower-end market. Micro banking departments have been formed to serve the market. Islamic Banking concept has also been embraced by commercial banks to cater for Islamic faith financial needs. It is envisaged that current and future performance of commercial banks will depend on their ability to embrace the 'unbanked' into the formal banking.

1.1.4 Commercial Banks in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act, and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalised in 1995 and exchange controls lifted. The Central Bank of Kenya, which falls under the Ministry of Finance, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. Central Bank of Kenya publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines (CBK, 2011).

Banks represent a significant and influential sector of business worldwide that plays a crucial role in the global economy. Commercial banks are financial intermediaries that serve as financial resource mobilization points in the global economy. They channel funds needed by business and household sectors from surplus spending to deficit spending units in the economy. A well-developed efficient banking sector is an important prerequisite for saving and investment decisions needed for rapid economic growth. A well-functioning banking sector provides a system by which a country's most profitable and efficient projects are systematically and continuously funded. The role of banks in an economy is paramount because they execute monetary policy and provide means for facilitating payment for goods and services in the domestic and international trade (Government of Kenya, 2007).

There are a number of financial innovations which has taken place in the banking industry in Kenya and which have impacted on financial inclusions. For instance, recently, some of the banks introduced Islamic banking. A more recent product in the banking industry is agency banking where banks are using agents to do their banking. These include kiosks, supermarkets, and chemists among others. Other innovators include M-kesho and other mobile banking products such as M-pesa and SMS banking, Automatic Teller Machines (ATMs), e-banking and internet banking, debt and credit cards, mortgage financing among other products (Banking supervision annual report,2011).

According to a 2007 survey by The Financial Services Deepening Trust, only 19% of Kenyans had access to formal financial services (Retail Banker International, 2009). The survey reported that a further 43% had access only to informal financial services such as savings associations and microfinance institutions. Some 38% was entirely unbanked. About 27% of Kenyans owned a mobile phone and a further 27% had access to one via family or friends. Less than 20% of unbanked consumers, or those making use of informal financial services, had a mobile phone. With only 450 bank branches servicing a population of about 39,8 million (UN, 2009), a mobile channel holds great promise as a way of extending financial services to Kenya's unbanked and under banked (Retail Banker International, 2009).

Kenya's banking sector is comprised of 43 commercial financial institutions, along with microfinance institutions (MFIs) and Savings and Credit Cooperatives (SACCOs). Efforts to increase financial inclusion through the Microfinance Act of 2006, which regulates deposit-taking MFIs, and government support for mobile banking, has contributed to 40.5 percent of the adult population In Kenya gaining access to "formal" financial services. Youth, however, have limited access to savings products due to age restrictions on operating a bank account without parental consent and lack of national identity cards, resulting in only 13 percent saving. Given the socio-economic disparities that disproportionately affect youth and increase the vulnerability of those in chronic poverty, including unemployed youth, AIDS orphans and street children (see UNDP Report), opportunities for youth savings are needed.

1.2 Research Problem

An economy cannot thrive on a fraction of its citizens while excluding the others. In many developing countries economic development is skewed towards a few rich people and regions while the larger population and regions are left out. With a huge rural population, that is economically challenged financial inclusion is indispensable for the sustainable growth of Kenya. Financial Inclusion is needed for rural and downtrodden masses that are the future growth engine of the economy (Agarwal, 2010). But despite the recorded progress made by financial institutions the majority of the world's poor remain unserved by formal financial intermediaries that can safely manage cash and intermediate between net savers and net borrowers (Hannig and Jansen, 2011).

According to Michael Fuchs, World Bank Advisor on Finance and Private Sector Development, Africa Region, Global experience shows that less endowed segments of the population are best serviced by specialized institutions with a cost structure and business model adapted to their needs. As such, there could be high payoff from introducing a tiered licensing system that opens the market to institutions that can service unbanked and under banked individuals and small and microenterprises. Furthermore, reports argue that the entrance of new banks has demonstrated how greater competition can enhance product choice and reduce customer choice. It is impossible to understate the importance of access to financial services for population groups that lack the resources both to escape from poverty and to contribute to economic activity, social cohesion, and political stability, (Moreno, 2007).

Business now faces the challenge of both creating profits and meeting social needs. If business fails to meet this challenge, one is condemned to living in islands of wealth in a sea of poverty. If business succeeds, it can help to build a world that works for all" (Weiss, 2007). The challenge for financial institutions is how to address the concerns of unbanked and under banked customers and provide them with products that meet their needs within the context of the structure of each financial institution and the regulatory environment (Jacob and Tescher, 2005). New approaches are needed to capture the market including new ways of thinking about product and service offerings. Formal financial institutions can turn this market into a profitable venture in the long term (Prahalad and Hart, 2002).

A number of the studies in the role of financial innovations which enhances financial inclusions but on the growth of commercial banks exist globally and internationally, specific study on financial inclusion. For instance, Gitau (2011) studied relationship between financial innovations and financial performance of commercial banks in Kenya. Githikwa (2011) studied relationships between financial innovations and profitability of commercial banks. Kinuthia (2010) analyzed financial innovations in the banking sector in Kenya. Shalakha (2012) studied relationship between financial innovation and growth of commercial Banks in Kenya.

