Agent Banking and Financial Inclusion in Nigeria: Challenges and Prospects

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Abstract
The paper examines challenges and prospects of agency banking and financial inclusion in Nigeria. The study objective show that making financial services relevant to the unbanked on a daily basis requires agency banking that would allow Nigerians to easily convert cash into electronic value (e-value). Although gradual progress is being made to improve on financial inclusion through agency banking, critical challenges of low financial literacy, inadequate infrastructural facilities as well as inadequate and inefficient technology-based facilities by financial institutions, have limited the achievement of significant expansion in financial inclusion level in Nigeria. The study recommends that banks should register more agents as well as adopt new products by leveraging on available technology, that is all mobile and digital channels that facilitate the provision of financial services; while government should create incentives for telecommunication companies to enable them deploy quality data services in the rural areas in order to deepen financial inclusion.

Key Words: *Agency Banking, Financial Inclusion, Financial Services, Mobile Banking*

1.0 Introduction

Access to the different channels offered by the Deposit Money Banks (DMBs) to promote inclusive financial growth in an economy helps to reduce exclusion of those that are willing and ready to use them. An inclusive financial system allows the low income groups to smoothen their consumption and make projections in the interest of safety of the meager income against economic uncertainties (Ndebbio, 2004). As a driver of economic growth, Financial Inclusion (FI) implies access to financial services that meets the needs of low-income earners as well as promote their active usage of various channels of such services. Presumably, these group of people makes up the largest percentage of the population and thereby control enormous bulk of a nation idle funds hitherto held in small fractions by millions of these group of people. Mobilizing these funds will ultimately provide funds for capital investment on a long term basis.

Therefore, convenient and effective access to financial services which has been termed Financial Inclusion (FI) is made possible through varieties of sources such as mobile banking, automated teller machines (ATMs), point-of-sale (POS) devices and representative banking (agent banking). Notable among these is agency banking.
Agent banking refers to the rendering of bank services by another person (called the agent) on behalf of a DMB, which could be a bank or any other financial institution that accepts deposit (Idlo, 2010).

Mwangi and Mwangi (2014) posited that agent banking as a body corporate with the power of Anthony to act on behalf of a financial institution. It is thus a platform provided by DMBs to attend to client that may not be able to access bank services at conventional level. Bank agents usually operate through a satellite branch networking.
According to Financial Access Strand 2018 released by EFInA (Enhancing Financial Innovation and Access), over 60% of the Nigerian adult population are now financially included. As noted by the Central Bank of Nigeria (CBN) in 2018; to attain the goal of 80% inclusion by 2020, about 7.9 million of bankable populace will need to be financially included before the end of 2019. Factors such as financial illiteracy, insecurity as well as low spread of financial services in villages and hamlets is too slow to achieve the objective FI. EFInA's biennial results also showed that the efforts at reaching the goal with a little above 3 million people have been financially included between 2016 and 2018. We still have over 176million people yet 64% (of the adult population) currently under-banked!

There is a growing body of literature on the impact of agency banking on FI both in developed and emerging economies like Nigeria. Some of these studies were cross country studies. Popular among them is Waihenya (2012). To the best of the researcher's knowledge only the study of Ogbebor (2015) examined the link between agency banking and FI in Nigeria while others examined the impact of agency banking on the performance of commercial banks as well as the impact of FI on Economic Growth (Kingangai, Kigambo, Kihonge & Kibachia, 2016; Okoye, Adetiloye, Erin & Modebe, 2016). Hence, studies that examine agency banking and the full array of its activities and FI in Nigeria; are scarce in the literature. More so, because agency banking is still at its embryonic stage and more innovations cum novel changes are coming up daily (Flaming, 2011; Hawkins, 2012). Thus, more research is needed in this regard and it is hoped this study will fill the gap in knowledge as it examines agency banking activities and FI in Nigeria.

Thus, this paper reviews the literature on agent banking and FI with a view to highlighting the challenges and prospects. The paper is a theoretical one that adopts a desktop research approach. Following this introduction, the rest of the paper is structured as follows; the literature review is contained in section two. Sections 3 & 4 focus on the challenges and prospects of agency banking and FI in Nigeria respectively. The final section, 5, concludes the paper and makes some recommendations.

