Appraisal of Agency Banking as a Financial Inclusion Strategy in Nigeria

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ABSTRACT

Apart from the desire to grow earnings and market share, financial inclusion is an important objective for the introduction of agency banking. Agency banking is the provision of financial services to customers by a third party on behalf of a particular bank. Agent banking services is rendered through the use of POS terminals, card readers, Mobile Phones, among others for real time transaction processing. This study appraised agency banking as a financial inclusion strategy in Nigeria. The specific objectives were to determine the extent to which agency banking has enhanced financial inclusion in Nigeria, examine the extent to which agency banking has reduced the cost of delivering banking services and ascertain the extent to which agency banking economically empowers the agent banker. The study adopted the survey research design. Primary data were collected through the use of questionnaire which was distributed to agent bankers and users of financial/banking services. The data collected was analyzed with the Chi-Square method using the Statistical Package for Social Sciences (SPSS). Finding revealed that agency banking has positive and significant impact on financial inclusion, reduces the cost of delivering banking services by the banks and economically empowers the agent banker. The study therefore concluded that agency banking is a relevant and vital strategy for financial inclusion in Nigeria. It is therefore recommended that favourable operating conditions and appropriate security be provided for the smooth running of agency banking in Nigeria.

KEYWORDS: *Agency Banking: Financial Inclusion: Strategy: Nigeria*

1. INTRODUCTION

BACKGROUND OF THE STUDY

Financial inclusion is the availability and equality of opportunities to access financial services (Nanda & Kaur, 2016). Apart from a desire to grow earnings and market share, financial inclusion is an important objective for the introduction of agency banking. Financial inclusion is one of the cardinal points of World Bank millennium development and sustainability goals (World Bank, 2017). In Nigeria, the National Financial Inclusion Strategy (NFIS) was introduced in 2012 as a working document to promote and serve as a key driver in achieving financial inclusion. According to the Central Bank of Nigeria, Financial Inclusion must meet the following parameters: ease of access to financial services, use of a broad range of financial services, financial products designed according to user's need and affordable, (NFIS, 2018). The NFIS was built on four strategic areas of agency banking, mobile banking, linkage models and client empowerment.

Agency banking is a financial inclusion service which has been adopted by the banks to extend financial services to the unbanked and under-banked. In Nigeria, Agency banking started in 2013 with the release of guideline on the operations and management of agency banking (Nwachukwu, Agim, Gyang & Monulu, 2019). Since then, many of the commercial banks have signed on agents to help drive their retail banking services. Agency banking has gained importance, as a vital business model by which financial institutions bring their services closer to the people at the grass root and in remote rural areas (Chude & Chude, 2014).

It is against this background that this study sought to appraise agency banking as a financial inclusion strategy. It is divided into five sections. Section introduced the work, section two reviewed the related literature, section three is methodology, section is data presentation and analysis and section five concluded the study.

STATEMENT OF THE PROBLEM

Empirical evidence as to whether, agency banking as a financial inclusion model has worked for banks are limited. This effectively creates a knowledge gap regarding effectiveness of agency banking as a vehicle to achieve financial inclusion (Ndegwa, 2017). This has led to many researchers questioning if agency banking leads to more financial inclusion (Betram, Nwankwo & Onwuka, 2016). It is important to identify the relationship between agency banking and financial inclusion on one hand and cost reduction of banking services on the other hand. It is against this background, that this study sought to appraise the effectiveness of agency banking as a financial inclusion strategy in Nigeria.

OBJECTIVES OF THE STUDY

The main objective of the study was to appraise agency banking as a financial inclusion strategy in Nigeria. However, the specific objectives were to:

1. Determine the extent to which agency banking has enhanced financial inclusion in Nigeria.

2. Examine the extent to which agency banking has reduced the cost of delivering banking services.
3. Ascertain the extent to which agency banking economically empowers the agent banker.

RESEARCH QUESTIONS

The research questions were:

1. To what extent does agency banking affect financial inclusion?
2. To what extent does agency banking affect the cost of delivering banking services?
3. To what extent does agency banking economically empowers the agent banker?