Financial inclusion is key to realization of economic goal not only in Kenya but also globally. Given that no study has been done on the effect of financial inclusion strategies on financial performance of commercial banks in Kenya, the study seeks to bridge the gap by undertaking a study on the same. The following research questions guided the study; what are the financial inclusions strategies in the banking sector in Kenya? How do financial inclusions affect the financial performance of commercial banks in Kenya?

1.3 Research Objective

To determine the effect of financial inclusion strategies on financial performance of commercial banks in Kenya.

1.4 Value of the Study

This study will be of great benefit to banking institutions in Kenya since it will outline factors influencing financial inclusion strategies in the banking sector impact on Financial performance. The development of the bank depends on several factors of which financial deepening plays a major role in the current banking sector. This study will ascertain the benefits of financial inclusion to banking institutions in Kenya. This will help in developing more innovative strategies of financing the unbanked population to enhance bank's financial performance.

The study will be significant to the government in developing policy pertaining to financial inclusion strategies. Due to knowledge gained by most applicants through the study most applicants will comfortably embrace financial inclusion and this will lead to high returns to most banks and high tax return to the government. It will also be significant to the researchers and scholars as it will form a background reference for future studies and contribute to the existing knowledge of literature.

CHAPTER TWO:

LITERATURE REVIEW

2.1 Introduction

This chapter brings up relevant literature required to find answers and connect to our research objective. First, a review of theories that guide this study will be presented to give the research a firm theoretical base. Then, empirical studies done on this research topic will be looked at which will make it easier to understand the research area.

2.2 Theoretical Review

2.2.1 The Grameen Model

The Grameen Bank is a microfinance organization and community development bank that makes small loans to the poor without requiring collateral. The bank, which started in Bangladesh, is based on the idea that the poor have many underutilized skills that are potential community resources (Wilkins, 2007). The Grameen Bank is an organisation of microenterprises for, of, and by the poor (Auwal, 1996). The idea behind the Grameen model is that the poor obtain small loans to support income generating activities, from which they can generate sufficient income to repay the loan.

The lending is not collateral-based, but is based on the credit-worthiness of the group of co-borrowers. Prior to loans being granted, groups of borrowers are trained on the bank's rules and regulations, as well as in the making of key decisions. Borrowers are also taught how to sign their names and how to use the loans (Wahid and Hsu, 2000). The goal of Grameen Bank is to empower the poor, especially women, to "improve their socioeconomic conditions in an environmentally sound, sustainable manner" (Auwal, 1996). The founder of Grameen Bank, Dr Muhammad Yunus argues that "if a person does not have economic resources, then he or she cannot realise the basic human rights of food, shelter, health and education. There must be some economic conditions that enable people to enjoy the benefits of these human rights" (Auwal, 1996). Dr Yunus also argues that "in order to design systems that are more accessible to the poor, the institutions fighting poverty must understand the limitations faced by the poor and seek to work around them" (Yunus, 2007). There is direct contact between bank employees and borrowers and the step-by-step lending rules mean that any issues can be identified and resolved timeously; and the small and frequent payments reduce the burden of debt on the borrowers (Wahid and Hsu, 2000).

"Grameen Bank starts with the belief that credit should be accepted as a human right, and builds a system where one who does not possess anything gets the highest priority in getting a loan. Conventional banking is based on the principle that the more you have, the more you can get. In other words, if you have little or nothing, you get nothing. As a result, more than half the population of the world is deprived of the financial services of the conventional banks. The overarching objective of the conventional banks is to maximize profit. Grameen Bank's objective is to bring financial services to the poor, particularly women and the poorest to help them fight poverty, stay profitable and financially sound. The first principle of Grameen banking is that the clients should not go to the bank; it is the bank which should go to the people instead. There is no legal instrument between the lender and the borrower in the Grameen methodology. There is no stipulation that a client will be taken to the court of law to recover the loan, unlike in the conventional system. There is no provision in the methodology to enforce a contract by any external intervention" (Grameen Bank website, 2009).The Grameen model as practiced by Grameen has shown that financial inclusion through pro-poor policies has led to better financial performance as opposed to exclusion.

2.2.2 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 Non-Bank 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 non-bank'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 non-banks 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/CTF) risks. Bringing in a culture of Know Your Customer (KYC) to this segment is a major challenge. Further the non-banks 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). This financial model has also helped to improve financial performance of the players.

2.2.3 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 banks' 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).

The bank-focused theory emerges when a traditional bank uses non-traditional low-cost delivery channels to provide banking services to its existing customers. With the use of agent family bank achieve economies of scale by serving many customers at low cost, this is therefore related to the study as Family bank utilize pesa-pap agent for low cost delivery of its financial service. The non-traditional delivery channels like the use of Automatic Teller Machines have greatly improved financial performance of commercial banks.