2.0 Literature Review

This section deals mainly with the review of conceptual literature of agent banking and Financial Inclusion (FI) with respect to challenges and prospects. In their current bid to penetrate the under-banked and unbanked populace, deposit money banks (DMBs) have designed innovative channel (model) with the aim of reaching out to these segment of the populace with their financial products, without having to use the conventional branch bank networks or ATMs. Their targets are mostly domiciled the villages and the hamlets, who often times may not be able to access these services which could include account opening, deposit and withdrawals. In reaching out to these group of people, the DMBs engages retail agents in the various business outlets with their innovative channels to help serve their customers at that level (Barasa & Mwirigi, 2013).

Due to the cost effectiveness of the channels especially in localities where the establishment of a branch bank may not be economically viable. The model adopted for use in this regard is known as the agent banking model. The fundamental objective of the model is to deepen FI by reaching out to unbanked. Agents, particularly cash-in/cash-out (CICO) agents, act as the entry point for FI and facilitate the crucial conversion between cash and digital money (National financial Inclusion Strategy, 2018).

Ndungu and Wako (2015) submitted that agent banking is an understanding between an agent and a financial institution that allows the agent to render some of the services on a mutually agreed terms and conditions. This model of banking allows people access financial products from bank approved agents instead of visiting the conventional banking halls.

According to Ndungu and Wako (2015), agent banking is conceived to deal with the challenges involved with serving people at the under-banked as well as unbanked areas. On the other hand, FI enables low-income earners to enjoy banking services like savings (deposit making), make payments without formally stepping into a banking hall. FI guarantees equality of access, service at low cost and to reach out to the mostly excluded populations (CBN, National Financial Inclusion Strategy, 2012).

Sarma and Pais (2010) observed that FI will help to reduce the problem associated with cost of transaction and the inconvenience involved with locating a branch bank before one can enjoy financial services.

In a study by Dangi and Kumar (2013), challenges of FI were highlighted to include socio-economic and economic factors. But the low financial literacy level remains a strong barrier to the financially excluded. They concluded that FI systems enhance efficiency and welfare by providing avenues for secure and safe financial practices.

Who is a Banking Agent?

A banking agent is a retail or an SME outlet accredited by a DMB to provide some financial services to bank to existing and would-be bank customers. Instead of a bank teller, it is the agent or its representative that carries out these services which may not be limited to cash deposit, fund withdrawal and transfer (Chikoko & Mangwendeza, 2012). Banking agents could be a licensed individual or business concern that offers a range financial services allowed by agency terms. Agent banking is technological driven with use of mobile phones, POS and must be synchronized immediately on the core banking system platform (Keeler, 2011). Following the adoption of the agent banking model, DMBs have successfully on-board a number of agent across different outlets in the cities, towns, villages and hamlets. The role of banking agents is to help DMBs in compliance with regulatory guidelines have helped to reduce the queues often encountered in the banking halls by providing “complementary”, which are seems to be more convenient alternative for some customers. Other financial institutions, especially in frontier markets, reach out to the under-banked and unbanked areas through these agents. From the circular guidelines, bank agent are categorized into three according to the Central Bank of Nigeria (CBN) viz; (i) super-agents, (ii) sole-agents, and (iii) sub-agents. They however their mode of operations as well as service coverage differs. Accreditation of a banking agent requires DMBs to carry out due diligence on such an agent to verify suitability for such sensitive task with all the attendant risk. It also requires the DMBs to specify unambiguously what an agent can handle in the line of business. However, after the deployment of hardware for their operations, the bank must ensure proper monitoring and follow-up on their activities within the window provided.