HYPOTHESES OF THE STUDY

In line with the objectives of the study and the research questions, the hypotheses of the study were:

1. Agency banking has no positive and significant impact on financial exclusion.
2. Agency banking does not reduce the cost of delivering banking services by the banks.
3. Agency banking does not economically empower the agent banker.

SCOPE OF THE STUDY

This study focused on the appraisal of agency banking as a strategy for financial inclusion in Nigeria. For ease of collecting data, the study area was Enugu Metropolis and Ugbawka/Nara. This is to enable the researcher access data from the banks in the Enugu urban as well as from agent bankers in the rural areas of Ugbawka and Nara of Enugu State.

SIGNIFICANCE OF THE STUDY

The significance of the study can be viewed from the following standpoints:

i. **Policy Makers and Financial Analysts:** To policy makers and financial analysts, this study shall provide new track knowledge of responsibility, challenging them to the strategies simple enough and available in carrying out financial policy reform relating to agency banking.
ii. **Banks**: The study will offer useful guide in designing appropriate and attractive retail packages for the unbanked and under banked for increased profit.
iii. **Agents:** The study will provide new knowledge as to possible ways of reducing the risk factors associated with agency banking.

iv. **Students and researchers:** This study will serve as a body of reserved knowledge to be referred to by both students and researchers.

2. LITERATURE REVIEW

CONCEPTUAL REVIEW

AGENCY BANKING

Agency banking is the provision of financial services to customers by a third party (agent) on behalf of a licensed deposit taking financial institution (principal). Agent banking services is rendered through the use of POS terminals, card readers, Mobile Phones, and bank linked mobile wallets for real time transaction processing.

According to the Central Bank of Nigeria guideline for the regulation of agency banking in Nigeria, there are three categories of agents in Agency banking, namely: super agent, sole agent and sub agent.

- **Super-Agent:** The super agent is an agent who has the authority to recruit other agents (sub-agents) and manage them in a network. The super agent is independently licensed by the Central Bank of Nigeria and must be a company incorporated in Nigeria. He provides the sub-agents with POS and other relevant equipment and supervises their activities. He also ensures that sub-agents carry out agent banking functions in line with prevailing regulatory guidelines. This services is usually referred to as agent network management. Some of the popular super-agents include: OPay, PayCenter, Interswitch, MoMo, etc.
- **Sole Agents:** A sole agent is one who has a direct agency relationship with a chosen bank or other financial institutions but does not have the power to recruit sub-agents. In discharging his responsibility, the agent bank must adhere to important banking guidelines such as the anti-money laundering laws and the Know Your Customer KYC rules. Each bank will usually prescribe the amount of money the Sole Agent will need to commence the relationship.
- **Sub-Agents:** Sub-agents work under a super agent in an agency network. You see them everywhere in their kiosks or under umbrellas on the roadsides with their POS. These are the people you popularly call POS operators or POS business owners.

SERVICES RENDERED BY AGENT BANKS

Agent banks help to drive the retail services of banks to places where it is not profitable for banks to establish branches. Some of the services they are allowed to provide include:

- ✓ Account Opening
- ✓ Balance Inquiry
- ✓ Deposit and withdrawal of cash

- ✓ Issuance of mini-statements
- ✓ Funds transfer (Local)
- ✓ Bills Payment – Taxes, tenement rates, utilities, subscriptions, etc.
- ✓ Payment of salaries
- ✓ Collection of bank mails
- ✓ Cheque book request and collection

SOURCE OF INCOME TO THE BANK AGENTS

The following are the revenue streams for bank agents in Nigeria:

- ❖ **Commission:** The banks pay their agents commission on the volume of transactions carried out on their behalf. This commission is stated in the agency agreement and will normally vary from bank to bank. Transactions are usually settled on a monthly basis and commissions credited to agents account after due deduction of charges.
- ❖ **Service Charges:** Depending on the terms of the agency agreement with the Bank, agents also collect service charges from the customer for some services rendered. This particularly applies to bills payment, taxes and subscriptions.
- ❖ **Float:** Smart agent can deploy sound cash management strategy for the benefit of their primary business. For instance, a supermarket operator who doubles as a bank agent can apply excess cash to replenish his stocks. Doing this rightly is a win-win to both the agent and the bank.

