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EFFECT OF AGENCY BANKING ON THE PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

Agency banking has become one of the essential services in the banking industry in bringing their services closer to the people at the grass root or in remote areas where banking activities are not present. The study focuses on the effect of agency banking on the performance of Deposit Money Banks in Nigeria. The researcher was guided by the following objectives: to determine the effect of agency banking operational challenges, transaction cost and its reliability on performance of deposit money banks in Nigeria. Data was collected using questionnaires and review of documentation. Data analysis was done quantitatively using percentages with the help of computer software statistical package for social scientists (SPSS) and then presented in tables. The findings of this study are Agency banking is seen as a tool that aided banking services to customers especially in the rural areas, Agency banking is very efficient in terms of transaction cost for both the customers and the financial institutions. The study recommended that financial institutions in Nigeria should sensitize the public on the availability and how agency banking works, bank management and other key banking stakeholders in the industry should ensure that banks are in compliance with regulatory policies on agency banking activities

Keywords*: Agency banking, Financial institutions, Customers, Performance*

1.1 Introduction

The business environment globally has changed and it has been characterized by stiff competition among the players and the banking industry is no exception. Competition amongst the commercial banks has pushed banks towards becoming more innovative. These innovations include ATMs, credit cards, mobile banking, internet banking and children accounts and now most recently introduced within banking industry is the agency banking (Bold, 2011).

Starting its journey in the early 2000s, Nigeria embraced electronic banking such as mobile banking, commonly referred to as mobile financial services and has recorded phenomenal growth in Nigeria in terms of financial inclusion but still half of the population lack access to the normal financial service. To bring this large number of people under the coverage of the formal financial sector, central bank of Nigeria introduced “Agent Banking” in late 2011. It can help the formal banking industry reach out to the marginalized people of the society through their agents who will provide banking services to the people on behalf of a bank and the nearest branch of the bank will provide necessary logistics support.

Agent banking bridges the gap between the bank and the unbanked people, making banking services accessible to rural people, offers cost effective banking services, minimizes the operating and establishment cost for bank. With an adult population of 84.7 million in Nigeria of which only 30% of them are banked and with more than 88.3million mobile phone subscriptions as at December 2016, there is great potential for agent banking and other remote access financial service that will increase financial inclusion. In addition to this, increasing financial inclusion is high on the agenda of the regulator being the CBN, there is, therefore, great potential for agent banking in Nigeria to increase access to finance.

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National banking and securities commission (NBSC) of Mexico and the alliance for financial inclusion (2012) viewed the agency banking model is one in which banks provide financial services through non-bank agents such as grocery stores, retail outlets, post offices, pharmacies or lottery outlet. This model allows banks to expand services into areas where they do not have sufficient incentives or capacity to establish a formal branch, which is particularly true in rural and poor areas where as a result of high percentage of people are unbanked.

The nation's quest of migrating from normal banking method to agent banking has been on the front burner. Analysts have posited that that to meet the target of becoming one of the leading world economics try the year 2020 and to increase the level of customers accessibility and profitability, effort must be made to embrace agent banking in its entirety. It was in this consciousness that the central bank of Nigeria (CBN), the apex regulatory body of the banking industry came up with a reform policy to check the increasing dominance of cash in the banking industry in order to enhance electronic payment system in the economic landscape by recommending agent banking. However, owing to the short period within which the agency banking model has existed, the extent to which the agency banking model has existed, the extent to which the model can benefit banks, their customers and the economy remains largely unstudied. This necessitated undergoing this study to determine the effects of agency banking as an enhancer to performance of deposit money banks in Nigeria. The study sought to achieve the following specific objectives: to determine the effect of agency banking operational challenges, low transaction cost on performance of deposit money banks in Nigeria and to establish the effect of reliability of agency banking on financial performance of deposit money banks in Nigeria.