Adoption and Growth of Agent banking

Historically, Latin America which is the continent with a strong growth in agency banking was also the early pioneer of the banking model. Brazil adopted agency banking in year 2000. Thereafter, Peru adopted agency banking in 2005, while Bolivia was in the year 2006; Ecuador and Mexico followed in 2008 and 2009 respectively. The growth of agency banking model as pioneered by Brazil has become a fast driver of their retail banking services especially in the municipal areas. Countries like Pakistan, Philippines, Kenya, South Africa, Uganda, and India have adopted agent banking to drive FI (AFI, 2012). Nigeria, Kenya and Sierra Lone have also witnessed steady growth in agency banking since adoption of its model in the West African Sub-Region. For these countries, technology has played a vital role in it operation ability. Specifically, agency banking has become a viable driver of FI in Sub-Sahara Africa. As noted by Mbobua, et. al. (2013), technology brought a revolution in the banking system in the last 30 years. Therefore, most DMBs started deploying alternative channels of banking which are technology driven. Therefore, we have witnessed a fundamental departure from the traditional desktop service delivery to technology based services. Mobile telephone network is the back-bone of the operation of agency banking model.

The Central Bank of Nigeria (CBN) issued the Guidelines for Agent Banking and its Relationships in Nigeria in 2013. Whereas the Operating Framework for Super-Agent was issued in 2015 by the CBN to deepen the uptake of mobile money and agent banking products. Though the uptake of mobile money operation and agent banking services remain low in Nigeria, its contribution to FI since inception is progressive.

In 2015, the CBN documented and acknowledged the key role played by agent network managers when she released guidelines for the licensing of Super Agents in other expand to expand FI through increased touch points across the country. Thus, a super-agent is an entity that has been contracted by DMBs or micro-finance bank or mobile money operator and thereafter could subcontract other agents in a network while maintaining overall responsibility for the agent relationships. Agent banking, EFInA noted, is one of the key drivers of FI that enables bank customers access financial services without necessarily having to go through the conventional banking channels.

Retail agents were found to have taken advantage of the pre-existing assets to reduce client's transaction cost by guarantee access and ensures one-on-one relationship (Jansen, 2010). Through financial intermediation using the agent account, transaction that would have ordinarily require its customers to physically visit a bank branch is eliminated.

Since 2013, and mainly through 2018, DMBs have been in the drive to expand their customers base as well as reach out to the unbanked by on-boarding different agents that saw the growth recorded in financial deepening.

2.1 The Effect of Agency Banking on Financial Inclusion

Financial Inclusion (FI) of the entire citizenry is a desire goal of the government of most countries. This is evident in the developing countries where governments are working on various strategies and regulatory frameworks to ensure they reach all those financially excluded. It is the desire of every country to have an all-inclusive financial system that can mobilize resources for investment. The agent banking model has the impetus for continuous growth and improvement, and as it grows, the FI is promoted in like proportion. Thus agent banking has the impetus of increasing the level of FI which should be the ultimate goal of regulatory authorities and banks with aid of reducing the high gap of the unbanked (World Bank, 2008).

The Nigerian financial system has made rapid strides in financial service deliveries in the last decade. However, a large segment of the rural population, especially those at the bottom of the pyramid are plague with insecurity and low-income/wage earners continue to remain excluded from even the most basic opportunities and services provided by the financial sector. Though Nigeria is dubbed the largest economy in West Africa, but has not been able to guarantee adequate access to formal banking services to the bulk of the population while lending is skewed in favor of well-to-do private and public companies' in urban areas. Therefore, it is the

availability of a varieties of financial products as well as their accessibility by the different classes of the inhabitants of a nation that addresses FI holistically (Waihenya, 2012).
Agent banking is rapidly evolving and sound regulations plays a central role in its growth over the last decade (Flaming, 2011). There has been a surge in the different forms of remote access financial services beyond traditional bank branch technology offered by the DMBs. These services have been provided through various channels, including mobile phones, ATMs, POS devices and banking correspondents (agency banking). In most climes, these non-conventional outlets have made vital contribution that deepened FI by serving people that the spread of DMBs would have excluded (Levine, 1997). Notably, mobile devices have become vital tools to promoting FI for the previously unbanked population in developing countries (Kanobe, Alexander & Bwalya, 2017).
In a study carried out by Hawkins (2012) to ascertain whether agent banking has positive effect on FI in the South African nation, the study concluded that prudential regulations should be in place to drive FI. On his part, Mohan (2006) observed that, FI provides the assurance that the rural poor will be able to enjoy basic financial services in the present dispensation.
Therefore, being included in the financial architecture makes the average Nigerian to be 'bankable' thereby improving the economic prosperity of the individual.