MERITS OF AGENCY BANKING

Below are some of the merits of agency banking:

- ➢ **Reducing operational expenses**: This form of banking offers lower operational costs for financial institutions. Agency banking boosts financial inclusion by extending banking and financial services to the underbanked, unbanked and underserved population. This kind of banking offers more flexible and convenient access to existing and new customers.
- ➢ **Extended banking services**: Agency banking also includes extending banking services to the lower strata of the society via an authorized agent. The banking sector, through this type of banking, pulls various resources together to offer these services, while ensuring that the expenses involved are at a reduced cost.
- ➢ **Ensuring safety**: This type of banking also helps ensure the safety of customers, who do not have to travel for long distances or for more time to respective bank branches. There is lower risk of getting robbed, or losing productivity and time during such long journeys. There are local shopkeepers and merchants in the agent banking network that offer basic banking services.
- ➢ **Helping the economy grow**: Agency Banking plays a very big role in boosting financial inclusion. Agents offer financial services to small businesses and individuals that are required for boosting economic growth and local development. Agency banking serves as a win-win option for every party that is involved. The agents are able to sell many

specialized services and products on behalf of banks that serve customers based in remote areas. Customers get convenient access to financial services providers who are accredited. Banks win as they boost their own market share.

DEMERITS OF AGENCY BANKING

Some of the demerits of agency banking are:

- Operating expenses: Agency banking exposes agent banker to higher expenses especially in the form of charges by the bank, cost of renting an office, payment of government tax, rates, electricity bills, etc.
- Risk of robbery: Cases abound where agent bankers have been attacked and their money taken away from them.
- High commissions: The high operating expenses incurred by the agent makes the agent charge commission that will cover those expenses as well as make some profit.
- Low stimulus to savings: It does not encourage savings. The operators are readily accessible and one can easily collect his money at all times.

EMPIRICAL REVIEW

In Nigeria, Chude and Chude (2014) studied the implication of agent banking on the profitability of Nigerian commercial banks. Findings revealed that agent banking has proved to have essential roles to play in improving customer's satisfaction and bank profitability.

Afande and Mbugua (2015) in Kenya, studied the extent to which banks have been able to partner with agents, commercial entities whose primary objective and business is any service other than the provision of financial services. Findings revealed that greater geographical coverage brought about by agent banking is the strongest predictor of financial inclusion.

Tarazi (2010) observed that where damages are not easily quantified and agency banking operators behaviour not easily monitored, violations of data privacy may occur.

3. METHODOLOGY

The study adopted the survey research design. Primary data were sourced through a field survey by the use of questionnaire. The study opted for the use of questionnaire because of the unavailability of secondary data to proxy the variables under consideration; and to gather reliable and first-hand information about the reality of agency banking.

The target populations for the study were the operators of agency banking services situated within Enugu metropolis and Ugbawka/Nara area of Enugu State. A sample of 200 operators were selected using the judgmental sampling technique. The Chi-Square technique was used to help indicate if agency banking had positive and significant impact on financial inclusion, reduces cost of delivering financial services by the banks and economically empowers agent bankers. The *a priori* expectation was that agency banking promotes financial inclusion, reduces the cost of delivering banking services and economically empowers the agent banker.

4. DATA PRESENTATION AND ANALYSIS

In this section, collected data were analyzed, presented and interpreted for easy appreciation by users.

Questionnaire Distribution and Analysis

Table 4.1 below shows how the copies of the questionnaire were distributed, retrieved and used.

Table 4.1: Questionnaire distribution

Number of Copies Distributed	Number of Copies Retrieved	Number of Valid/Used Copies
200	192	171

Source: Field Survey, 2022

Table 4.1 showed that out of the 200 copies of the questionnaire distributed to respondents, 192 copies were retrieved. This was 96% of the sample size. However, out of this number, only 171 copies were found valid and useful for further analyses. This was 85.5% of the sample size and 96% of the total number of copies retrieved.