2.2.4 Bank-led Model

The 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(or through mobile phone) instead of at bank branches or through Bank employees. This model promises the potential to substantially increase the financial services outreach by using different delivery channel(retailers/mobile),a different trade partner(Telco/chain store) having experience and target market distinct from traditional banks, and may be implemented by either using correspondent arrangement or by creating a JV between bank Telco/non-bank. In this model customer account relationship rest with the bank. This model is cost effective since it does not involve brick and mortal set up costs as well as set-up costs and hence contributes positively to commercial bank's bottom line.

2.3 Empirical Review

Ibeachu, (2010) did a study to determine their various type of financial inclusion strategies among commercial banks in Nigeria, the objective of the study was to establish the financial inclusion strategies used by commercial banks in Nigeria, descriptive analysis was used to analyse the data , the study established six types of financial exclusion: Physical access exclusion: This, they stated, is brought about by the closure of local banks or building societies and lack of reliable transport to reach alternatives. Access exclusion: This type of access is restricted through risk assessment, with people being denied a product or service as they are perceived to be high risks. Condition exclusion: This is when conditions are attached to products or services thereby making them inaccessible to some. Price exclusion: This occurs when products are available but at a price that is unaffordable. Marketing exclusion, where sales and marketing activity is targeted on some groups, or areas, at the expense of others. Self-exclusion, when individuals do not seek financial products and services for reasons including fear of failure, fear of temptation or lack of awareness.

Kumar, Nair, Parsons and Urdapilleta, (2006), did a study on the on the impact of financial inclusion on performance of commercial banks, the study revealed that financial inclusion had positive significant impact on the profitability of Commercial banks, the study further revealed that most businesses entered into correspondent contracts with banks that have pointed to benefits from an increase in clientele, an increase in revenue, differentiation from other competitors, an instrument that helps develop customer loyalty and a new source of revenue. Through the sharing of the point of service interfaces with retailers, the high variable costs of enhancing financial access can be reduced. Correspondent banking arrangements also reduce the high fixed costs associated with maintaining bank branches in remote areas where population density or economic activity is low. Benefits to the population include access to the financial system in a simplified form, flexibility with business operating hours, greater ease in transactions by combining banking services with shopping, easier receipts of social benefits, and reduced travel and costs for accessing financial services (Kumar et al, 2006).

Worthington, (2008), did a study on the effects of financial inclusion on financial performance of financial institution in the United States, Multiple regression was used to analyses the data , the study found that offering of basic money services to underserved customers affected the financial performance of financial institution to a great extent . The offerings are limited to the range of services that would appeal to this segment of the market, offering financial services to the underserved is attractive for the following reasons: The market is large and overlaps significantly with their core retailing business; The pay-as-you-go nature of the financial services offered such as remittances and bill payments; and Emerging financial products such as prepaid cards lend themselves to the delivery of financial services for the unbanked , the study further revealed that the diversification of retailers into financial services carries a risk for the retailers "and is only likely to be successful for a relatively limited range of financial services" (Worthington, 2008).

Honohan and King (2009), did a study on the causes of financial exclusion among commercial banks in China, the stduy found that cause of financial inclusion were broken down into; insufficient income, discrimination, contractual/information framework; and price and product features. In their research, Honohan and King (2009) looked to see the reasons that none financial user give for not using financial products. They asked if it could be fixed by the financial providers in terms of quality of service, location or relevance of product.Kempson (2006) gave some reasons why people are financially excluded. He said that these reasons could vary from country to country. He stated that the importance of bank required identification and documents, the terms and conditions of bank accounts, level of bank charges, physical access and cultural barriers in financial inclusion.

A study by Retail Banker International, (2009) revealed that M-Pesa allows Kenyans to send and receive money via SMS messages and collect or deposit cash at any of the network of 4000 Safaricom outlets and other agencies around the country. To open an account, Safaricom subscribers present their Kenyan national identity card and complete a simple registration process. The study further revealed that mobile banking in Kenya had positive impact on the financial performance of commercial banks that had adopted mobile banking through Mpesa.

Ndome (2011) did a study of agent banking and its adoption in Nairobi-adoption of its services among the residents of Kawangware area in Nairobi, Kenya.His study focused on a low end residential area within the city of Nairobi and it was evident that the services were very welcome by the residents with lots of transactions being done at the agent points. His focus was on adoption of the services and not financial inclusion but the high utilization of agent services was an indicator of some level of exclusion was existent and no one had paid attention to it.

Wambari, (2009) in his study on mobile banking in the developing countries noted that Kenya was one of a small number of pioneering countries where financial services have started to be offered by mobile network operators to people. The is considerable interest in the development of these services since it offers the prospect of providing services to people who presently do not have bank accounts. His concerns were; the extent of access to financial services, the attitudes towards mobile banking by small business and the effect and challenges of implementing mobile banking. alot of growth and positive adoption was noted and mobile banking being the backbone of agent banking, it infers growth of the two.

Waihenya, (2012) did a study on the effect of agent banking on financial inclusion in Kenya. The study aimed to establish the status of agent banking in the country (Kenya) and the contribution of agent banking to financial inclusion. It was found that agent banking and financial inclusions have a strong positive relationship and that an enhanced and strong network has the effect of enabling more people and particularly the non-banked access financial services. The banks with strong agent networks had better performance overall in terms of the percentage increase of their profitability as compared to those which were not carrying out agent banking or those with very limited agent networks such as family.