2.1 Literature Review

2.1.1 Concept of Agency Banking

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

Agency banking has been seen as the delivery of financial services outside conventional bank branches after using non-bank retail outlays that rely on technologies such as point-of-sale (POS) devices or mobile phones for real-time transaction processing (Modupe, 2010). From the definitions given, it can be said that Agent banking is a tool used in other emerging economies to: expand demand for banking services, decongest bank branches, reduce the cost to serve, and achieve financial inclusion. It also holds a promise of a low-cost means of market penetration by banks and other financial institutions, especially into the rural areas.

2.1.2 Perspectives of Bank- Agent Relationship

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The Bank- Agent relationship can be viewed from several perspectives. Each outlook defines the engagement level and expectations per time

RELATIONSHIP	DESCRIPTION	BENEFITS/ EXPECTATIONS

Customer	The Agent is a very special customer who needs to be given priority attention every time he or his representatives visit the branch of the bank. They quicker he leaves, the faster he can attend to the other special customers waiting at his shop or outlet	Branches of banks are to support Agents on : - Liquidity/ float management - Prompt resolution of issues or complaints
Partner	The Agent's location is a direct extension of the branch. Therefore, Agents must be mapped to the closest branch of the bank to them as their operations must directly impact the branch in the following areas: - Customer acquisition - Branch decongestion - Product adoption	Every transaction processed through the Agent directly benefits the Agent's branch in form of : - Income generation for the branch - Earn commissions for the Agent The Branch is expected to support the Agent with relevant trainings especially during on-boarding and on a need basis Agents are expected to high standards of service synonymous with the mother brand
Transaction Points	The Agents are a combination of the Tellers within the Branch and the ATMs in the gallery as they are able to process transactions for customers of banks	Agents can serve every Nigerian- customers of any banks, young or old, banked and unbanked.

2.1.3 Benefits of Agency Banking to retail outlets

1. **Increased customer traffic:** Bank agents usually conduct their normal businesses in addition to being bank agents. For example, a hardware shop that acts as a bank agent will continue conducting its main business in addition to being a bank agent. The increased traffic brought about by customers performing banking activities also translate to more people getting to know your business which will lead to more sales.
2. **Increased income through commission**: Bank agents are usually awarded commissions whenever they perform transactions on behalf of the financial institutions. These commissions are mainly awarded when someone deposits cash, withdraws cash and also open a bank account through the agent.

2.1.4 Benefits of Agency banking on the customer

Agency banking has brought banks to the un-banked and this has come with it many merits to the customer

1. **Flexible hours:** Most banks in Nigeria close their doors by 4pm, but with bank agents, for as long as the business premises remains open, you can do your transactions. This has proven to be very convenient.
2. **Cost effective**: Transacting through bank agents has proven to be cost effective especially to people who live

in rural areas that are far away from banks in urban areas.

3. **Easily accessible:** With bank agents almost everywhere, you no longer need to travel long distances to visit your bank for any activities.

2.1.5 Benefits of Agency banking to the banks

Financial institutions have recorded an increase in their profits and agency banking is one of the main attribute to such huge profits. These benefits include;

1. **Cutting costs:** Banks are finding it cheaper to set up agents as opposed to opening a branch where they will incur extra costs of staffing, rent, electricity, regulatory fess etc. With agency banking, the agent bears almost all the costs.
2. **Wide customer base:** Bank agents are paid commissions when they sign up new customers and this has led to an increase in the number of customers for banks. Banks are finding it effective to increase their customer numbers in this manner as opposed to using sales people.

2.1.6 Regulatory framework of Agency Banking in Nigeria

The agent banking system was introduced in 2013 by the central bank of Nigeria (CBN) as part of its efforts to increase financial inclusion by increasing access to financial services. Under the system, financial institutions (FIs) and mobile money operators (MMOs) can afford third parties to provide financial services on their behalf to members of the public

The objectives of the guidelines used by the central bank of Nigeria on Agent banking are to

i. Provide minimum standards and requirements for agent banking operations
ii. Enhance financial inclusion and provide for agent banking as a delivery channel for offering banking services in a cost effective manner.