Efforts at Deepening Financial Inclusion in Nigeria

From time to time, the apex bank on the behalf of the Federal Government has initiated different policies with the objective of promoting FI in the aggregate economy. These policies include establishment of community and microfinance banks with the police thrust of facilitating access to banking services by the rural dwellers Therefore, to promote the spread of financial services, the following efforts have been made:

- **(a)** Implementation of rural banking scheme by the apex Bank in 1977 with the primary objective of citing at least one bank branch in each local government areas in the federation.
- **(b)** Introduction of guidelines by the apex bank that stipulate the lowest amount that a bank can extend to SMEs and local borrowers. Failure to adhere to these guidelines carried sanctions punishable by the CBN at the time.
- **(c)** The establishment of the People's Bank which laid the foundation that necessitated the creation of community banks. Notably, the People's Bank was established in October 1989 to provide financial services to the rural poor in the society through acceptance of small amount of deposits and provision of micro-credit to the low-income members of the Nigerian economy with a view to promoting increased savings culture and grow banking habit.
- **(d)** The incorporation of FI as part of the main objectives of the FSS 2020 (Nigerian Financial System Strategy).
- **(e)** The launching of the National Microfinance Policy in 2005 which provided the supervisory and regulatory framework intended not only facilitate the growth of privately-owned microfinance institutions but also permits and facilitate the participation of mostly the third sector institutions, like market associations, cooperatives, non-governmental organisations (NGOs), self-help groups (in the microfinance model).
- **(f)** The introduction of a working document for the effective operation of non-interest banks in June of 2011. The CBN hoped that Islamic bank products would help bring into the banking sector a large number of the country's population that had hitherto steered away from the organized conventional financial services, due to their aversion to interest-based financial products. Introduction of NIFIs necessitated the addition of

another component into corporate governance web has expectedly helped to enhance oversight and regulation by the apex bank.

(g) The introduction and adoption of E-payment and Cashless Policy. The CBN has recently stepped-up the campaign for banks to invest heavily in other low-cost branchless channels such as ATMs, point-of sale (POS) etc. Its adoption is to promote the use of modern electronic payments channels and the cashless policy was implemented to achieve amongst others the objective of FI.

3.0 Challenges of Agency Banking and Financial Inclusion in Nigeria

Available statistics reveal that 47% of the adult population have access to formal financial services globally. Therefore, the challenge before the global economy is on how to deepen FI. Challenges are inevitable in any given model of operation of which agent banking is not an exemption. This has been tested in some research work as carried out by Arulmurugan & Devi (2013) and Barasa & Mwirigi, (2013); that the agency banking model in Asia and Brazil have been plagued with challenges that has underscore the deepening of FI.

The challenge of inadequate FI cut across both developing economies and underdeveloped countries with their frontier markets that has a high index of the financially excluded which must be brought upstream. As Moghalu (2011) asserts:

> "Beyond the non-robustness and inefficiencies of the financial system which contributes to the act of being excluded or included, the more fundamental issue of suboptimal macroeconomic environment in the form of low income capacity and pervasive poverty level among the populace has played a more critical role of eroding the eligibility of the bulk of the financially excluded" (P.1).

Specifically, agency banking and financial inclusion is plagued with the following challenges:

(1) Low level of awareness of available alternative channels that cater for the need of those at bottom of the pyramid. This is prevalent in the villages and hamlets where majority of the underbanked/unbanked who are ordinarily willing to be included dwells. The uptake and awareness of Mobile Money Operators and Agent Banking have been persistently low at 9% and 23% respectively according to the EFInA (Access to Financial Services) in Nigeria 2018 Survey.

(2) Distance to cities and in most cases towns where DMBs and Microfinance bank branches are located serves as an impediment to the financially excluded. The poverty rate in the country when juxtaposed with the growth rate of the economy at an average of 2.28 per cent recorded in the second quarter of 2019, cannot guarantee the inclusion of the poor in financial nest offered by agency banking.