Ngigi, (2012) did a study on the relationship between agency banking and financial performance of commercial banks in Kenya. The main objective of this study was to establish the relationship between agency banking and financial performance of the banks in Kenya. An agency bank is a company/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 an agent for the parent bank. Agency banking model requires commercial banks to rely on the existing infrastructure in terms of supermarkets, hotels and petrol stations to reach out to customers. Increasing access to finance has been abridged with the use of innovation such as agent banking, which allows commercial banks and DTMs to engage the services of third party outlets to deliver specified financial services on their behalf. Through review of secondary data, the study found that agency banking outlets had increased to 9,748 active agents in 2011 from 8,809 in 2010. These specific agents facilitated a total volume of 8.7 million transactions valued at KSh 43.6 billion in 2011. Most of these transactions were mainly made up of cash withdrawals and cash deposits carried out at the various banking agency outlets. The study used regression analysis to find the relationship between agency banking (in terms of number of agents and number of deposit and withdrawals transactions undertaken through agents) and the financial performance of banks as measured by return on equity. From the regression model, all the independent variables were found to have either negative or weak correlation to the dependent variable. Therefore the study concluded that agency banking does not solely contribute to increased profitability in Kenyan banks as per the secondary data reviewed for 2010 and 2011.

Makini (2012) studied the relationship between financial innovation and financial performance of commercial banks in Kenya. The purpose of the study was to establish the relationship between financial innovations and financial performance of commercial banks in Kenya. The research design used was descriptive survey. The population of study consisted of all the 45 licensed commercial banks that were dully registered with Central Bank of Kenya. The data collection instrument used was the questionnaire which was administered by the researcher through drop and pick method. Responses were grouped into various categories for analysis using descriptive statistics. The study found out that financial innovations improved their operations, improved the liquidity and the asset quality in commercial banks in Kenya. This not only increased their markets but also helped the organizations to remain competitive in the market. Adoption of innovativeness improved firm performance; this is the reason why commercial banks in Kenya are vesting their resources in financial innovations. Financial innovations also deepen liquidity of banks in existing markets, for example by reducing excessive reliance on a narrow base of depositors for funding and improves on earnings, asset quality and this increased efficiency in the operations as a whole and especially in commercial banks in emerging markets and developing countries such as Kenya. By way of recommendation, the researcher indicates that there is need to adopt financial innovations in order to improve banks performance.

Kimani (2012) studied the impact of collective investment schemes on financial inclusion in Kenya. The study was guided by the following research question: what is the impact of collective investment schemes on financial inclusion? The research design was a survey study in nature since it focused on all collective investment schemes in Kenya. The target population was collective investment schemes. A census of all the 11 collective schemes was used. The sampling stage involved the selection of the respondents using a stratified sampling approach. The strata were the various respondents in the schemes. Both qualitative and quantitative data was collected using a questionnaire that consisted of both open ended and close ended questions. Data was analyzed using Statistical Package for Social Sciences (SPSS) and results presented in frequency tables to show how the responses for the various questions posed to the respondents. The data was then analyzed in terms of descriptive statistics like frequencies, means and percentages. It was found that indeed collective investment schemes play a role on financial inclusion.

George (2012) studied factors determining financial inclusion. The main objective of this paper was to examine the factors determining the use of mobile financial services in Kenya. The study used a sample drawn from the Nairobi central business District. A multinomial logic model was used to model the use of three types of financial services namely mobile money transfers, mobile payments and mobile banking against various explanatory factors such as age, gender, and education level, tariff of service and volume of transactions. The study found that the use of more sophisticated financial services - mobile payments and mobile banking - depends on the gender, education and wealth of individuals as well as the tariffs of service and volume of transactions. The study recommended development of financial products and services which are gender-sensitive and sensitive to low-income earners, as well as creation of awareness on financial services both in urban and rural area.

Nyathira (2012) did a study to assess the effect of financial innovation on commercial bank's financial performance as the key players in the banking sector over a period of 4 years. Kenya's financial sector has undergone significant transformation in the last few years. Many new more efficient and real time financial systems have come into place. Despite the undeniable importance of financial innovation, its effect on financial performance is not always obvious since there are reported cases of reverse causality between innovation and performance. The causal research design was used to carry out this study. The population of study was all the 43 commercial banks in Kenya as at 30th June 2012. The study used secondary data from published central banks' annual reports. The independent variable was financial innovations unique to commercial banks while dependent variable was consolidated financial performance of all banks. Study results indicated that financial innovation indeed contributes to and is positively correlated to profitability in the banking sector particularly that of commercial banks. This is further supported by high uptake of more efficient financial systems in substitution for the less efficient traditional systems. This is evidenced by the negative correlation between Real Time Gross Settlement and Automated Clearing House (Cheques & EFTs) throughput over time; as well as that of profitability and Automated Clearing House throughput. Development of more efficient payment systems, with adequate regulation, should therefore be encouraged for improved financial performance and faster economic growth.