2.2 Empirical Review

Several Authors have in one ways or the other investigated the introduction of agency banking and its implication on the economy on both developed and developing countries. In the works of Chude and Chude (2014) using technology acceptance model and diffusion of innovation theory to examine the impact of agency banking on performance of Deposit money banks in Nigeria. It was revealed that agent banking has proved to have essential role to play in improving customers' satisfaction and bank profitability in Nigeria. However, this study failed to carry out some diagnostic tests such as multicolineatity and variance inflation factor.

Mwengi (2012) established that cost effectiveness associated with agency banking positively influenced the financial performance of the banks in Kenya. Hence, concluding that liquidity availability in agency outlets affected the performance of commercial banks in Kenya which was in agreement with an earlier study done by Honovan (2007). However, they both failed to establish the regression and other multicollinearity tests to determine the relationship between cost effectiveness and agency banking.

In the work done by Francis and Salome (2015), using a descriptive research design on some selected commercial banks in Nyeri County; Kenya, the results reveals that customers were willing to forgo the extra-charge to procure banking services through agent banking outlets and that lack of liquidity was not a deterring factor as the agents were vetted and monitored to ensure there were rare cash shortages. However, the limitation of the study was the area of coverage.

Philip and Jared (2017) using the bank led theory to investigate the effects of agency banking on customer satisfaction in the banking industry in Kenya. They found out that convenience of agency banking affects customer satisfaction in commercial banks and reliability has a positive influence on customer satisfaction in commercial banks.

In a study conducted by Mwangi (2013) on the role of Agency Banking in the performance of commercial banks in Kenya, it was found that some of the effects of regulations on the performance of commercial banks attributable to agency banking were influenced by the board of directors and executive management, accountability and quality control. It was concluded that infrastructure cost and security influence the performance of commercial banks attributable to agency banking to a very great extent.

2.3 Theoretical Framework

This study is based on theories of branchless banking which are categorized into three: Bank-led theory, Non-bank led theory and bank – focused theory. These theories mainly seek to explain how branchless is conducted. The Bank- Led theory was brought forward by Lyman and Staschen (2006) and is based on the argument that, a licensed financial institution delivers financial services through a retail agent. The theory supports agency banking model by stating that the work of a bank is developing financial products and services, but distributes them through retail agents who handle all or most customer interaction (Lyman, et al, 2006). Retail agents have face- to- face interaction with customers and perform cash in/ cash-out functions, much as a branch based teller would take deposits and process withdrawals (Owens, 2006). Under this theory, the bank develops financial products and services but distributes them through retail agents who handle all or most customer interactions (Lyman, Ivatury & Staschen. 2006).

With respect to the non-bank led theory; customers do not deal with a bank or maintain bank accounts rather, they deal with a non-bank firm either a mobile network operator or prepaid card issuer and retail agents serve as the point of customer interaction. Cash exchange by customers is done for e-money stored in a virtual e-money account on the non-bank's server, which os not linked to a bank account in the individual's name (Kumar, et al, 2006). The 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 risk.

Under the bank-focused theory, a conventional bank uses non-traditional inexperience delivery channels to provide banking services to its existing customers. This 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 banking, a bank achieves economies of scale by serving money customers at low cost (Kapoor, 2010)

3.1 Methodology

The study adopted a descriptive research design. This was chosen because it helps the researcher to generalize the findings to a l large population. The descriptive research approach was also appropriate due to the fact it allowed analysis and determination of the relationship between dependent and independent variables. The study was conducted in Lokoja, Kogi state. The bank staffs, bank agents and customers (beneficiaries) were the respondents. Stratified random sampling was used in identifying the respondents.

Primary data was collected for this study through administering a questionnaire. The study used both qualitative and quantitative data in order to gain a better understanding and insight interpretation of the results.

Table 1: Operational challenges possessed by banks with the introduction of Agency banking.

Category	**Responses**	**Percentage (%)**
Very High	35	0.35
High	48	0.48
Fair	17	0.17
Total	100	100

Source: Authors computation.