(3) Lack of a national identification system and institutional exclusion. As a result of this, the Know Your Customer requirements from the DMBs could be quite stringent. Some of the requirements stipulated as conditions to enhance the operation of this model are hard to meet especially for the kind of people the policy is targeted.

Agreed that much has been done thus far and that the CBN and DMBs are using policy options and a varieties of innovative packages to drive inclusion but we still have problems to surmount. It is when these problems are tackled headlong that the desired penetration will yield the results

4.0 Prospects of Agency banking and financial inclusion in Nigeria

The inclusive growth in the banking system of Brazil and many Latin American countries where the agents can handle transactions ranging from deposit to funds transfer is a milestone for other countries to attain. Besides, the number of services that agents are allowed to carry out at their end is increasing by the day (Ulah & Hague 2014). Agent banking will continue to connect people to banks with the attendant benefits. Chong and Chan (2010), also observed that a sound and efficient financial system helps to drive inclusion through constant integration of the populace.

With the creation of Payment Service banks by the CBN and its ongoing consultations with other players like the DMBs, MMOs (Mobile Money Operators) and telecommunication firms coupled with the National Financial Inclusion Strategy (NFIS), objective of ensuring that more than 80% of the bankable adult population in Nigeria can access financial services by 2020, agency banking will improve access to financial services by most Nigerians.

From the studies reviewed, it is evident that agent banking model as a viable driver of FI leads to several benefits such as cost-saving, deposit mobilization, quick and improved access to banking services for bank customers particularly the unbanked (Waihenya 2012; Kamau 2012; Caitlin 2013; Kengele 2014; Kambua 2015).

Without doubt, the prospects for agency banking in Nigeria particularly with respect to the goal of FI are bright despite the initial challenges.

5.0 Conclusion and Recommendations

5.1 Conclusion

The adoption of agency banking as part of FI strategy to reach the rural poor with the ultimate goal of creating economic opportunities at that level. For agent banking to grow in Nigeria effort must be made to promote participation of the unbanked in the financial ecosystem. The actual operation must be understood to encourage a lot of buy-in from stakeholders.

Therefore, the unbanked should easy access to available financial products that will deepen FI. Agent banking has drastically reduced the cost of operation by the DMBs through the provision of a platform that ensures the attainment of FI in the immediate and long-term.

5.2 Recommendations

The role of Government should be that of providing an enabling environment for stakeholders which is inclusive of the agents and their potential customers for a beneficial business relationship. Government can provide incentives for telecommunication companies to deploy high-quality data services in the rural communities since the 3Gs and 4Gs connections are usually deployed to cities. Data services are required for the platforms on which these financial services run for them to work effectively. Poor data services giving rise to service failures which is giving rise to disincentive for most Nigerians to bring them into the financial nest. In addition, service notifications by way of SMS are equally important to perform optimally to give good customer experience and satisfaction.

DMBs should develop new products as well as invest in research and development whose output will lead to the on-boarding of more under-banked and unbanked thereby deepening FI.

Leveraging on available technology through telecommunication companies operating in Nigeria. The phrase “available technology” as use here, refers to all new mobile devices that helps to promote the services offered by the agent at the grassroots level thereby enhancing FI.

Mobile money is an obvious outlet for Nigerians at the bottom of the pyramid to use as they embrace financial services for the first time. Nigeria being a country with the highest mobile penetration in Africa meant that the mobile phone could play a key role in agency banking.

Expanding the drag net to registering more agents at the SMEs levels. Thus, their existing business knowledge will become an additional asset in management process. Because of their geography spread, the objective of FI will be easily realized.

Regulatory authorities must set minimum service criteria to ensure efficiency, trust, customer service delivery, consumer protection and others in order to give an experience that is better than the alternative (keeping cash at home).

Finally, consumer literacy and education (in Nigerian major languages) are very important to serve as information and education on the existence of various financial services outlets like the agent banking model. These will include, their rights as a customer, service expectations and the protection they have in case things go wrong.

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