Paye (2012) studied the effectiveness of microfinance institutions in implementing financial inclusion in Nairobi. Accordingly, characteristics of MFIs which constitute effectiveness were assessed to determine the extent to which these financial institutions contributed to financial inclusion with specific reference to MFIs operating in Nairobi. The study adopted the descriptive research method to examine the role of MFIs in financial inclusion in Nairobi. Both quantitative and qualitative approaches to data analysis were employed. The target population comprised the 47 registered MFIs (AMFI-K, 2011) operating in Nairobi. The census survey method was applied and primary data was collected using questionnaire. Data was analyzed using other descriptive tools such as percentages and frequency distributions. Findings from the research indicate that MFIs adopted various methods in promoting financial inclusion in Nairobi such as the targeting of traders and farmers who make up bulk of the population and often excluded financially by the formal sector, the use of credits and savings as key financial products that are critical to empowerment as the first step towards financial inclusion, balancing their operations as commercial, NGOs or Government programs to meet the financial needs of people at different levels. The study further revealed that the need for MFIs products vary from product to product with very strong need for working capital on the credit side and very strong need for savings accounts on the savings side. The outcome of the study was overwhelmingly favorable as 85% of MFIs products meet customers' expectations. The government, donors and private investors should therefore increase their financial supports to MFIs since these institutions possess the requisite ability and are well positioned to reach out to the poor who are the prime target for financial inclusion. MFIs should also diversify their credit products and further reduce borrowing constraints to ensure that they serve a broader spectrum of clients as means of promoting greater inclusion in to the financial system.

2.4 Summary of Literature Review

Profitability should not be a key strategic reason for serving the lower end of the market. The motivation should rather be about life-time potential. Entry-level products offer a means to enter banking services. While evidence from industry shows that the upward migration into other accounts has not happened in great numbers, products for the poor are a feeder stream to other bank accounts. Some products have had good uptake and are breaking-even, while others are actually making small profits. Sherbut, (2009), highlights the need to find methods of banking the unbanked that provide essential products and services, but which do not undermine the stability of commercial financing agencies. Weiser, (2007) outlines strategies that can be employed to achieve success in the lower income markets and these strategies range from mining and translating local market information; to creating partnerships and strategic alliances. Once financial services institutions understand that the low income market is a high volume, low margin business, it becomes possible to formulate profitable and sustainable value propositions for serving the lower segments of the market. Industry practitioners noted however, that profitability should not be a key strategic reason for serving the lower end of the market and that the motivation should rather be about life-time potential.

From the literature review on effects of financial inclusion strategies on financial performance of commercial banks in Kenya, Financial inclusion strategies are important to the performance of banks and it is expected that there should be a positive relationship between financial inclusion strategies on financial performance of commercial banks. However, no known local study has been conducted to establish the relationship between financial inclusion strategies on financial performance of commercial banks in Kenya, hence the research gap.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research methodology of the study.It describes the research design,sampling design,target population,data collection procedures,data analysis together with the model specification.

3.2 Research Design

Research design refers to the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in the procedure. Kotheri (2004) observed that research design is a blue print which facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible hence yielding maximum information with minimal expenditure of effort, time and Money. The causal study design was employed in this research. Causal research suggests causal linkages between variables by observing existing phenomena and then searching back through available data in order to try to identify plausible causal relationships. It was concerned with determining cause and effect relationship and to understand which variable is dependent and which is independent. This research design was the best in explaining if two variables are related or if they vary. This was established by use of enough information and data for testing cause and effect relationship. It aimed to explore the effects of financial inclusion strategies on financial performance of commercial banks in Kenya and the empirical evidences that help answer the research objective.

3.3 Target Population

The population for this study was Commercial banks in Kenya. According to central Bank (2012), there are 43 Commercial Banks in Kenya which formed the target population for this study. Mugenda and Mugenda, (2003), explain that the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study. This was census survey where secondary data was collected from the audited financial statement of commercial banks in Kenya as well as from Central Bank of Kenya.

3.4 Data Collection Procedure

Secondary data from financial statements of Commercial banks will be collected using data collection forms. The study collected secondary data for the last five years starting year 2008 to 2012, on the bank profitability and financial inclusion. The data obtained from the financial statement was analysed.

3.5 Data Analysis Techniques

Data analysis was done using SPSS Version 20 whereby inferential statistics was applied whereby a multiple regression model was employed. Analysis of Variance (ANOVA)- According to Tredoux & Durrheim (2002), "ANOVA is used to test for differences between the means of more than two groups, and can be used in designs with more than one independent variable. In the present study, ANOVA will be used to test the mean score differences between financial inclusion and financial performance of commercial banks in Kenya and to test for significance at 95% confidence level and F-test at 5% level of significance.

The model to be used in the study to test the relationship between financial inclusion and financial performance is presented as follows;

$PER = \beta_0 + \beta_1 MPB + \beta_2 AGB + \beta_3 IB + \beta_4 INTB + \beta_5 SIZE + E$

PER is the financial performance of the commercial banks which was measured by ROA of commercial banks.