Further analyses were based on the copies retrieved and found valid.

Table 4.2: Analysis of responses to questions on the extent to which agency banking affects financial inclusion

S/N	Statement	SA	A	UN	D	SD	Total
1	I patronize POS services	93	64	8	4	2	**171**
2	I am satisfied with POS services	98	30	30	9	4	**171**
3	I use POS for all my banking transactions	81	75	6	6	3	**171**
4	POS is easier to transact than the commercial banks	121	33	7	6	4	**171**
	Total	**393**	**202**	**51**	**25**	**13**	**684**
	Average	**98**	**51**	**12.8**	**6.25**	**3.25**	**171**
	Percentage	**57**	**30**	**7.46**	**3.655**	**1.9**	**100**

Source: Field Survey, 2022

Table 4.2 presented responses to the extent to which agency banking affects financial inclusion. On the average, the table showed that 98 (57%) respondents, 51 (30%) respondents, 13 (7%) respondents, 6 (4%) respondents and 3 (2%) respondents strongly agreed, agreed, were indifferent, disagreed and strongly disagreed respectively on the questions relating to the extent to which agency banking affects financial inclusion.

Table 4.3: Analysis of responses to questions on the effect of agency banking on the cost of delivering banking services

S/N	Statement	SA	A	UN	D	SD	Total
1	The POS operator is not a staff of the bank	60	40	37	16	18	**171**
2	Cost of operating POS is born by the POS operator	101	41	12	9	8	**171**
3	The bank does not pay the POS operator any salary	86	54	16	10	5	**171**
4	The POS operator transfers the cost of operating the POS to the customers	98	55	8	6	4	**171**
	Total	**345**	**190**	**73**	**41**	**35**	**684**
	Average	**86**	**48**	**18.3**	**10.25**	**8.75**	**171**
	Percentage	**50**	**28**	**10.7**	**5.9942**	**5.12**	**100**

Source: Field Survey, 2022

Table 4.3 presented responses to the questions on the effect of agency banking on the cost of delivering banking services. On the average, the table showed that 86 (50%) respondents, 48 (28%) respondents, 18 (11%) respondents, 10 (6%) respondents and 9 (6%) respondents strongly agreed, agreed, were indifferent, disagreed and strongly disagreed respectively to the questions relating to the effect of agency banking on the cost of delivering banking services.

Table 4.4: Analysis of responses to questions on whether agency banking economically empowers the agent banker

S/N	Statement	SA	A	UN	D	SD	Total
1	The POS operator do not pay the bank any money from the commission he charges	60	78	19	8	6	**171**
2	POS is a form of job opportunity	118	37	5	6	5	**171**
3	The POS operator makes a living from the business	92	62	8	7	2	**171**
4	POS operators charge commission on every transaction	115	43	6	4	3	**171**
	Total	**385**	**220**	**38**	**25**	**16**	**684**
	Average	**96**	**55**	**9.5**	**6.25**	**4**	**171**
	Percentage	**56**	**32**	**5.56**	**3.655**	**2.34**	**100**

Source: Field Survey, 2022

Table 4.4 presented responses to the extent to which agency banking empowers the agent banker. On the average, the table showed that 96 (56%) respondents, 55 (32%) respondents, 10 (6%) respondents, 6 (4%) respondents and 4 (2%) respondents strongly agreed, agreed, were indifferent, disagreed and strongly disagreed respectively to the extent to which agency banking empowers the agent banker.

TEST OF HYPOTHESES

In this section, all the stated hypotheses would be tested using Chi-square.

Test of hypothesis one

H_0: Agency banking has no positive and significant impact on financial exclusion.

H_1: Agency banking has positive and significant impact on financial exclusion.

Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
Effect of agency banking on financial exclusion.	171	4.1228	1.14384	1.00	5.00

Chi-Square Test

Frequencies

Effect of agency banking on financial exclusion.