Table 1 indicated that of the respondents of bank, 48% indicated that agency banking possess operational challenges to the banking system allowed by 35% who indicated it as high while 17% of the respondents indicated fair as operational challenges.

Table 2: Transaction cost through agency banking

Category	**Responses**	**Percentage (%)**
Very High	21	0.21
High	27	0.27
Fair	57	0.52
Total	100	100

Source: Authors computation.

Majority of the respondents (52%) agreed that the banking agency was worthwhile as the transaction cost possessed by agency banking was fair. This means that agency banking was much important in providing and availing banking services to the customers. This reduced time wasting since customers do not have to travel long distance as the agencies are close to their residences.

Table 3: Reliability of Agency banking by customers

Category	**Responses**	**Percentage (%)**
Very High	80	0.80
High	15	0.15
Fair	5	0.05
Total	100	100

Source: Authors computation.

Majority of the respondents (80%) agreed that the banking agency is reliable because it helps in providing the necessary banking services needed by the customers instead of waiting on a long-queue and spending hours in the banks for a whole day. This means that customers are very comfortable with the introduction of agency banking.

Table 4: Measurement of financial performance: increased number of transactions has led to increased profitability

Category	**Responses**	**Percentage (%)**
Very High	65	0.65
High	25	0.25
Fair	10	0.10
Total	100	100

Source: Authors computation.

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Most of the respondents strongly agreed that increased number of transactions has led to increased profitability with 65% responses. This is clearly shown where we have many agent banks in the country would give many banks to make large profit.

Regression Analysis

$Y = \beta_o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \xi$

Where:
Y = Dependent variable (financial performance)
X_1 = Operational challenges
X_2 = Transaction cost
X_3 = Reliability

Regression model:
$Y = \beta_o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \xi$

Y = 27.145 + 1.627X1 + 0.312X2 + 3.415X3

Table 5: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	27.145	2.945		9.217	0.007
	operational challenges (X1)	1.627	0.418	0.002	3.892	0.040
	transaction cost (X2)	0.312	1.118	0.241	0.279	1.000
	reliability (X3)	3.415	0.562	0.549	6.077	0.000

b. Dependent Variable: financial performance (Y)

With respect to the regression equation established, taking all factors such as operational challenges, transaction costs and reliability) constant at zero, financial performance in the Nigerian banking industry will be 27.145%. The data findings analyses also shows that taking all other independent variables at Zero, a unit increase in operational challenges will lead to a 1.627 increase in financial performance of the banking industry in Nigeria. Also, the beta (B) are positive for the remaining two independent variables indicating that every unit change in the independent variables will cause a positive change in the dependent variable with the following quantities, transaction cost (0.312), and reliability (3.415).

4.1 Discussion of findings

This study investigated the effect of agency banking on the financial performance of deposit money banks in Nigeria. The objectives of the study were to determine the effects of agency banking operational challenges, transaction costs and also to examine the effect of reliability of agency banking on the financial performance of deposit money banks in Nigeria. It was established that majority of the respondents (80%) strongly agreed that the agency banking was worthwhile and reliable in providing banking services closer to the customers especially the rural areas. This reduced time wasting and standing on a long queue.

5.1 Conclusion

From the findings of this study, the researcher concluded that

1. Agency banking is seen as a tool that aided banking services to customers especially in the rural areas.
2. Agency banking is very efficient in terms of transaction cost for both the customers and the financial institutions. With Agency banking, banks do not need to spend enormous amount on building/ structures in communities here banking activities are not

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felt. The financial institutions can only appoints agents to work on their behalf.

5.2 Recommendation

Based on the findings, the study therefore recommends the following:

1 Financial institutions in Nigeria should sensitize the public especially those in the rural areas on the availability and how agency banking works so that the populace would not see it as a scam business.

2 Bank management and other key banking stakeholders in the industry should ensure that all deposit money banks in Nigeria are in compliance with central bank of Nigeria (CBN) regulatory policies on agency banking activities.

3 Above all, deposit money banks who have adopted the agency banking model should limit operational costs on agent banking to avoid the cost of services to the customers increasing.

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