β_0 is the constant/the intercept(financial performance is not only influenced by the financial inclusion strategies indicated in the model but rather there are other influences).

MPB is the mobile phone banking which was measured by the revenues generated from mobile phone banking by the commercial banks.

AGB is the agency banking which was measured by the revenues generated from agency banking by the commercial banks.

IB is the Islamic banking which was measured by the revenues generated from Islamic banking by the commercial banks.

MB is the micro banking which was measured by the revenues generated from micro banking by the commercial banks i.e. revenue generated from micro enterprise.

INTB is the Internet banking which was measured by the revenues generated from micro banking by the commercial banks i.e. revenue generated from micro enterprise.

E is the error term

Data will be checked for uniformity, accuracy, consistency and completeness and then arranged to enable coding and tabulation before statistical analysis. Statistical package for social sciences (SPSS) was used to analyze the data. Test of significance was carried out to determine the extent of relationship among study variables. The result presented the real situation of the bank's financial performance within the given period, that is, year 2008, 2009, 2010, 2011 and 2012.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the data analysis, presentation and interpretation of the study, the study analyzed the relationship between financial inclusion and financial performance of commercial banks in Kenya. The study was conducted on 43 commercial banks in Kenya. Secondary data was collected from the bank financial statements and Central Bank of Kenya. Various rations were used in the data analysis.

4.2 Regression Analysis

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Micro banking	44	94181.00	21293264.00	3259246.8095	4785580.83233
Internet Banking	44	6135.00	856142.00	37474.6579	141478.40339
Agency banking	44	.00	806014.00	71454.0263	167879.21800
Profitability	44	993.00	21276762.00	3093423.2143	4888506.36870
Mobile banking	44	.00	3739588.00	374678.4762	795439.78134
Islamic banking	44	.00	188196.00	10631.3095	31759.89868

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 20) to code, enter and compute the measurements of the multiple regressions. The study conducted multiple regression analysis on the relationship financial inclusion and financial performance of commercial banks in Kenya.

Table 4.2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.891(a)	.793	. 745	.19440

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable, from the findings in the above table the value of adjusted R squared was 0.745 an indication that there was variation of 74.5% on financial performance of commercial banks in Kenya due to changes in mobile phone banking, agency banking, micro banking, internet banking and islamic banking at 95% confidence interval . This shows that 74.5% changes in financial performance of commercial banks in Kenya could be accounted for by mobile phone banking, agency banking, micro banking, internet banking and Islamic banking. R is the correlation coefficient which shows the relationship between the study variables. From the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.891.

Table 4.3: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.488	4	0.372	3.131	$.048^{b}$
	Residual	9.212	28	0.329		
	Total	10.7	42			

From the ANOVA statistics in table above, the processed data, which is the population parameters, had a significance level of 0.017 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%. The calculated value was greater than the critical value (1.699 < 3.131) an indication that mobile phone banking, agency banking, micro banking, internet banking and Islamic banking were significantly influencing financial performance of commercial banks in Kenya. The significance value was less than 0.05 an indication that the model was statistically significant.

Table 4.4: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Constant	.498	.253		2.165	.006
	Mobile phone Banking	.237	.160	.198	1.479	.012
	Agency banking	.231	.126	.245	1.834	.001
	Micro Banking	.239	.145	.008	.065	.023
	Internet banking	.281	.114	.031	.246	.016
	Islamic Banking	.011	.006	.245	2.134	.016

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

$$Y = 0.498 + 0.237 X_1 + 0.231 X_2 + 0.239 X_3 + 0.281 X_4 + 0.011 X_4$$

From the above regression equation it was revealed that holding mobile phone banking , Agency banking , Micro banking , Internet banking and Islamic banking to a constant zero , financial performance of commercial banks in Kenya would be 0.498 , a unit increase in mobile phone banking would lead to increase in financial performance of commercial banks in Kenya by a factors of 0.237, a unit increase in agency banking would lead to increase in financial performance of commercial banks in Kenya by factors of 0.231, a unit increase in micro banking would lead to increase in financial performance of commercial banks in Kenya by a factor of 0.239, a unit increase in internet banking would lead to increase in financial performance of commercial banks in Kenya by a factors of 0.281 and a unit increase in Islamic banking would lead to increase in financial performance of commercial banks in Kenya by a factor of 0.011.

4.3 Summary of Findings and interpretation

From the findings on the adjusted R squared the study revelaed that there was a greater varation on financial performance of commercial banks in Kenya due to changes in mobile phone banking, agency banking, micro banking, internet banking and Islamic banking. This shows that changes in financial performance of commercial banks in Kenya could be accounted for by mobile phone banking, agency banking, micro banking, internet banking and Islamic banking; this is an indication that various financial inclusion strategies have great impact on financial performance of commercial banks in Kenya. From the findings on the correlation coefficient the study found that there was a strong relationship between financial inclusion strategies and financial performnace of cmmercail bank .From the ANOVA statistics, the study revealed that mobile phone banking, agency banking, micro banking, internet banking and Islamic banking were significantly influencing financial performance of commercial banks in Kenya.