	Observed N	Expected N	Residual
SD	9	34.2	-25.2
D	10	34.2	-24.2
UN	18	34.2	-16.2
A	48	34.2	13.8
SA	86	34.2	51.8
Total	171		

Test Statistics

			Effect of agency banking on financial exclusion.
Chi-Square			127.392[a]
Df			4
Asymp. Sig.			.000
Monte Carlo Sig.	Sig.		.000[b]
	95% Confidence Interval	Lower Bound	.000
		Upper Bound	.017

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 34.2.
b. Based on 171 sampled tables with starting seed 2000000.

Interpretation
The SPSS output shows that X^2 calculated is 127.392 at 0.05 level of significance and df (4) and p-value equals 0.000. This shows that the test is significant.

Decision

Since X^2 calculated (127.392) is greater than X^2 critical (9.488) and p-value (0.000) is less than alpha (0.05), we therefore reject H_0 and accept H_1 which states agency banking has positive and significant impact on financial inclusion.

Test of hypothesis two

H_0: Agency banking does not reduce the cost of delivering banking services by the banks.

H_1: Agency banking reduces the cost of delivering banking services by the banks.

Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
effect of agency banking on cost of delivering banking services	171	4.3626	.91882	1.00	5.00

Chi-Square Test
Frequencies

effect of agency banking on cost of delivering banking services

	Observed N	Expected N	Residual
SD	4	34.2	-30.2
D	6	34.2	-28.2
UN	10	34.2	-24.2
A	55	34.2	20.8
SA	96	34.2	61.8
Total	171		

Test Statistics

			effect of agency banking on cost of delivering banking services
Chi-Square			191.368[a]
Df			4
Asymp. Sig.			.000
Monte Carlo Sig.	Sig.		.000[b]
	95% Confidence Interval	Lower Bound	.000
		Upper Bound	.017

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 34.2.
b. Based on 171 sampled tables with starting seed 299883525.

Interpretation

The SPSS output shows that X^2 calculated is 191.368 at 0.05 level of significance and df (4) and p-value equals 0.000. This shows that the test is significant.

Decision

Since X^2 calculated (191.368) is greater than X^2 critical (9.488) and p-value (0.000) is less than alpha (0.05), we therefore reject H_0 and accept H_1 which states that agency banking reduces the cost of delivering banking services.

Test of hypothesis three

H_0: Agency banking does not economically empower the agent banker.

H_1: Agency banking economically empowers the agent banker.

Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
Effect of agency banking on the economy of the agent banker	171	4.5088	.79238	1.00	5.00

Chi-Square Test
Frequencies

Effect of agency banking on the economy of the agent banker

	Observed N	Expected N	Residual
SD	3	34.2	-31.2
D	3	34.2	-31.2
UN	5	34.2	-29.2
A	53	34.2	18.8
SA	107	34.2	72.8
Total	171		

Test Statistics

			Effect of agency banking on the economy of the agent banker
Chi-Square			247.158[a]
Df			4
Asymp. Sig.			.000
Monte Carlo Sig.	Sig.		.000[b]
	95% Confidence Interval	Lower Bound	.000
		Upper Bound	.017

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 34.2.
b. Based on 171 sampled tables with starting seed 926214481.

Interpretation
The SPSS output shows that X^2 calculated is 247.158 at 0.05 level of significance and df (4) and p-value equals 0.000. This shows that the test is significant.

Decision

Since X^2 calculated (247.158) is greater than X^2 critical (9.488) and p-value (0.000) is less than alpha (0.05), we therefore reject H_0 and accept H_1 which states that agency banking economically empowers the agent banker.

5. CONCLUSION AND RECOMMENDATION

This study was undertaken to appraise agency banking as a financial inclusion strategy in Nigeria. Finding revealed that agency banking has positive and significant impact on financial inclusion, reduces the cost of delivering banking services by the banks and economically empowers the agent banker. The study therefore concluded that agency banking is a relevant and vital strategy for financial inclusion in Nigeria. It is therefore recommended that favourable operating conditions and appropriate security be provided for the smooth running of agency banking in Nigeria.

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