From the regression analysis, the study revealed that a unit increase in mobile phone banking would lead to increase in financial performance of commercial banks in Kenya, a unit increase in agency banking would lead to increase in financial performance of commercial banks in Kenya, a unit increase in micro banking would lead to increase in financial performance of commercial banks in Kenya, a unit increase in internet banking would lead to increase in financial performance of commercial banks in Kenya and a unit increase in Islamic banking would lead to increase in financial performance of commercial banks in Kenya. The study revealed that there was a positive relationship between mobile phone banking, agency banking, micro banking, Internet banking, Islamic banking and financial performance of commercial banks in Kenya.

Offering of basic money services to underserved customers affected the financial performance of financial institution to a great extent. The offerings are limited to the range of services that would appeal to this segment of the market, offering financial services to the underserved is attractive for the following reasons: The market is large and overlaps significantly with their core retailing business; The pay-as-you-go nature of the financial services offered such as remittances and bill payments; and Emerging financial products such as prepaid cards lend themselves to the delivery of financial services for the unbanked , the study further revealed that the diversification of retailers into financial services carries a risk for the retailers "and is only likely to be successful for a relatively limited range of financial services" (Worthington, 2008).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Major Findings

The study sought to determine the effects of financial inclusion strategies on financial performance of commercial banks in Kenya. From the findings on the adjusted R squared the study revelaed that there was a greater varation on financial performance of commercial banks in Kenya due to changes in mobile phone banking, agency banking, micro banking, internet banking and Islamic banking. This shows that changes in financial performance of commercial banks in Kenya could be accounted for by mobile phone banking, agency banking, micro banking, internet banking and Islamic banking; this is an indication that various financial inclusion strategies have great impact on financial performance of commercial banks in Kenya. From the findings on the correlation coefficient the study found that there was a strong relationship between financial inclusion strategies and financial performnace of cmmercail bank .From the ANOVA statistics, the study revealed that mobile phone banking, agency banking, micro banking, internet banking and Islamic banking were significantly influencing financial performance of commercial banks in Kenya.

From the regression analysis, the study revealed that a unit increase in mobile phone banking would lead to increase in financial performance of commercial banks in Kenya, a unit increase in agency banking would lead to increase in financial performance of commercial banks in Kenya, a unit increase in micro banking would lead to increase in financial performance of commercial banks in Kenya, a unit increase in internet banking would lead to increase in financial performance of commercial banks in Kenya and a unit increase in Islamic banking would lead to increase in financial performance of commercial banks in Kenya. The study revealed that there was a positive relationship between mobile phone banking, agency banking, micro banking, internet banking, Islamic banking and financial performance of commercial banks in Kenya.

5.2 Conclusion

From the findings the study found that financial inclusion strategies had great effects on the financial performance of commercial banks in Kenya, as it was revelaed that there was a greater varation on financial performance of commercial banks in Kenya due to changes in mobile phone banking, agency banking, micro banking, internet banking and Islamic banking, which is an indication that changes in financial performance of commercial banks in Kenya could be accounted for by mobile phone banking, agency banking, micro banking, internet banking and Islamic banking.

The study revealed that there was a strong relationship between financial inclusion strategies and financial performnace of cmmercail bank . The study established that mobile phone banking, agency banking, micro banking, internet banking and Islamic banking were significantly influencing financial performance of commercial banks in Kenya. The study found that there was a positive relationship between mobile phone banking, agency banking, micro banking, internet banking, Islamic banking and financial performance of commercial banks in Kenya.

The study found that a unit increase in mobile phone banking would lead to increase in financial performance of commercial banks in Kenya. The study also found that a unit increase in agency banking would lead to increase in financial performance of commercial banks in Kenya. The study also found that a unit increase in micro banking would lead to increase in financial performance of commercial banks in Kenya. The study established that a unit increase in internet banking would lead to increase in financial performance of commercial banks in Kenya and further unit increase in Islamic banking would lead to increase in financial performance of commercial banks in Kenya.

5.3 Policy Recommendations

From the findings the study recommends that there is need for commercial banks to adopt various financial inclusion strategies as this will have positive impact on their financial performance of Commercial banks. Financial inclusion strategies help in increasing the banks to increase their customer base as they increase their revenue generated from the financial inclusion strategies.

There is need for commercial banks to adopt agency banks as it was revealed that agency banking was helping in reaching the un-bankable people , the un-bankable people will increase the banks market penetration as they add revenue to the banks , thus agency banking help the banks to improve their financial performance . Islamic banking and micro banking helps commercial banks to get new customers as they increase their revenue through increased customer, this has a positive impact on financial performance of commercial banks.

5.4 Limitation of the Study

The study was limited to determine the effects of financial inclusion strategies on financial performance of commercial banks in Kenya for 5 years from year 2008 to year 2012; the study collected the secondary data from the Commercial banks and Central banks of Kenya.

The study was also limited to the degree of precision of the data obtained from the secondary source. While the data was verifiable since it came from the Central Banks publication and Commercial Bank of Kenya, it nonetheless could still be prone to these shortcomings. The study was based on 5 years month's period for year 2008 to year 2012. A longer duration of the study will have captured periods of various economic significances such as booms and recessions. This may have probably given a longer time focus hence given a broader dimension to the problem.

5.5 Suggestion For Further Research

The study sought to determine the effects of financial inclusion strategies on financial performance of commercial banks in Kenya. The study recommends that a similar study should be replicated on MFIs to determine the effects of financial inclusion strategies on financial performance of micro financial institution in Kenya.

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APPENDICES

Appendix I: Commercial Banks

African Banking corporation limited

Bank of Africa limited

Bank of Baroda(k) limited

Bank of India

Barclays Bank

Chase Bank

Citibank N. A. kenya

Charterhouse Bank Limited

Commercial Bank of Africa

Consolidated Bank of Kenya

Co-operative Bank of Kenya

Credit Bank

Development Bank of Kenya

Diamond Trust

Dubai Bank

Ecobank

Equatorial Commercial Bank

Equity Bank

Family Bank

Fidelity Commercial Bank

Fina Bank

First Community Bank

Giro Commercial Bank

Guardian Bank.

Gulf African Bank

Habib bank A G Zurich

Habib Bank Limited

Imperial Bank Limited

Investment and Mortgage Bank Limited

Jamii Bora Bank Limited

Kenya Commercial Bank Limited

K-REP Bank

Middle East Bank (k) Limited

National bank of kenya Limited

NIC Bank limited

Oriental Commercial Bank

Paramount Universal Bank Limited

Prime Bank Limited

Standard Chartered Bank(k) Limited

Transnational Bank Limited

UBA Kenya Bank Limited

Victoria Commercial Bank

Appendix II : Data

BANKS	Micro banking	Internet Banking	Agency banking	Profitability	Mobile banking	Islamic banking
African Banking Corporation	949,468	45,976		752,618	64,710	371
Bank Of Africa Ltd	2,256,054	106,135	52,937	1,370,854	63,152	52,109
Bank Of Baroda	2,421,609	14,541		2,286,130		805
Bank Of India	822,305	1,409		1,104,075	65,317	
Barclays	13,694,277	856,142	262,806	16,336,123	1,981,638	
CFC Stanbic Bank	7,408,802		619,803	6,016,523	599,855	
Chase Bank	2,768,508			1,808,124	256,601	
CITI Bank Ltd	2,181,920	112,307		3,117,571	42,819	
Co-operative Bank of Kenya	13,292,373		197,538	11,868,119	1,432,047	20,325
Commercial Bank of Africa	3,983,270	152		3,596,583	169,137	50,000
Consolidated Bank of Kenya	1,318,441			864,883	211,667	
Credit Bank Limited	434,169	11,685		331,945	43,687	112
Development Bank of Kenya	649,186		182,914	332,029	24,510	9,094
Diamond Trust Bank	6,479,319		88,696	4,716,403	355,642	17,982
Dubai Bank	187,800	1,278	2,083	163,276		
ECO Bank	1,546,694	1,343		706,339	136,709	
Equatorial Commercial	804,769	23,551	6,391	391,604	23,754	2,343
Equity Bank	15,266,771		806,014	15,560,530	3,140,853	188,196
Family Bank	2,366,232	80,203	112,173	2,354,382	462,459	
Fidelity Commercial Bank Ltd	822,821			404,083	75,180	230

Fina Bank Limited	1,033,113	34,579	6,876	818,368	57,584	
First Community Bank	458,200			532,477	27,622	
Giro Commercial Bank Ltd	601,018			408,112	50,060	106
Guardian Bank Kenya Ltd	764,429		23,219	452,552	31,958	
Gulf African Bank	786,853			796,277		
HABIB Bank AG Zurich	282,129	237	3,379	430,736	11,188	
HABIB Bank Limited	261,769			371,312	12,002	
Imperial Bank (K) Ltd	3,705,267	156		2,542,631	103,378	
I&M Bank	5,608,042	125,380	164,358	4,655,440	368,620	61,312
Jamii Bora Bank Ltd	94,181		3,744	106,585	3,444	
KRep Bank	1,255,240		83,880	1,096,631	186,905	
Kenya Commercial Bank	293,264			21,276,762	3,739,588	26,157
Middle East Bank	300,748	497	6,337	195,126	35,066	
National Bank of Kenya	3,517,135			5,081,110	312,664	
NIC Bank	5,526,584	13,625	13,564	3,948,351	461,485	
Oriental Commercial Bank	369,453	5,497		194,679	111,382	1,261
Paramount Universal Bank	357,510	32,880		193,961	9,836	
Prime Bank Limited	2,311,071	51,876		1,624,148	83,700	13,974
StanChart	9,546,532	72,329	27,498	10,111,599	766,316	
Transnational Bank of Kenya	450,508		1,014	532,877	131,118	2,138
United Bank of Africa	128,286	6,074	50,028	993	62,247	
Victoria Commercial Bank	582,246	38,455		470,854	20,596	